Report on
Operational PFI Projects
by Partnerships UK

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PartnershipsUK

Contents

Section One: Executive Summary

This report by Partnerships UK (PUK), undertaken on behalf of HM Treasury in 2005, is a comprehensive review of the performance of PFI projects during their operational phase. Most other reviews have looked at specific sectors (schools, prisons, etc.) or specific issues (e.g. value for money, quality of the built asset). Where other reports have examined operational performance their surveys have not been comprehensive, whereas this report covers a wide range of operational issues impacting on all projects from all sectors that were known to be in their operational phase at the end of March 2005.

Approach

There were three strands to the work undertaken in obtaining the information which fed into the report.

The first strand was to review the large number of reports and reviews which have looked at the subject of PPP and PFI projects. This survey of the literature, which is included as Section Four of this report, sought to establish whether there were any common themes that gave an indication of what factors contributed towards how the projects performed.

The second strand of the review was structured to test a number of hypotheses which were developed to check the factors that pertain to the success (or otherwise) of a PFI project in its operational phase and to understand how the contracts were being managed by the public sector. This incorporated primary data collected from 105 operational projects, with the analysis of this data at Section Five of this report.

Thirdly, the review examined the experiences of public sector contract managers and their private sector counterparts, incorporating in-depth discussions with both supply side and client side managers responsible for the delivery of the service. Summaries of these interviews form Section Six of this report.

The combination of (i) a review of the literature, (ii) surveys sent to all public sector project managers of PFI projects; and (iii) in-depth interviews with the public and private sector parties of a sample of projects, provides a statistically sound evidence base, together with valuable perceptions and insights from those involved in delivering these projects "at the coalface".

Key Findings

The headline outcome is that 66% of public sector respondents rate the performance of their service provider as either "Very good" or "Good" and 30% rate performance as "Satisfactory", with less than 4% rating performance as "Poor" or "Very poor".

Slightly higher ratings were reported that described relationships between the public sector authority and the service provider, with over 97% of public sector contract managers rating their relationships with the service provider as either "Very good", "Good" or "Satisfactory", and none rating their relationship as "Very poor".

Contract managers' positive assessments of the generally good performance of their PFI projects are supported by users of the various services. Although user satisfaction is measured in different ways and at different frequencies, the most recent surveys showed that 79% of users were satisfied "Always" or "Almost always" with the service they were receiving.

When projects do encounter problems, these are usually resolved quickly and without recourse to the formal dispute resolution procedures set out in the contract. Respondents reported that in 82% of projects operational problems were "Always" or "Almost always" resolved within the time allowed under the contract and almost exactly the same proportion reported that the contract's dispute resolution procedures had never been used. This may in part be a reflection of the relatively short length of time that projects have been operational.

Authorities are for the most part monitoring contracts proactively and ensuring that payment mechanisms and performance measurement systems are used to incentivise service providers to deliver the standard requirements set out in the contracts, with 78% of contract managers agreeing with the statement that the payment mechanism supports the effective contract management of their project. Payment mechanisms are sometimes perceived to be complex and some performance measurement systems appear not to always focus on the most important service

delivery issues. Nevertheless, where performance deductions have been applied, this has led to an improvement in service delivery in over three-quarters of cases and has never led to a deterioration in service levels. Just under 70% of projects have incurred performance deductions, but it is clear from the descriptions of relationships between the public and private sectors that the imposition of contractual sanctions does not, for the most part, adversely affect any partnership working that might be in place.

Most contracts are managed through a formal governance structure, with 73% having a dedicated public sector management team that monitors and manages the performance of the PFI project. There is strong evidence to suggest that the existence of a dedicated team and frequent meetings between the two sides to review performance help to improve service levels.

Most of the contracts reviewed have been changed since the services became operational. Most changes have been relatively minor and have not affected the unitary payment although, in a small number of projects, there have been some quite significant changes. There was concern amongst those interviewed that the contractual change mechanism could be unwieldy, particularly in dealing with small changes. This appears to be more of an issue with older projects. Nevertheless, in 83% of cases, contract managers have confirmed that the contract specification accurately specifies the service required. There are many examples of small variations which do not affect the contract price being agreed locally outside the contractual mechanism. This was particularly the case where relationships were good and there was trust between the parties.

Benchmarking was raised as a significant issue by contract managers. Although nearly half of all projects do not have benchmarking or market testing arrangements, a very large number are due to be subject to either a benchmarking or market testing process. There is also some concern about the outcomes in terms of affordability. The public sector does not regularly share information on costs of services. Research reveals the need for contracting authorities to plan ahead to ensure that they have the right level of skills, resource and information to conduct a benchmarking exercise.

Another significant finding is the view expressed by a large number of contract managers that less attention is paid by "the centre" (however that may be defined) to the operational phase of PFIs, compared with the support given during the procurement phase. More attention needs to be paid during procurement to establishing appropriate and robust contract monitoring and governance arrangements or in ensuring continuity and a smooth handover from the procurement phase to the construction phase, and from the construction phase to the operational phase.

Only a limited number of contract managers had received formal contract management training or specific PFI-related training. It became evident during interviews with contract managers that there is a demand for more training.

Section Two: Introduction and Background to the Report

PFI is an important way of procuring key public sector infrastructure and replacing existing outdated public sector facilities. By October 2005, agreements for about 700 PFI projects had been signed by central and local government across a wide range of sectors. Using Partnerships UK's project database, around 450 of these projects were identified as operational (i.e. the construction phase completed and services being delivered) as at the end of March 2005.

To date, much of the research carried out into PFI has scrutinised the procurement of projects, assessed whether value for money had been achieved and looked at specific issues relating to risk transfer and accounting mechanisms. This focus on the procurement phase may partly be explained by a lack of data about operational projects, with relatively few projects having been operational for more than three years, and partly because opponents and supporters of PFI wished to examine whether its structure was deliverable. More practically, the public sector wished to learn lessons from earlier procurements and disseminate best practice to projects in the pipeline of future procurement.

In February 2005, HM Treasury agreed with Partnerships UK the need to carry out further research to gather information about operational projects, with a view to producing a report to inform future policy and guidance to assist operational projects in the future. There were a number of reasons why it was felt appropriate to undertake this work at this time:

- Past research had focused mainly on the procurement of these projects rather than on the construction and operational phases. As more PFI projects have become operational there is now more evidence available on the first years of the operational phase and on how far the projects are delivering to expectations.

- Long term partnerships bring their own complexities. With more evidence available on projects which have been operational for more than three years, it will be possible to look at the issues which have arisen and whether the contract structure allowed for these developments. For example, whether a change of service provider might affect the standards of delivery of the service.

- Some previous research has been carried out on the contract management of operational PFI projects by gathering information from public sector contract managers, but little has been documented about the views of their private sector counterparts and on whether the projects are delivering to the private sector's expectations.

- Many projects are approaching the date for undertaking benchmarking exercises on the costs of the soft services, such as cleaning, catering and grounds maintenance. Whilst Project Agreements for some projects set out the process, there appears to be little information available on how these exercises will be carried out in practice.

This report presents the results of research conducted into the performance of operational PFI projects across a range of sectors. The research was carried out between May and December 2005.

The approach to the research was agreed with HM Treasury and consisted of three strands. A review of literature on operational PFIs; an online survey to public sector project managers; and in depth interviews with public sector contract managers and their private sector counterparts.

The questions contained in the survey were designed to test a series of hypotheses. These hypotheses were divided into two sections: those designed to test the factors that pertain to the success (or otherwise) of a PFI project in the operational phase; and those designed to understand how the contracts are being managed by the public sector. Full details of the hypotheses and the related questions developed to test them are set out in Appendix One.

Of the 390 surveys issued, 105 were returned completed. Twelve projects were then selected from a range of sectors and in depth interviews carried out with the public sector contract manager and with his or her private sector counterpart (for all but one project, these interviews were conducted separately; for one project the private sector party declined to be interviewed).

Section Three of this report summarises the methodology used in carrying out the review. Section Four contains an overview of the findings and recommendations contained in relevant reports on PFI which have covered the operational phase. Section Five analyses the responses to the surveys and, where possible, draws conclusions from those responses. Section Six provides a summary of each of the in depth interviews. Section Seven pulls together the findings and conclusions from the earlier sections.

Section Three: Summary of Research Strategy

This Section summarises the processes undertaken in designing and developing the research strategy including the data gathering formats, the development of different research methodologies, the mechanics of the actual collection of primary data, and issues associated with the approach taken. The results and their analysis are covered in Sections Four, Five and Six. A full description of the detailed research methodology is included as Appendix Two.

The research strategy for the project was hypothesis driven. Hypotheses were initially developed between HM Treasury and Partnerships UK, reflecting the collective experience in the delivery and operation of PFI projects of the personnel involved in this research. To act as an external check, 4C Associates were engaged to review the questions supporting the hypotheses and the methodology used. They also hosted the online survey section of the primary data gathering exercise.

The hypotheses developed can be broadly split into two main categories. First, those designed to test the factors that pertain to the success (or otherwise) of a PFI project in the operational phase:

- Does the existence of a dedicated public sector contract management team have a positive impact upon the operational performance of the PFI project?
- Does the completion of a formal handover process between the public authority's procurement and contract management teams result in improved operational performance?
- Does changing personnel/sub-contractors during the operational phase adversely affect the project or reduce operational performance?
- Does strong and frequent communication between the contracting parties improve operational performance and outputs?

Others were designed to gain understanding of how the contracts were being managed by the public sector in general:

- Is the public sector body failing to exercise its rights under the PFI contract because it is too complex or difficult to use?
- Is the benchmarking/market testing process properly covered in the project documents?
- Are some of the problems with operational PFIs due to variations?
- Is there currently adequate external support within the public sector?
- Over time, do PFI contracts become misaligned with current public sector drivers?
- Does a failure of the public sector body to levy the contract deductions to which it is entitled jeopardise the value for money of the project?

Questions supporting or testing these hypotheses were generated and a complete list broken down by hypothesis is given in Appendix One. Responses to questions were both quantitative and qualitative in nature, providing an opportunity for respondents to express their views and to comment on some of the softer issues surrounding the day-to-day practicalities of contract management. Additional questions were included to allow public sector contract managers to raise issues outside the scope of the hypotheses.

As at 1 April 2005, over 400 projects were in the operational phase. It was therefore decided to adopt a sampling methodology based on two approaches to gathering information:

- A survey sent out to all operational projects, aiming to collect a statistically significant sample of returns to provide the basis for a broad, high-level analysis of the population of operational projects;
- In-depth interviews with 12–15 operational projects, meeting with both the public and private sector parties to each contract.

The data collection was supplemented by a review of the literature on operational PPP and PFI projects published to date. This is covered in Section Four.

The survey was issued in May 2005 to public sector contract managers. A final return of 105 completed surveys was received. Discussion of the responses and analysis of the results is covered in Section Five.

Twelve of the projects that submitted returns to the survey were subsequently selected for a more in-depth review, to be carried out as a semi-structured interview. The interviews were based on a series of questions developed to obtain more detail about the operational phase of projects, and to seek opinions from public sector contract managers and their private sector counterparts on various aspects of the performance of the contract and the governance structure. The questions sent to the public and private sector interviewees are listed at Appendix Six. Interviews with the public sector contract manager were held at the contract manager's office location. Interviewees were asked for their permission for the interviews to be recorded and all except one agreed. Additionally, one service provider's representative declined the request for an interview. Recordings of the interviews were used as the basis for the creation of Section Six of the report.

Section Four: Summary of Literature Review

INTRODUCTION

A review was undertaken of recent studies relating to the performance of PPP and PFI projects in the operational phase. Appendix Three contains a bibliography of the reports and reviews published up to December 2005 that have been carried out on projects which include comment on the operational phase of projects.

The literature review does not include press articles covering PPP and PFI and is focused principally on the market in the UK.

This Section contains an overview of the findings and recommendations from selected reports on operational PPP and PFI projects. A fuller summary of these reports' findings is included in Appendix Three.

FINDINGS AND CONCLUSIONS

The main findings and conclusions from the reports reviewed are summarised below.

Performance

Most of the reports on PPP and PFI projects contain a comment on whether the projects were successful or perceived to be successful. In all of the reports, high levels of satisfaction have been found, even for projects in which the contractor has suffered distress, and the level of satisfaction for buildings and services was good. However there does not appear to be a uniform way in which successful performance or satisfaction is defined. Some studies use a more narrow definition of performance in the context of the payment mechanism while others use the term "satisfaction". Some reviews asked whether projects were providing value for money, while others asked whether authorities would still have undertaken the project with the benefit of hindsight. Because many of the earlier reports were reviewing projects which had had limited experience of the operational phase, some rated satisfaction on the basis of the physical assets which were delivered, with refurbishment projects coming off less well than new build projects. A number of studies concluded that it was too early to assess the benefits of the projects in the operational phase.

Looking in more detail at public sector expectations, in general the public sector had expected that the delivery of the hard FM service would be superior to non PFI projects. The rationale for this view is that investment in lifecycle maintenance of the asset over the life of the contract, and the requirement that the asset should be maintained to a particular standard, would ensure that adequate expenditure was allocated to the hard FM elements. For the projects that were reviewed in the studies, it was too early to assess whether the amounts in bidders' models were adequate and whether the investment had been realised in practice.

Although soft services performance was reported to be satisfactory in both Scottish studies, cleaning was identified as a particular problem which appeared to be partly due to the buoyancy of the labour market in Scotland. PUK's reports on operational schools projects asked for a rating of services and then asked if there were particular services causing concern. The studies found a lower level of satisfaction from users in refurbished schools as opposed to new build, whilst cleaning was mentioned by some users as being disappointing because of the inadequacy of the specification and its subjective nature.

Public sector project managers believed that the private sector would invest in long term approaches to service delivery and that, as a result, there would be some innovation in service delivery. There were mixed findings as to whether PFI delivered innovation; for example, the National Audit Office's study of the operational performance of privately managed prisons identified some innovation – mainly in the recruitment and deployment of staff and the use of technology. Other studies, such as the Audit Commission report on PFI in schools, found little evidence of innovation in services. Comments were made that payment mechanisms fixed a ceiling on performance and there was little incentive on a provider to exceed this.

User Satisfaction
A limited amount of evidence is available from previous studies on front line users' levels of satisfaction with the services they are receiving and their satisfaction with the public sector's enforcement of the contract. Where it had been assessed, users' relationships with the public sector monitoring teams seemed good in most cases. Most of the local authorities had involved stakeholders in the project throughout the procurement.

Of the studies which have tried to cover user satisfaction, PUK's Phase Two study on PFI schools found that many of the head teachers had found it necessary to employ significant resources in monitoring the contract. Areas where improvement was seen to be required included: (i) help desk provision; (ii) the time taken to resolve snagging issues; and (iii) the time required to work through the variations process. This has proved to be a source of dissatisfaction for head teachers and senior staff in their role as recipients of the services.

Payment Mechanism
PUK's current report highlighted that 78% of contract managers thought that the payment mechanism in the contract effectively supported contract management of their project. 4ps study shows that 82% of respondents believe that their payment mechanism is working. PUK's study of schools' projects carried out in 2004 found that public sector project managers reported that the availability mechanisms in the payment system worked well but that the performance measures needed some improvement.

In the PUK study there was polarisation of opinion on the complexity of the payment mechanism with 47% reporting that it was "straightforward" or "very straightforward" but 35% reporting that payment mechanisms were "difficult" to operate. Despite this, contracting authorities were making deductions.

There was a general view in many of the reports that payment mechanisms did not act as an incentive to improve performance.

Of other recent studies on PFI/PPP, the Audit Commission's study of schools' PFI projects in 2003 also found a mixed picture on the number of payment deductions being applied and concluded that payment mechanisms were not being enforced rigorously, partly due to inadequate recording by the private sector. Earlier studies recommended that more work was needed on the effectiveness of the payment mechanism.

The NAO's report on privately managed prisons in 2003 commented that the level of payment deductions is not necessarily an accurate reflection of the performance of a project.

Change Mechanism
Recent studies of operational projects have typically found that the public sector considers PFI contracts to be marginally less flexible than non-PFI contracts, although the private sector's views tend to be the opposite. Consequently there are no definite conclusions that can be drawn in this area.

A number of reports commented that the variations procedure in PFI contracts was sensible for large variations but less appropriate for small variations; in particular the whole process was believed to be costly (in consultant fees and for the cost of changing the financial model) and time consuming. A way around this seemed to be that projects were either looking for some sort of "quid pro quo" which cancelled out costs, or else were grouping a series of variations together to save on costs. The delay in getting each variation implemented was also found to be a problem with the works taking a long time from inception to completion. Most of this time was taken up by the process of agreeing the change and obtaining the necessary approvals on both sides.

Benchmarking and Market Testing
Most of the studies were written before projects had undertaken the formal benchmarking exercises set out in their contracts.

The Audit Commission's 2003 study on schools' contracts compared the costs of FM services under PFI schools schemes with those of traditionally funded schemes by using the figures in the bidders' financial models and found that there was no difference between the costs of building maintenance services, grounds maintenance and some utilities. The average costs of cleaning and caretaking were higher in PFI schools but the standards specified were also higher.

In both the PUK study on schools PFI, and the Scottish Executive study, works costs were perceived as expensive in the absence of the ability to tender these. However this perception had not been verified.

Monitoring and Governance

There has been little comment in the literature about the public sector's monitoring and governance arrangements, although early research noted that it was important that there should be at least some skills transfer from the public sector procurement team to the operational team and that ideally members of the procurement team should stay in post for the operational phase. Other studies, such as that commissioned by the New Local Government Network noted however that different skills were needed for "keeping it going" as opposed to "setting it up".

The need for the public sector operational team to be involved in the negotiations was written up in one study on the negotiation phase of a procurement, where the danger of using deal closers who are concerned with "doing the deal" rather than understanding the impacts of the negotiations on the business implementation was identified. In practice, little research has been carried out on the handover period,

Recent studies on operational PPPs and PFIs have consistently found that authorities (and users) were surprised by the level of input required of them in contract monitoring. 4Ps recent study on operational PFIs and PPPs found that the level of input required for contract monitoring by the public sector was substantially higher than had originally been anticipated. This was both in terms of the local authority team and also with users (e.g. in schools by school staff). This finding was also reflected in the PUK studies on schools' PFIs. Respondents questioned whether this amount of resource required was sustainable over the contract life of 25 years. Because many of the projects surveyed by PUK and the 4Ps had only been operational for a very few years, it was not yet clear whether this finding would be borne out over the whole operational phase. Clearly where projects are experiencing difficulties, a larger public sector resource may be needed until the difficulties are resolved.

None of the studies looked in detail at meeting structures and how effective these were during the operational phase. Most of the contracts reviewed did include an obligation to hold meetings with users (mainly weekly), between the public sector and private sector contract monitors (monthly) and for less frequent higher level meetings (directors every three months).

Communications

The early studies recommended closer working arrangements in order to establish frequent and open communication. This theme was picked up by the Audit Commission in their study on PFI in schools. The report carried out on behalf of the NLGN in 2004 identified the importance of effective internal communications. In particular, it identified various stages in PFI projects when hand over occurs (e.g. procurement to construction phase, construction to operational phase) at which knowledge can be lost. The studies that dealt with communications identified the importance of a shared vision which needed to be maintained throughout the project.

Little work seemed to have been undertaken to look at whether co-location of the private and public sector contract management teams was significant in aiding communication or in improving the project, although the report for the NLGN did contain a recommendation that staff from both sides of the partnership should be co-located.

Relationships

Generally in PFI projects, there is an expectation that, because of the long term nature of contracts, both parties would invest in the relationship. Where the issue of relationships was examined, the studies mainly found that there were good relationships between the public and private sectors. The study for the NLGN believed that a new form of management behaviour had grown up for PFI projects with parties trying to solve the problem rather than reach for contractual resolution.

The PUK study of operational schools projects found that the public sector often commented on the frequency at which private sector staff left the project and the effect this could have on building good relationships. This turnover seemed particularly frequent in respect of area contract managers. The issue of high staff turnover led to comments in the PUK reports about having to record everything so that the public sector had proof of decisions.

Generally the public sector seemed sympathetic to staff who were delivering services on the ground. This may be partly due to the fact that some of the staff had been transferred from the public sector under TUPE arrangements. The transfer of staff to the private sector appeared to have been carried out successfully although UNISON reports cited evidence of individuals believing that they were less well treated under a private sector employer than a public sector one.

Dispute Resolution

Earlier studies did not cover whether the dispute resolution clauses of the project agreements had been invoked. Some evidence of disputes between users and the service provider were identified in the Phase Two study of schools projects undertaken by PUK in 2004 but these had not been serious enough to go to arbitration. This study found that some of the disputes were long running and reasons for this included weak specifications. Another common cause of these disputes was a failure to deal with snagging issues.

Training and Support

Generally the studies found that whilst there was intensive focus on the project during the procurement phase there were few opportunities for communicating, sharing best practice and talking through problems and solutions once projects reached the operational phase. This was an area where public sector project managers wanted support.

Users of services, such as schools representatives, said that they would welcome a forum for discussion. The public sector contract managers also made the same comment (although some of the respondents to the study on operational schools projects said that they did not want any forum to become a negative one). At the very least, public sector managers said that they would welcome a contact list so that they could talk to other public sector clients.

Few of the studies reviewed looked at what training was provided by the public sector to prepare for and improve staff skills during the operational phase, although the 2001 NAO Report on Managing Relationships commented on the variation in the extent of training provided to contract managers.

Section Five: Overview of Responses to Surveys

Introduction

This Section of the report contains the responses to the online survey carried out in May and June 2005 and an analysis of the returns. It identifies the responses under the same series of headings that have been used throughout the report and provides, where possible, an interpretation of the conclusions that can be drawn from the responses.

The responses to the electronic survey provide a view across a wide range of projects on a number of key operational issues. Whilst the survey did not cover the private sector perspective, the strength of the approach is the breadth of coverage across the population of operational projects, and the quantitative nature of the data gathered necessary for statistical analysis. This method allows for the testing of the hypotheses developed as part of this research programme.

A total of 105 completed surveys were returned, representing a response rate of just over 28% of the 390 surveys that were sent out. Response rates varied across Government Departments but, except for the devolved administrations and a small number which had less than ten PFI projects, there was at least an 18% return rate from every Department. Response rates were typically higher for the Departments with significant numbers of projects. A full breakdown of response rates by Government Department is at Appendix Four.

This section also includes analysis of some of the survey returns on a departmental basis to establish whether there are any significant differences between Departments. This departmental analysis looks only at the Department of Health (DoH), the Department for Transport (DfT), the Department for Education and Skills (DfES) and the Ministry of Defence (MoD). These four departments cover 65% of the responses to the survey and there are at least fifteen responses for each one. This is consistent with the fact that these four departments have the greatest involvement in PFI projects. By contrast, the remaining 35% of responses come from a further ten departments, none of which has submitted more than ten responses.

Responses to some of the questions in the survey are also analysed against the year in which contracts became operational, to identify whether there have been any particular trends over time in how contracts are managed or in respondents' perceptions of various aspects. Just over three-quarters of responses related to projects that became operational between 1997 and 2001. Projects becoming operational after 2001 make up just under 15% of the responses received. This suggests that there was a higher rate of responses from established projects, where more information about operational performance is available, but is also a reflection of the fact that fewer projects have become operational in the last four years compared with earlier years.

The profile of responses covered projects that had become operational before 1997 and in every year since then, with the exception of 2005. Figure 5.1 shows the response rates for projects that achieved financial close over that period.
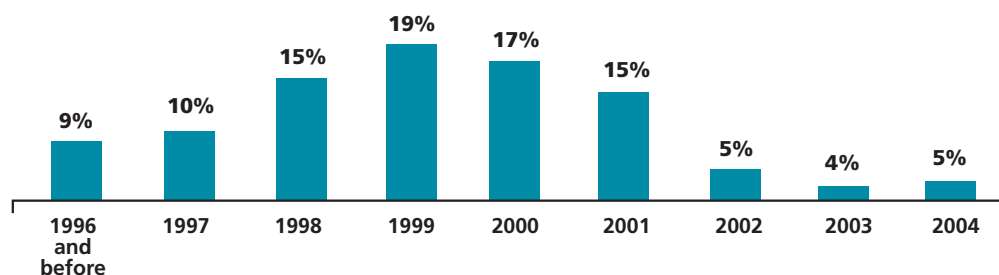

Figure 5.1   Response rate for year financial close achieved

Responses were received from all UK regions. Diagrams showing the regional picture in terms of response rates are included in Appendix Five.

The survey therefore captured a broad coverage of operational projects in terms of government departments, regions and the year in which projects became operational.

The two questions asking for details of "hard" and "soft" FM providers reveal a very diverse market place. Across the 105 projects responding to the survey, there are 58 different hard FM providers and 49 soft FM Providers. (A complete list of service providers covering the projects for which questionnaires were returned is at Appendix Seven). Even allowing for the fact that some are different companies in the same larger group, this demonstrates the diversity of the market. This is perhaps an unsurprising conclusion, given the wide variation in types of service being contracted for. Also significant is the fact that no single company was mentioned more than five times in the responses, indicating that there does not appear to be domination of the FM market by a small number of companies.

Performance

The answers to questions relating to performance provide a very positive assessment of the performance of PFI projects. Public sector contract managers were asked how they would rate the overall performance of their project in terms of delivering the services stated in the contract and, as shown in Figure 5.2, 66% describe performance as either "Very good" or "Good" and 30% describe it as "Satisfactory".
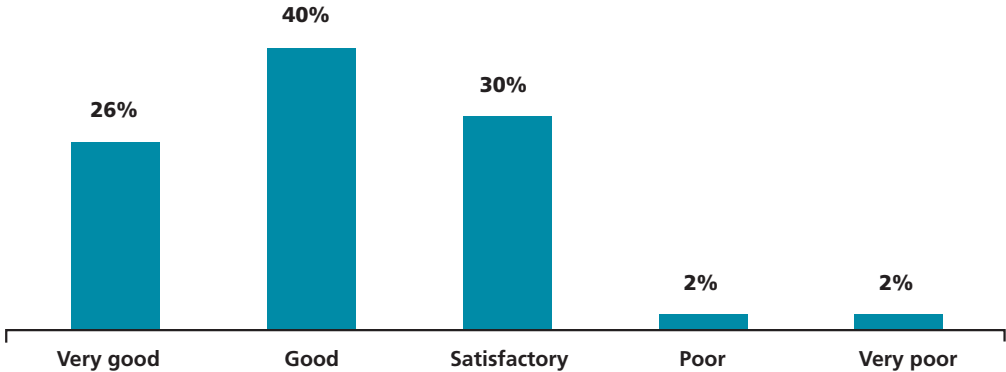

Figure 5.2   Contract managers' assessment of performance

Contract managers' positive assessment of performance is supported by the answers to the question which asked to what extent measurement of the service provider's performance against the contractual requirements demonstrated that those requirements were being met. Figure 5.3 illustrates that, in 89% of projects, measurement of the service provider's performance against the requirements set out in the contract shows that service levels are being achieved "Always or "Almost always" with only 1% of projects "Almost Never" achieving service levels and there is no instance of a project being described as "Never" achieving service levels.
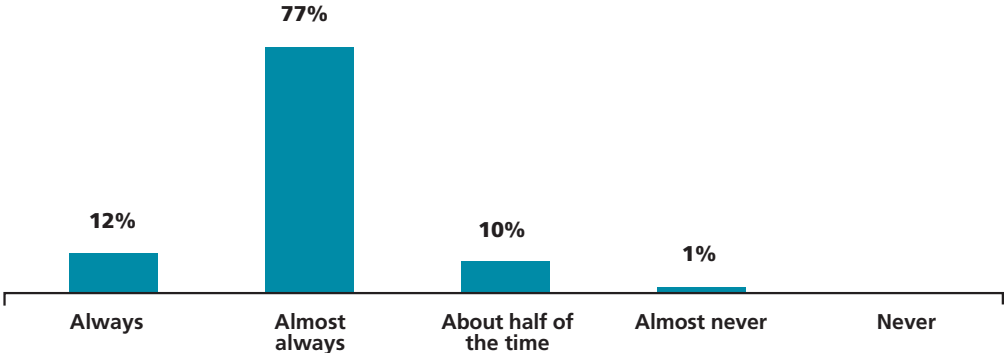

Figure 5.3   Extent to which measured performance meets contractual requirements

Extrapolating the picture illustrated by Figures 5.2 and 5.3 across the full population of operational PFI projects suggests that less than 5 projects in total are never or rarely achieving the requirements.

Accepting that, as indicated by some respondents in their qualitative responses, some of the early contracts have performance requirements that are less stretching than later contracts, this is still a clear indication that the vast majority of service providers are delivering most or all of what the contract requires them to deliver for all or most of the time.

Where performance problems do occur, action by contract managers – whether by informal or formal methods – appears to have the appropriate effect on service providers as Figure 5.4 demonstrates that, in 82% of projects, these problems are reported as being resolved either "Always" or "Almost always" within the time for rectification allowed for in the contract. Conversely, no projects are reported as never resolving problems in time.
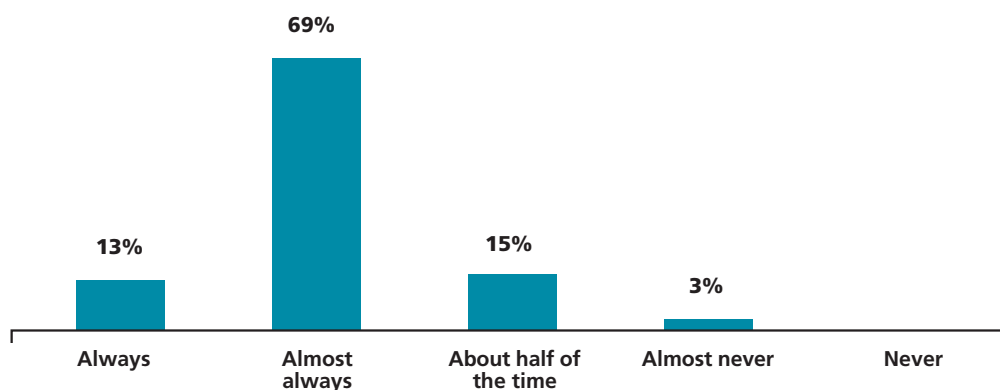

Figure 5.4   Responses to whether problems are resolved in accordance with contractual deadlines

In addition to the performance based quantitative questions, public sector contract managers were asked to describe the methods used to assess the performance of the service provider and the frequency of that assessment.

Approximately 90% of respondents commented on this question with about half the respondents saying that they assess performance monthly. Payment of the monthly unitary charge is possibly a major driver in determining this frequency of assessment. In a number of cases there is a tier of different reviews with annual and quarterly meetings at different levels in the respective organisations supplementing the monthly reviews. Of those not reporting monthly, about a third do so quarterly.

There were some differences between major Government Departments in terms of how often formal assessment of performance takes place. Figure 5.5 illustrates that the DfES and MoD have a much higher proportion of annual assessments than the other two major Departments. Further analysis would be needed to determine why this is the case although, for the DfES projects it may be a reflection of the existence of annual user surveys, as well as the monthly or termly assessments of availability and performance.
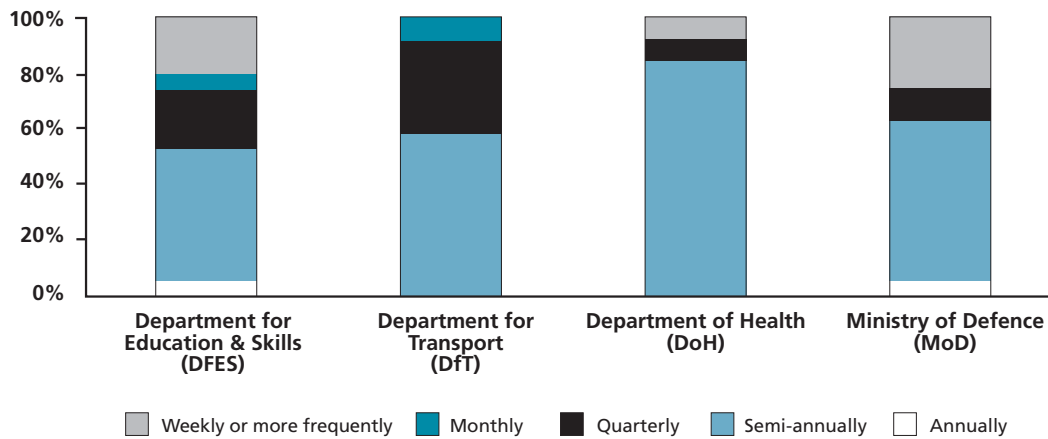
Figure 5.5   Departmental analysis of frequency of formal assessment of performance

A number of different assessment mechanisms were identified, although by far the most common was some form of monthly performance monitoring report or management information system. Other more novel assessment mechanisms also exist, suggesting that contract managers are using more unusual approaches to assessing the performance of their projects. Methods used include the following:

- Delivery on contract variations;
- Internal/external audits;
- Site inspections;
- Levels of innovation from the service provider;
- Informal feedback from users;
- Helpdesk activity levels;
- Levels of deductions;
- Informal comparisons with comparable projects.

Only about 20% of responses specifically mentioned the use of user satisfaction surveys as a means of assessing performance, which raises issues about the purpose of these surveys, about how to maximise their usefulness, and about how to avoid them becoming a contractual process that has a limited effect on improving the operational performance of projects

User Satisfaction
Supporting the positive views of contract managers, reaction from users is also positive with just under 80% of responses indicating that, based on the results of the most recent user satisfaction surveys, users feel that services are "Always" or "Almost always" being delivered to an acceptable standard and only around 1% - or about four of the total number of operational projects – provided results showing that users felt that services were "Almost never" being delivered to an acceptable standard (see Figure 5.6).
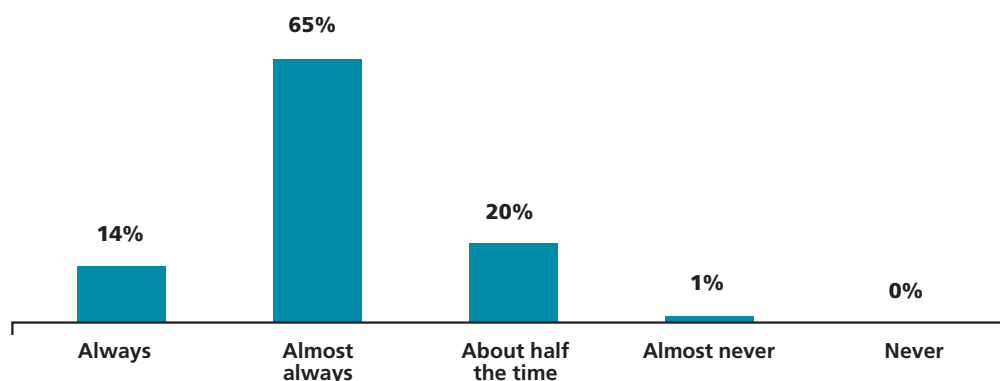

Figure 5.6   Results of user satisfaction surveys on how often services are delivered to an acceptable standard

Methods for assessing user satisfaction vary widely. Only 40% of those who replied on this issue said that they used formal customer satisfaction surveys probably driven by contractual obligations to provide one. Other methods for assessing user satisfaction included regular meetings with stakeholders (22% of projects), feedback from the help desk log (12%) or through site visits (5%). While these methods may provide an adequate form of assessment, there is an issue about whether these forms of feedback are recorded in a consistent manner. This is not revealed in the survey and would require further data gathering and an analysis of user satisfaction surveys across a range of operational projects.

While the reported feedback was generally positive in tone, the individual reasons for satisfaction with the service varied quite widely. In the responses provided, 12% of respondents commented that the speed of response to FM issues was a positive factor. On the other hand, some user surveys point to slow responses to small works changes, which appears to be consistent with the view of many contract managers that the processes for agreeing on these in the contract can be cumbersome. This seems to suggest that where services are clearly defined or the mechanisms are both clear and appropriate to facilitate the response, there are higher levels of satisfaction. Most comments, both positive and negative, tend to refer to soft FM issues such as cleaning and catering. As these services are often the most visible to users, and can be affected by subjective views or personal preferences (e.g. regarding food), this is not a surprising outcome.

Payment Mechanism

The use of the payment mechanism was assessed under two separate hypotheses which looked at the complexity and active use of the payment mechanism in delivering operational performance.

The first hypothesis sought to establish whether the public sector is exercising its rights under the PFI contract or whether it is failing to do so because the payment mechanism is either too complex or too difficult to use. Contract managers were asked whether they understood the payment mechanism. The responses to this question are shown in Figure 5.7.
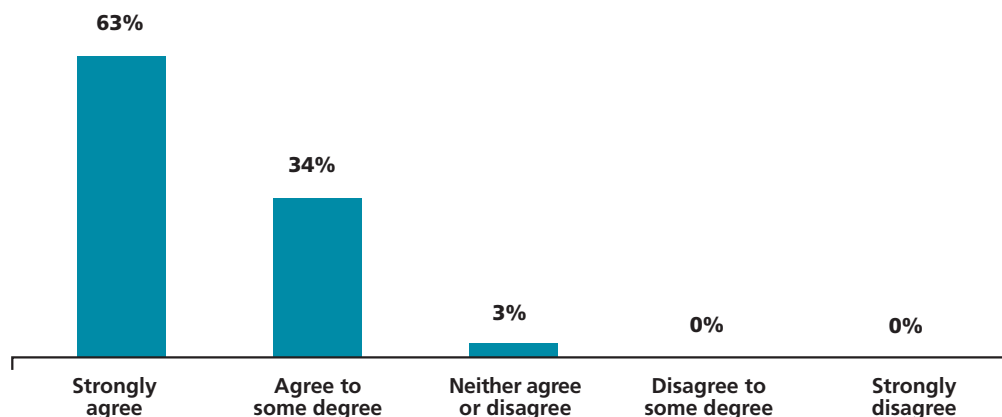
Figure 5.7   Contract managers' responses to statement "I understand the payment mechanism for this project"

A position where 97% of contract managers agree entirely, or to some degree, that they understand the payment mechanism is a positive reflection of contract managers' ability to manage the contracts. The effect of this understanding on contract performance is marked as, for the 63% of respondents who "Strongly agree" that they understand the payment mechanism, there is a statistically significant correlation to improved performance. It is also encouraging that not one respondent said that they did not understand the payment mechanism.

Additionally, just over three-quarters of contract managers either "Strongly agree" or "Agree to some degree" that the contractual payment mechanism supports effective contract management (see Figure 5.8). Not surprisingly there was, again, a statistically significant correlation between the positive responses to this question and enhanced levels of performance.
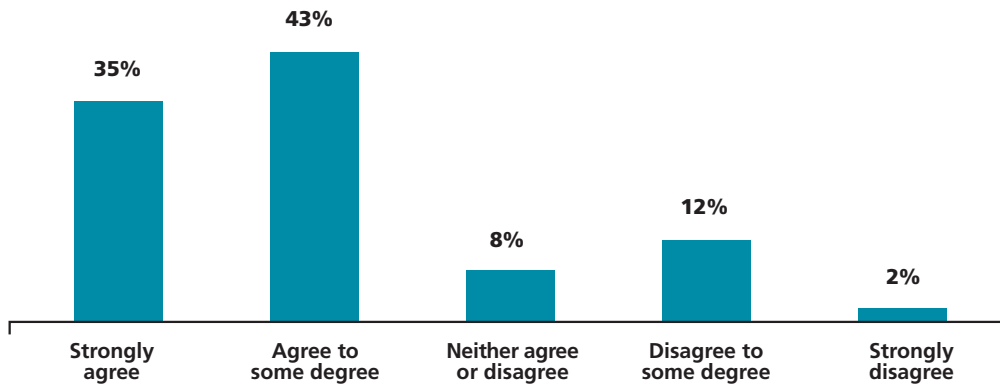
Figure 5.8   Contract managers' responses to the statement "The payment mechanism supports the effective contract management of this project"

Analysing the responses to this question by the year in which the contract became operational, Figure 5.9 reveals that there has been an increasing trend in positive assessments of this issue. It appears that lessons may have been learned from earlier projects which have enabled the payment mechanisms in more recent ones to be more effective in supporting contract management.
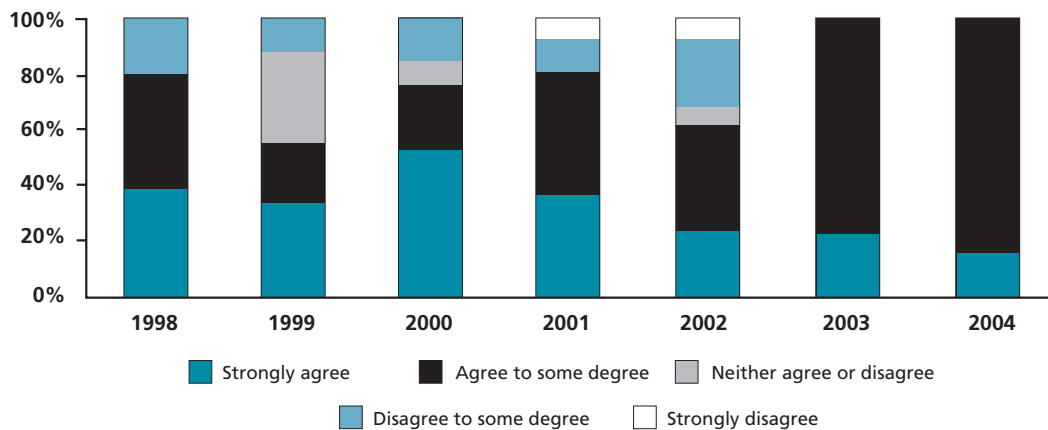
Figure 5.9   Contract managers' responses to the statement "The payment mechanism supports the effective contract management of this project" broken down by year of contract award

However Figure 5.10 demonstrates that 45% of contract managers find the payment mechanism either quite difficult or very difficult to use, which is not an optimal position for the public sector and highlights a need for further work on simplifying payment mechanisms and also a training need for contract managers.
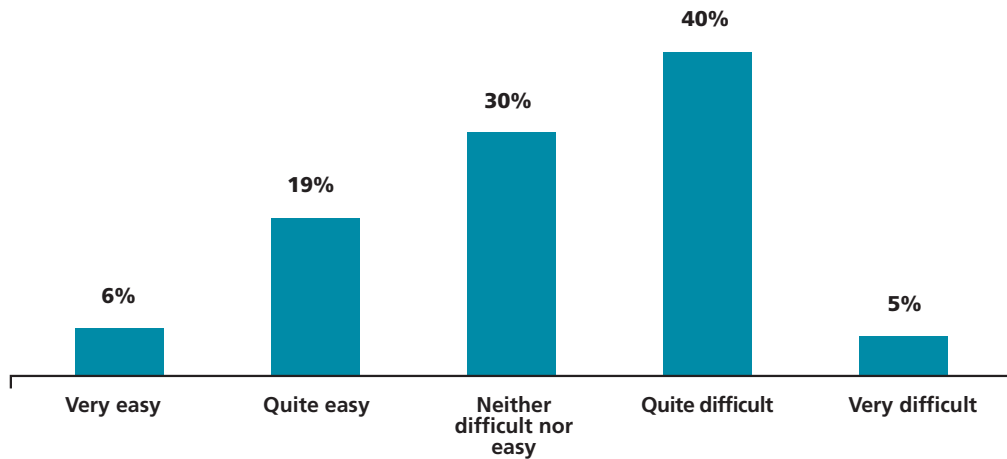
Figure 5.10   *Contract managers' responses to the question "How difficult/easy do you find the payment mechanism to use?"*

The departmental analysis of this information (Figure 5.11) shows that MoD and DoH contract managers seem to have the greatest difficulty in using the payment mechanisms in their contracts. This outcome is perhaps not surprising when comparing these departments with DfT, as roads' contracts might be expected to have simpler mechanisms than major accommodation or equipment contracts, and contracts in the health sector and some in the defence sector tend to be very complex because of the complex nature of the services.
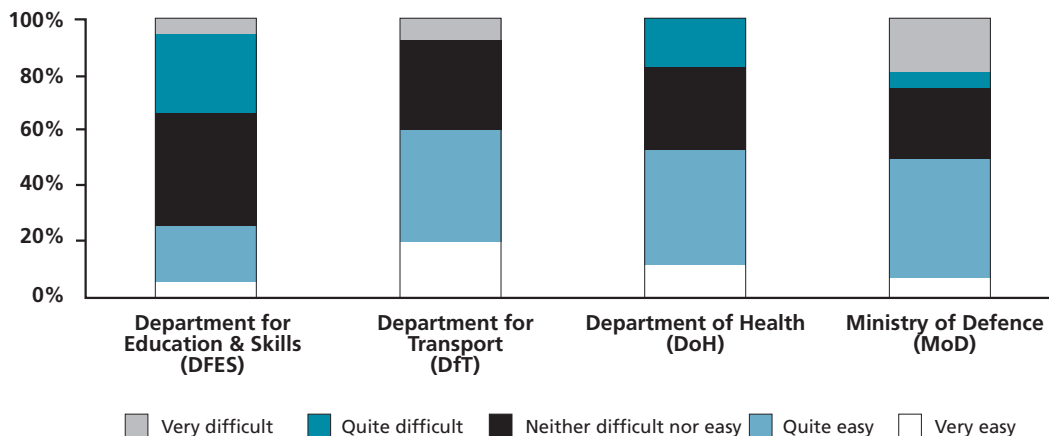
Figure 5.11   *Departmental analysis of contract managers' responses to the question "How difficult/easy do you find the payment mechanism to use?"*

The second hypothesis under this heading explored the actions taken by the public sector in implementing the contract in relation to the imposition of deductions for below standard performance and sought to determine if there is a link to the operational performance of projects.

Contract managers were asked to provide data on how many times they had imposed deductions and to estimate the total value of deductions made to date. The responses with respect to the number of deductions are shown in Figure 5.12.
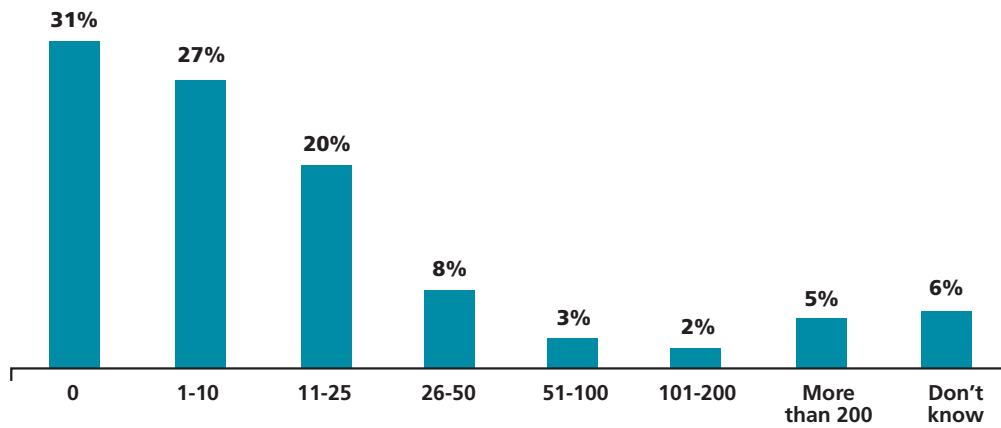
Figure 5.12   Numbers of payment deductions that have been made

This indicates that, excluding the "Don't Know" responses, in nearly one-third of projects performance deductions have not been applied and nearly another 50% have had deductions imposed on less than 25 occasions. As the contracts run for longer, it is to be expected that the proportion of projects where deductions are applied will increase. Nearly 70% of operational projects have imposed deductions so far, and as these are typically imposed for underperformance and/or lack of availability of a service, it is unsurprising that there is a statistically significant link between the application of deductions and less than satisfactory levels of performance.

About 50% of the respondents were able to estimate a total value of the deductions that had been applied. These responses are set out in Figure 5.13. The data indicates that in over 40% of the projects where totals were provided deductions had totalled less than £50,000, but also that there was a significant minority of projects (about one-third of these) where the total value of deductions had exceeded £100,000 and 2.5% where total deductions were over £1 million.

Figure 5.13   Total values of payment deductions that have been made

The value of individual deductions has been relatively low. Figure 5.14 illustrates that, for those projects where the value of individual deductions was reported to be known, about 20% had been for less than £5,000 each. This indicates that the majority of deductions may have been for relatively minor failures to meet contractual requirements. This may however also be a reflection that, in some of the early contracts, performance deductions only took effect as a result of relatively high levels of non-compliance compared with more recent contracts.

The very high level of "Don't Know" responses to this question (30%) indicates either a lack of adequate record keeping – which would be a matter of some concern – or that obtaining the data was too time consuming for contract managers to be able to provide the information in their responses.
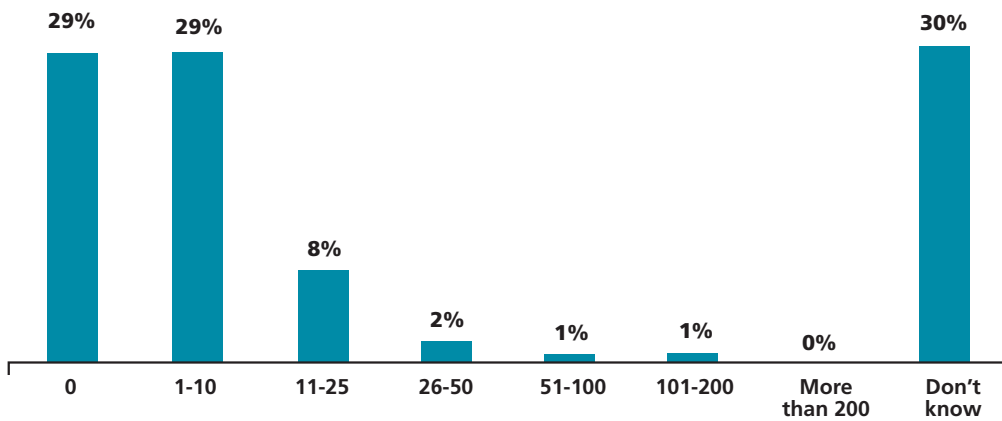
Figure 5.14   Responses to question asking how many payment deductions had been for more than £5000 each

The number and amounts of the deductions will also be partly a factor of the length of the operational phase to date, or of the relative scale of the project to date, as well as being a reflection of the levels of operational performance.

Waiving the right to impose performance deductions in certain circumstances is often seen as demonstrating a partnership approach, with an expectation by the public sector that such a waiver will be reciprocated by improved performance or, in some cases, by enhanced services. As shown in Figure 5.15, where it is known whether deductions have been waived contract managers have chosen to do so in nearly 30% of the total number of contracts. The 21% of "Don't Know" responses again gives rise to some concern about the extent of accurate and easy to use records being maintained by public sector contract managers.
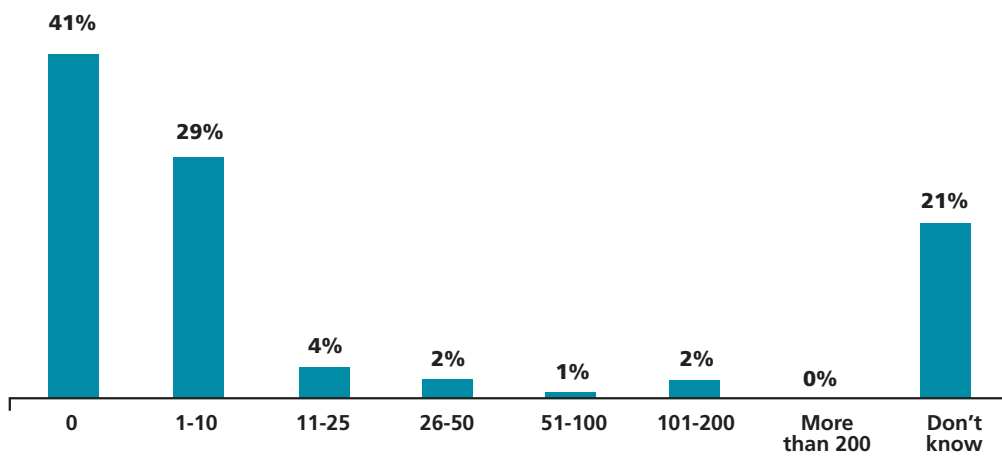
Figure 5.15   Occasions on which contract managers have waived performance deductions

While levying deductions is often linked to poor operational performance, choosing to waive these deductions would not appear to have a beneficial effect as there is no apparent correlation between waiving deductions and good performance.

As illustrated by Figure 5.16, responses do however suggest that levying deductions typically leads to an improvement in operational performance.
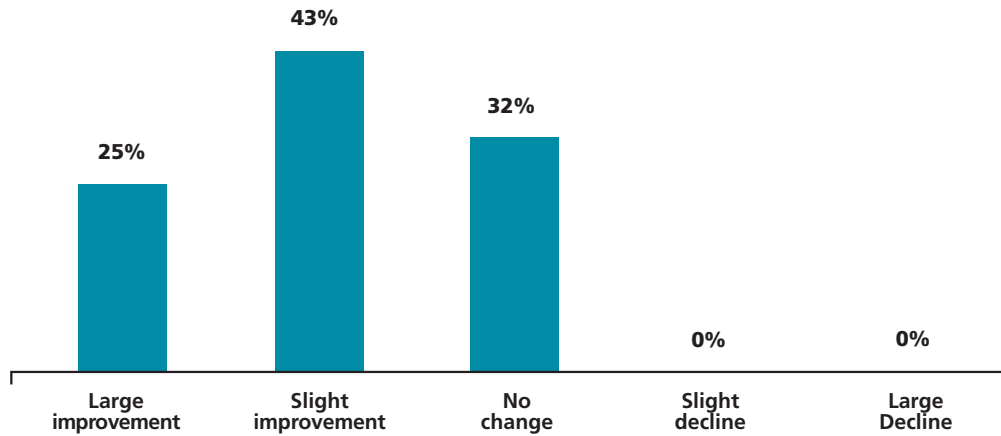
Figure 5.16   Impact of payment deductions on performance

It appears from the responses to this question that, in nearly 70% of instances where deductions have been applied, performance has improved. Of equal, if not greater significance, performance appears never to have reduced as a result of levying reductions, although the fact that there has been no perceptible change in performance levels in nearly a third of cases where deductions have been applied suggests that in some projects the payment mechanisms are not incentivising improved performance. This was a view expressed by several contract managers during the course of the in-depth interviews and is reflected in the reports of these interviews in Section Six.

There is sometimes a perception that the application of performance deductions can be counterproductive and can adversely affect relationships between purchaser and provider. The evidence of this survey is that the application of deductions typically has a positive effect on performance – and never has a negative impact – and, as highlighted in the later part of this Section which deals with relationships, does not normally appear to have an adverse effect on relationships and partnership working.

Change
Change was assessed under three hypotheses which looked at whether changes in the structure of the contractor (either to sub-contractors or to the members of the SPV contractor), contract variations and changes in broader public sector drivers had an effect on contract performance.

As shown in Figure 5.17, excluding the "Don't Knows" there have been changes to the original sub-contractors since financial close in just under one third of all projects, although about another half have remained constant.

Figure 5.17   Response to question asking how many of the project's main sub-contractors had been replaced

Where a respondent indicated that one or more sub-contractors had been changed, a further question asked for a summary of the reasons for the change. The most frequent cause, applicable to 32% of responses where a cause was given, was poor performance, followed closely by intra-consortium competitive bidding (28%) or the sub-contractor either going out of busi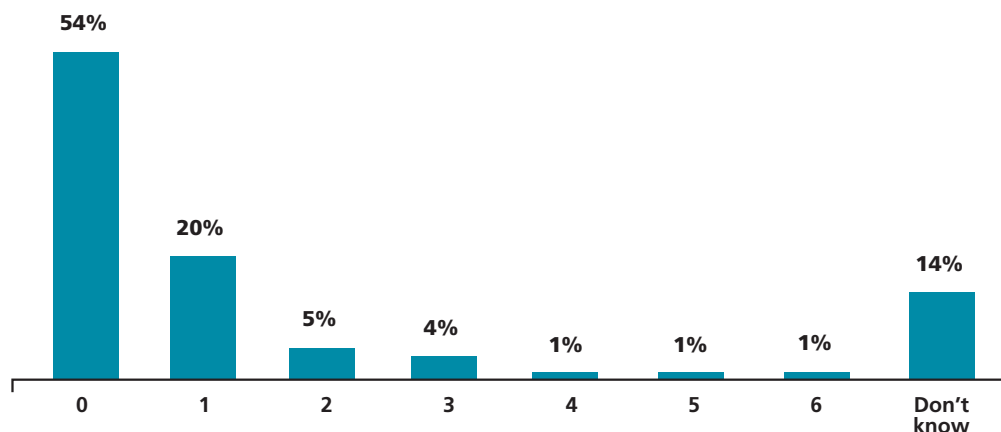ness or withdrawing from the business (13%). In some instances the main sub-contractor took over the role of a sub-sub-contractor believing that this would improve communications and enhance control and responsiveness.

There is no statistical evidence of a link between changing sub-contractors and the operational performance of the PFI contract, which implies that the current contracts are able to withstand changes in sub-contractors without performance being adversely affected.

The second part of this hypothesis looked at the impact of a change of Special Purpose Vehicle (SPV) shareholders on the operational performance of the project. About 35% of projects are known to have changed shareholders since the project became operational. Where there had been a change in shareholding of the SPV, a supplementary question asked for details of the change and how, if at all, the public sector was consulted about the change. Of the limited response to this question (39%), about 80% of contracting authorities had been consulted during the process, although there was only limited evidence that the public sector body had had to give their consent to the change of ownership.

A further supplementary question asked whether the change in ownership of the SPV had affected performance. The responses shown in Figure 5.18 provide some evidence that, although in a large majority of projects a change in SPV shareholders was not seen to affect performance, a change of shareholders has a positive impact on contract performance in a minority.
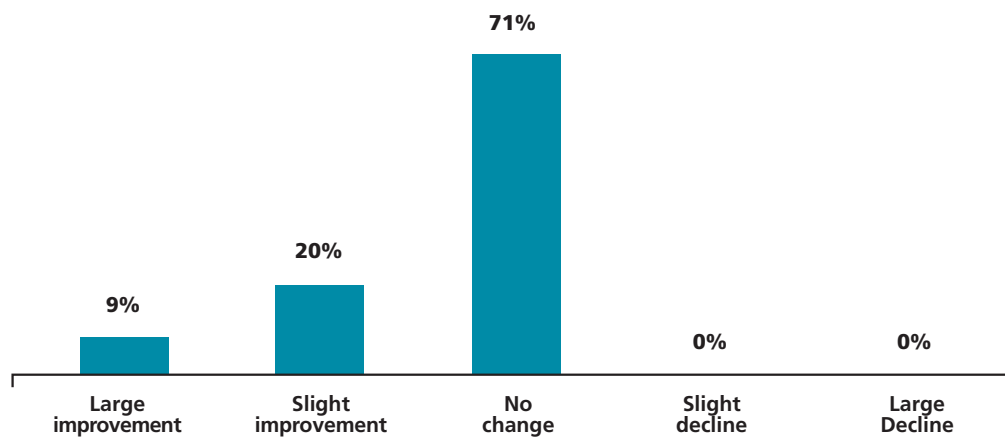
Figure 5.18   Impact of a change of ownership (SPV shareholders) on performance

A further positive outcome demonstrated by the responses to this question is that in no instances did a change in shareholders cause performance to deteriorate.

Figure 5.19 draws a comparison between the performance of those projects where shareholders have changed and those where the original shareholders are still involved.
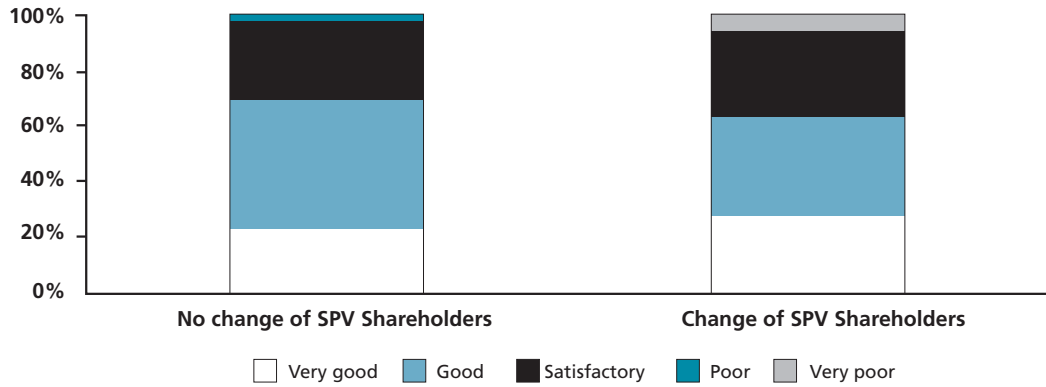
5.19   Correlation of change of SPV shareholders against Contract Managers' assessment of performance

This suggests that contract managers perceive a slightly better performance where the shareholders have remained the same since financial close.

Conversely, comparing actual performance against contract, there is a slightly better picture for those projects where the shareholders have changed, as is shown in Figure 5.20.
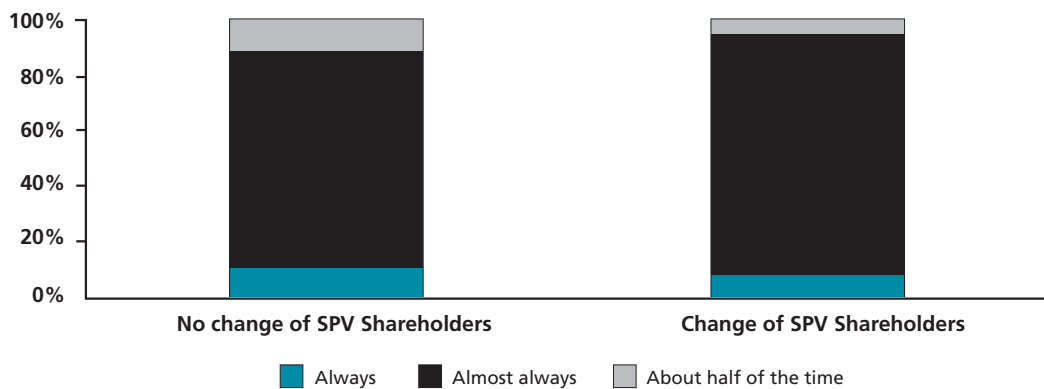
Figure 5.20   Correlation of changes of SPV shareholders and performance against contract

This relatively minor discrepancy could possibly be explained by the need to go through approvals procedures when shareholders change giving contract managers a more negative feeling about performance.

Thus, although in nearly one-third of the projects one or more sub-contractors had changed, and in just over a third the shareholders in the PFI contractor had changed, the responses to the related questions indicate that these changes were not having a significant impact on operational performance but, where there was an impact, it was generally positive.

One of the criticisms frequently aimed at PFI contracts is that they are inflexible and that is not easy to change the operational specification to reflect changes in public sector policy or in users' requirements. The second hypothesis regarding change therefore sought to establish whether the contractual change mechanism was an enabling or an inhibiting factor in implementing changes to the contract and to the service specification.

Two quantitative questions were asked about how many contract variations there had been and, of those, how many had resulted in a change to the unitary payment under the contract. Figure 5.21 shows that nearly three-quarters of projects had carried out between 0 and 25 changes to the contract and that a small number of respondents reported over 500 changes. One factor affecting this information is a possible issue of different interpretations of the definition of a variation. It was clear from a number of the In-Depth Reviews that some contract managers were only including in their definition variations which had a cost impact whereas others were including changes since contract signature, meaning that they were picking up variations during the construction phase when there is normally the greatest number of variations.
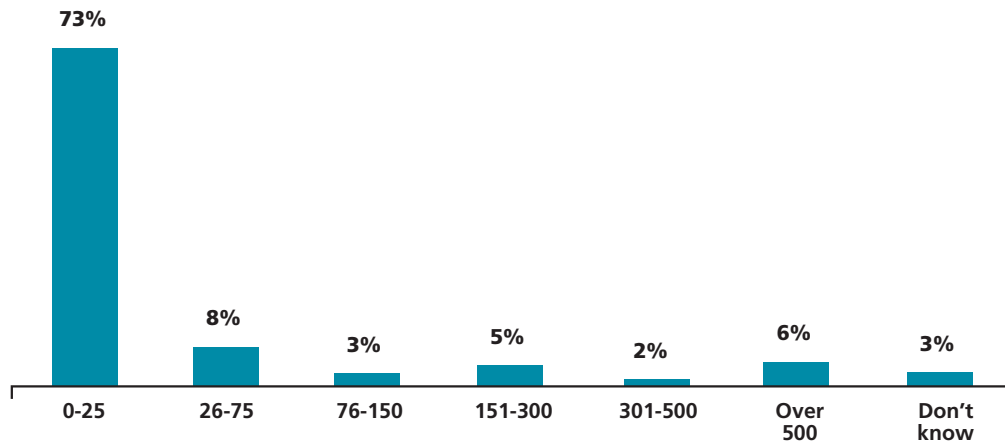
Figure 5.21   Number of contract variations during the operational phase of the project (possibly includes some variations during the construction phase)

Figure 5.22 sets out the impact of variations on the unitary charge, illustrating that just under a half of respondents reported that variations had no impact on the unitary charge. This might suggest that there is a degree of "trading off" taking place and/or that the nature of the variations was quite small. These suppositions are supported by the responses to the qualitative questions.
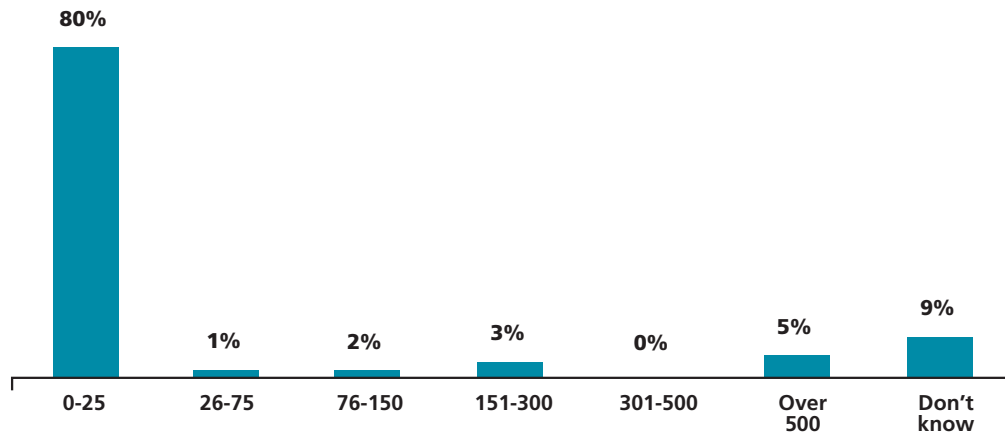
Figure 5.22   Responses to question asking how many of the variations had an impact on the unitary charge

The third hypothesis looking at change in PFI contracts aimed to explore the longer term impact of changing public sector drivers on a contract that was agreed and signed up to at financial close. It has already been noted that there is a very high level of user satisfaction in terms of delivering the services stated in the contract and further questions were asked seeking to establish whether the contracts accurately specify the type and level of services required and whether the payment mechanism supports the effective contract management of the project.
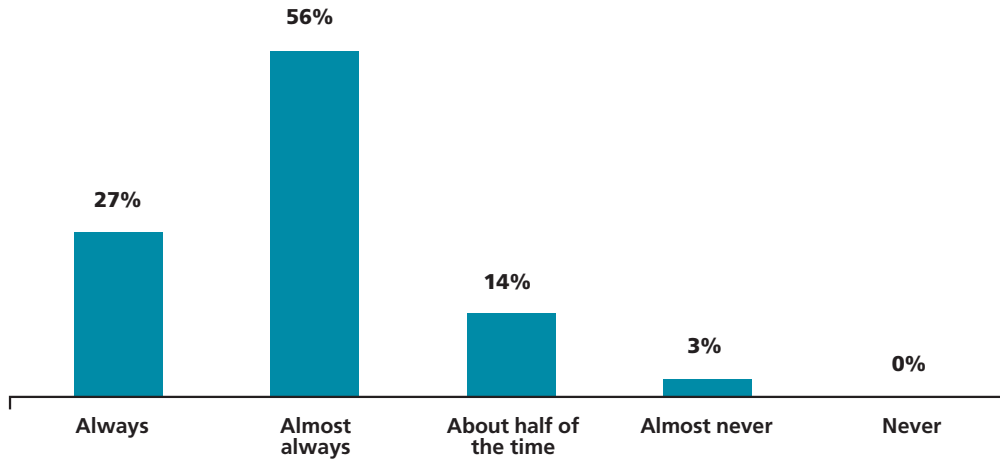
Figure 5.23   Responses to the statement "The contract accurately specifies the service"

This shows that 83% of contracts are described as accurately specifying the services "Always" or "Almost always" and, as already identified in the section on the payment mechanism, just over three-quarters of contract managers either "Strongly agree" or "Agree to some extent" that the contractual payment mechanism supports effective contract management.

Figure 5.24 illustrates that there are clear differences across the major Departments in the responses to the question of whether the contract accurately specifies requirements.
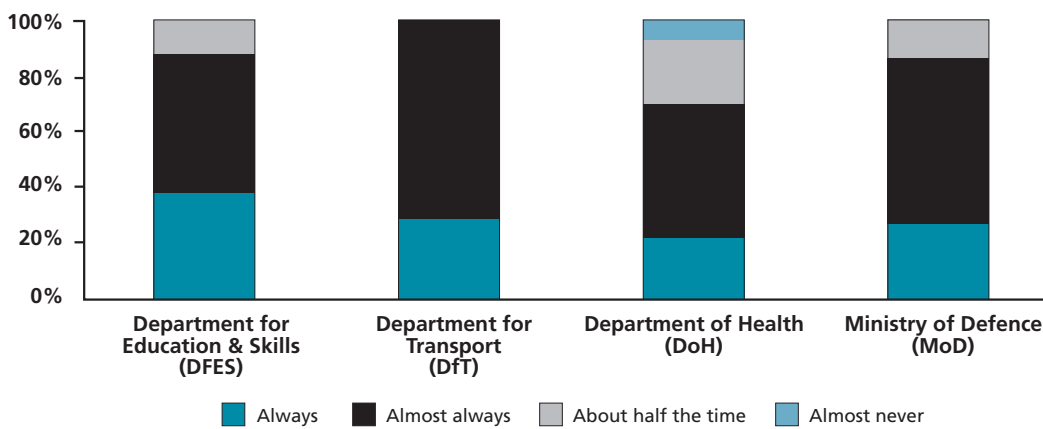
Figure 5.24   Departmental analysis of responses to the statement "The contract accurately specifies the service"

More recent contracts seem to reflect requirements more accurately (Figure 5.25). This is an unsurprising outcome and is most probably because the older the contract, the more likely it is that requirements will have changed and that the contract has not reflected all changes. This could also be further evidence that change is difficult to implement in a PFI contract.

Comparing the answers to this question against performance, there is not surprisingly a clear correlation between the accuracy of the contract, in terms of its accuracy in specifying the type and level of services, and good performance as perceived by both contract managers and users.
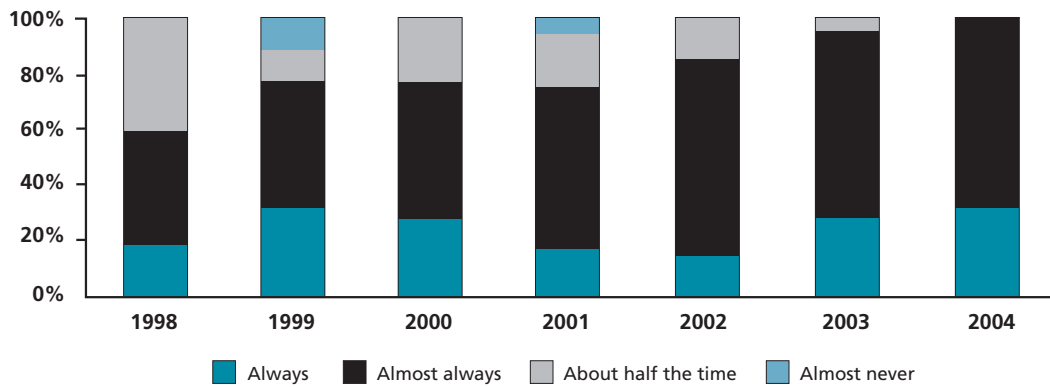
Figure 5.25   Accuracy of contract specification as analysed by the year the project reached financial close

As most projects are still in the relatively early phases of their operations, it could be argued that they should reflect what is required because any divergence is yet to fully manifest itself. This was not captured through the survey although it was alluded to in the later qualitative discussion questions. At present however, and on the basis of this analysis, the payment mechanism, the performance measurement system and the content of the contract's operational specification itself all appear to be influencing operational performance levels.

Benchmarking and Market Testing

Figure 5.26 illustrates that just over half of contracts were reported as having either benchmarking or market testing provisions, or both.
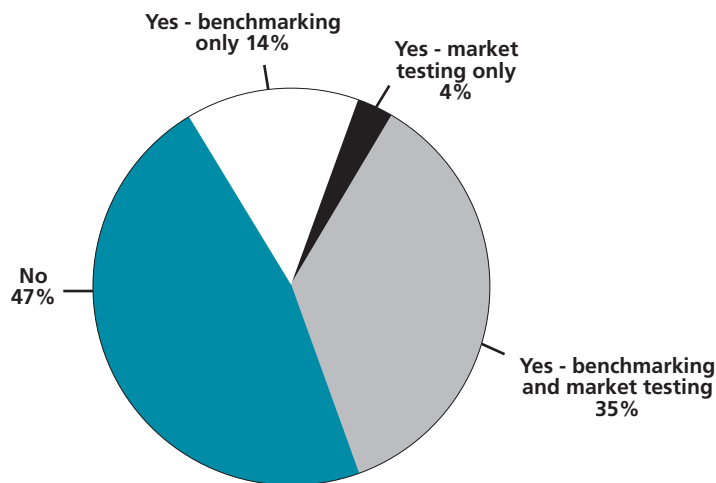
Figure 5.26   Incidence of benchmarking and/or market testing provisions in contracts

For the just under half of projects where neither benchmarking nor market testing is required, this will be partly because some of the early contracts pre-date the general introduction of benchmarking and market testing and, in a small number of cases, benchmarking is either inappropriate or impractical for the particular project. Benchmarking is also very much a soft FM services issue so is not usually applicable to contracts where soft services are not present or are only a very small proportion of the total service provided.

The frequency with which benchmarking is required to take place varies, although is most commonly first called for after 3 or 5 years of operation. There were also a few cases where benchmarking was required less frequently, e.g. 10 years (defence accommodation project), or 14 years (prison project). Other examples of when benchmarking is required to apply included:

- When new equipment is purchased (IT project);
- At the discretion of the Authority 3 months prior to the annual services report (street lighting project);
- As specified by the public sector body (IT project).

Where respondents said that benchmarking or market testing was not specified in the contract, they were asked how pricing levels were to be reassessed throughout the project life. The most common response was to consider RPI indexation as the only mechanism that adjusts pricing during the life of the contract, implying that there is no benchmarking of service costs required in the contract. Other approaches to reassessing pricing included:

- Recalibration of unitary charge based on demographic growth (waste project);
- Pricing based on passenger usage (transport project);
- Comparison of the IRR achieved vs. an agreed threshold IRR (defence equipment project).

The lack of consistency in when and how benchmarking is to be applied, although partly explained by the different types of contract and by the age of the contract, suggests that thought should be given to introducing, as far as possible, a more standardised approach.

The extent to which benchmarking and/or market testing is required varies across the major departments. Figure 5.27 shows that the DfES have a much higher proportion of projects where both benchmarking and market testing is provided for in the contract. DfES and DoH have a higher proportion of contracts where either benchmarking or testing is specified than either DfT or MoD, probably reflecting the fact that there is a much higher proportion of contracts with soft FM elements in the former two departments.
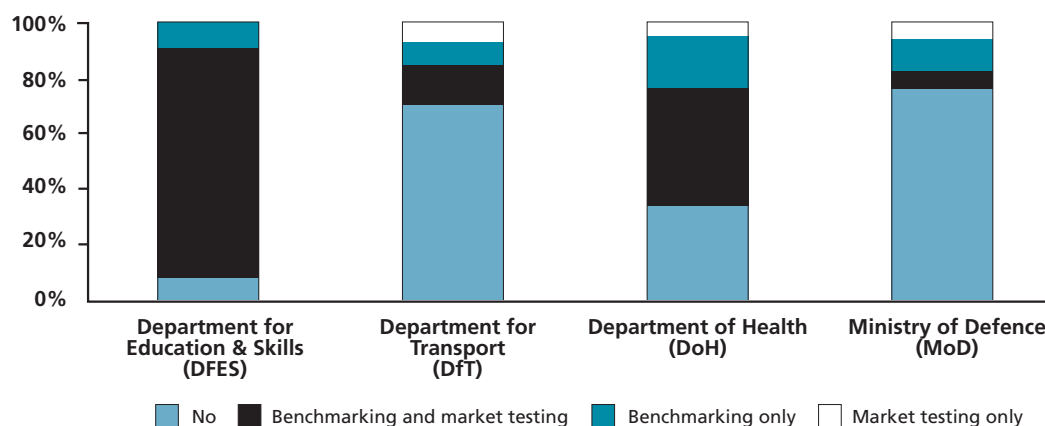
Figure 5.27   Departmental analysis of benchmarking/market-testing provisions

Contract managers were also asked whether, if benchmarking and/or market testing were specified in their project agreement, the processes were clearly explained in the contract. The responses to this question are shown in Figure 5.28.
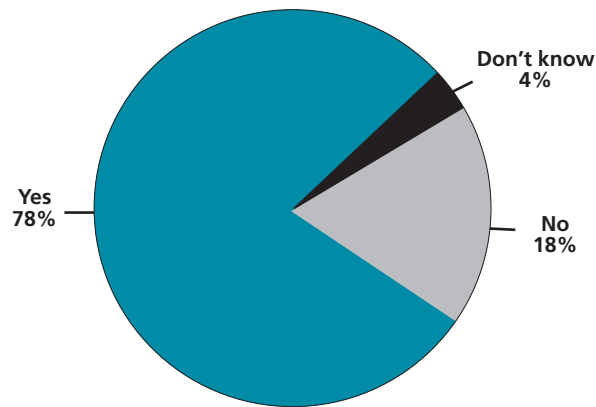
Figure 5.28   *Responses to the question asking whether the contractual benchmarking and market testing provisions are clear*

This shows that the process is considered to be clear in just under 80% of projects surveyed but, if this is representative of the whole population of operational PFI projects, there would be about eighty projects where the contract manager might consider that the benchmarking and/or market testing processes that they will be required to manage are not clearly explained. As nearly half of all projects will have to go through the process every five or seven years, there appears to be a gap in current public sector knowledge that needs to be addressed. This was identified by contract managers as one of the areas where external advice/guidance was requested and where there was concern about the level of resources available to manage the process (see below under "Training and Support").

Monitoring and Governance

Monitoring and governance of operational projects were assessed against three hypotheses which tested (i) the impact on operational performance of the size and structure of contract management teams; (ii) handover processes from procurement and construction to operations; and (iii) changes in public sector personnel managing the contract.

The first hypothesis sought to establish whether the existence of a dedicated public sector contract management team and its size has a positive impact upon operational performance. The responses indicate that over 70% of projects are managed by formal contract management teams but also that just over half the respondents devote 2 or less people to day to day contract management. As can be seen from Figure 5.29 there is some evidence to suggest that those projects with a dedicated contract management team report higher levels of improved performance.
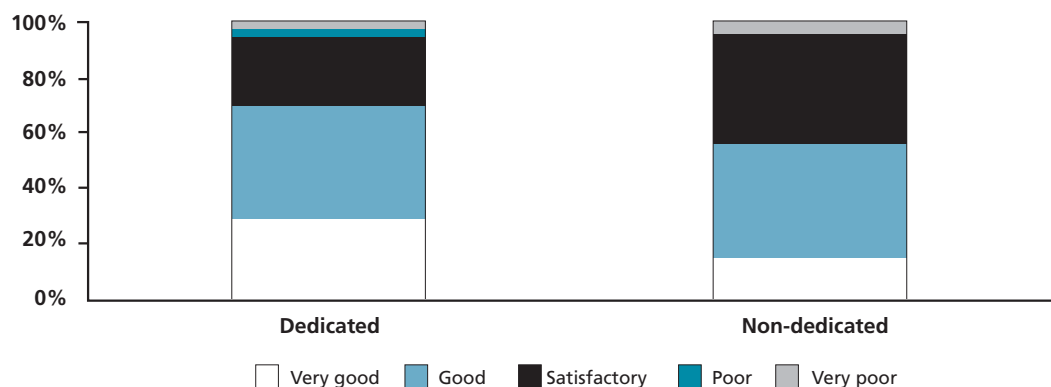
Figure 5.29   *Correlation of existence of dedicated team and contract managers' assessment of performance*

It might be argued that, because the respondent to the survey was usually the head of the contract management team, he or she would inevitably provide a more positive assessment of performance. But the correlation of actual performance against contract with the existence or absence of a dedicated contract management team shows that the presence of a dedicated has a positive impact on performance, as seen in Figure 5.30:
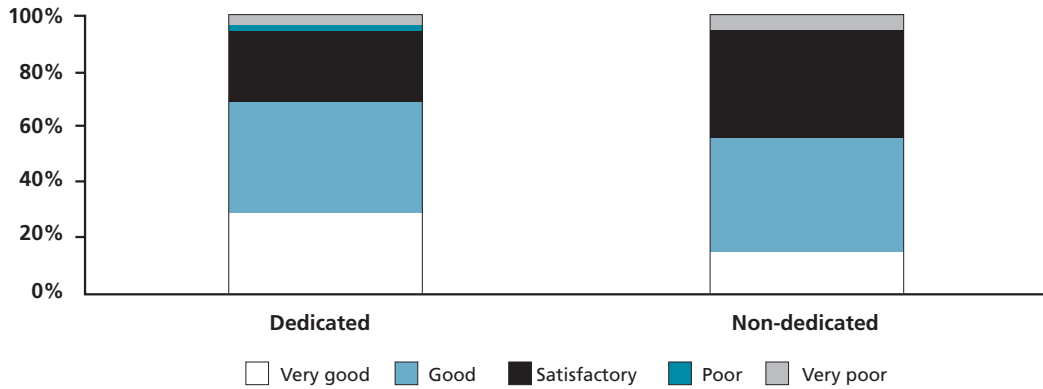
Figure 5.30   Correlation of existence of dedicated team and performance assessed against the contract

There is no clear evidence that larger contract teams (more than 2 people) are directly linked to improved performance. This outcome should be tempered against the relative scales of different projects and the staffing levels that should be required for them. As such, the lack of a statistical link between size of project team and operational performance is probably to be expected.

A further question was asked about the amount of time spent by the respondent in managing the contract. Of the responses, about 40% spent less than 20% of their time on the project. This needs to be seen in the context of the number of respondents having more than one PFI project under their responsibility so it might partly be a reflection of the seniority of the individual involved. On the other hand just under a third spent more than 80% of their time on the project and a third again of these had management of the project as their only task. The proportion of time spent on contract management can also vary depending on the level of activity (e.g. during a refinancing or benchmarking exercise and there are times when the level of resource required can increase significantly and then drop back again.

The second hypothesis relating to monitoring and governance looked at whether the completion of a formal handover process between the public authority's procurement and contract management teams results in improved operational performance. The responses to this question are illustrated in Figure 5.31:
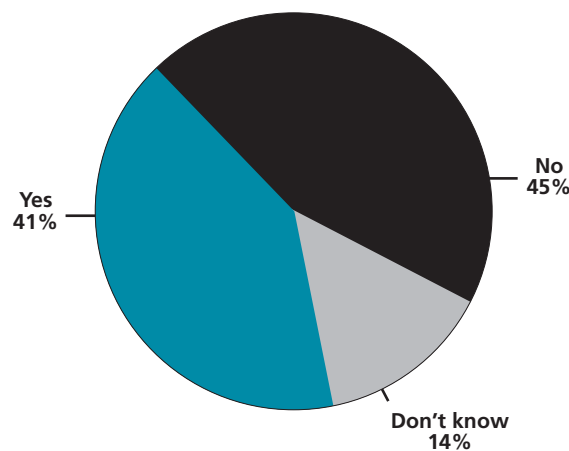
Figure 5.31   Responses to question asking whether there was a formal handover from procurement to contract management

The hypothesis testing demonstrates statistically that a formal handover process improves the operational performance of the PFI project. Figure 5.32 clearly demonstrates the link between formal handover arrangements and performance, with nearly 80% of projects reporting that where there had been a handover performance was either "Good" or "Very good", compared with nearer 50% where no formal handover had taken place.
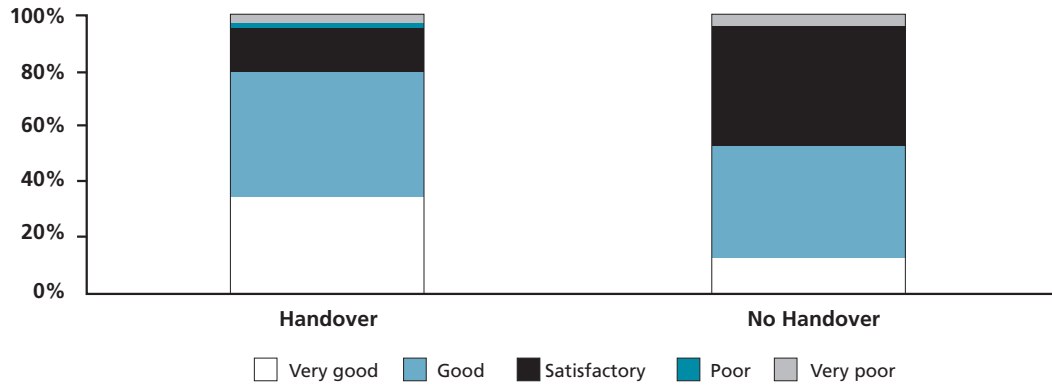
Figure 5.32   Correlation of a presence of a formal handover against contract managers' assessment of performance

Given the impact on performance, it is significant that six out of ten contract managers responded that either there had been no formal handover process to the public sector contract management team or they did not know if there had been one. However, one of the reasons for the apparent lack of formal handover arrangements could be that where staff transfer from the procurement phase to the operational phase of a project, a formal transfer is not considered to be necessary. This supposition is explored later in this section.

Analysing the information regarding formal handover arrangements on a departmental basis, it is evident from Figure 5.33 that the MoD has a formal process for handing over from the procurement to the operational phase in a greater proportion of cases that the other three major departments:
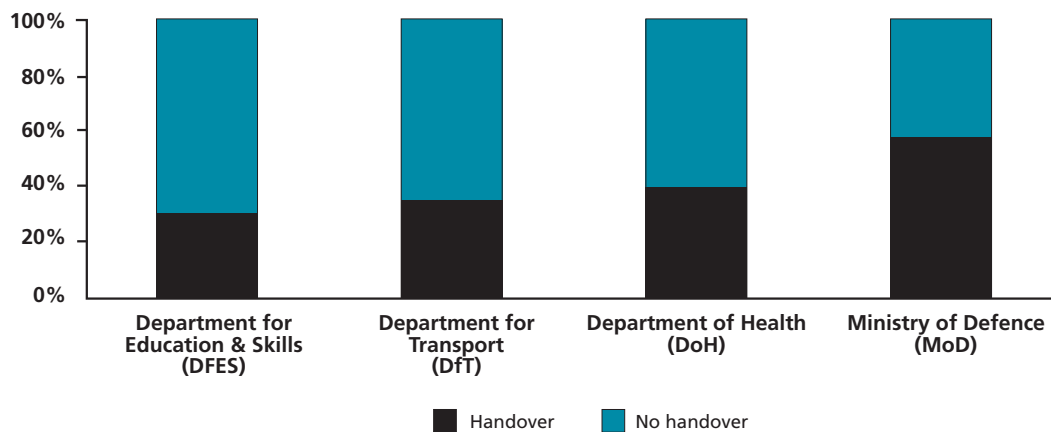
Figure 5.33   Departmental analysis of existence of formal handover arrangements

When asked what the handover involved and whether it was effective in preparing the contract manager to manage the contract, only 39% of respondents answered the question. Of these, almost half reported that the teams involved in the construction phase transferred some or all of the staff into the contract management team. Where there had not been continuity of staff, most respondents referred to a process of briefing, training and availability of guidance, and where this had been well planned it appeared to be effective.

One of the reasons for not carrying out a formal handover process seems to be that one is not considered to be necessary if personnel from the public sector procurement team transfer to the contract management team. Figure 5.34 shows that in over half of projects, at least one member of the public sector team who had been involved in the procurement phase transferred to the contract management team. This is a similar to the figure in the previous paragraph which indicated that, where there was a response to the request for information about the type of handover, nearly half of respondents referred to the transfer of staff. It is therefore perhaps interesting to note that, where staff are reported to have transferred, all of these projects were rated "Good" or "Very good" in terms of performance by the respective respondents.
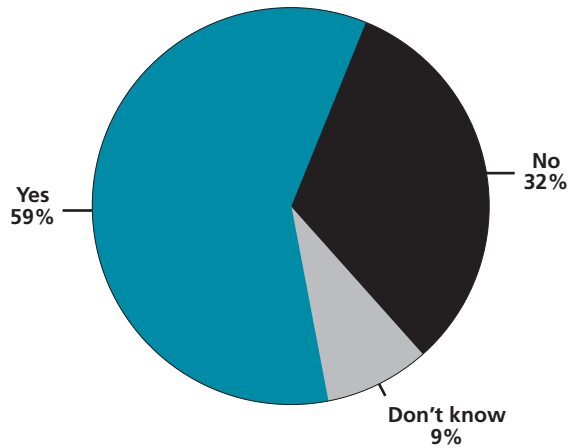
Figure 5.34   Percentage of projects where at least one member of the procurement team transferred to the contract management team

The slightly negative aspect of this information is that it indicates that, in just under one third of cases, nobody who been involved in the procurement of a project transferred to the contract management team. Notwithstanding the existence of formal handover arrangements, this lack of continuity is likely to lead to a lack of in-depth knowledge of the contract and the need for contract management teams to experience a steep learning curve to familairise themselves with the contract.
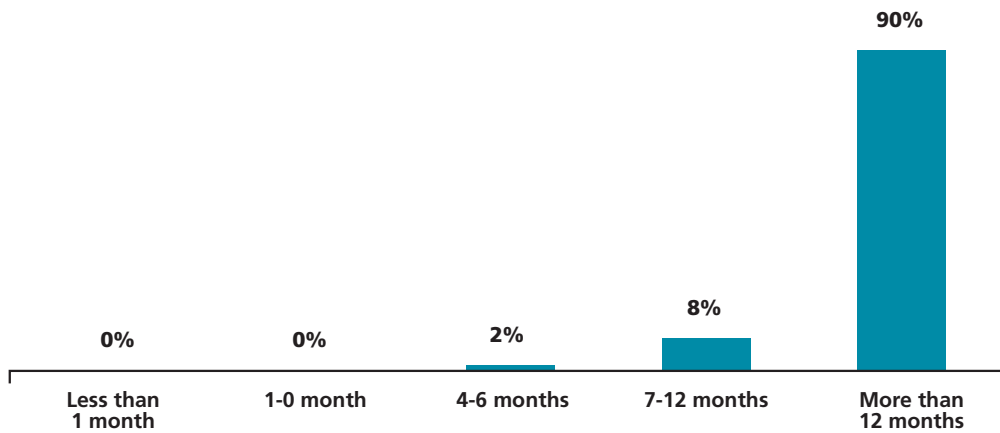
Figure 5.35   Length of time spent in contract management teams by staff who transferred from the procurement team

In terms of project performance, there appears to be little differentiation between those projects where there was a formal handover process and those where staff transferred from procurement to contract management. In both cases performance levels appeared to be higher than where there had been neither a transfer nor a formal handover. From comments made by almost all of the contract managers during the in-depth reviews that continuity and early involvement of contract management staff was critical to the success of the project (see Section Six) it is clear that, in many projects, continuity of staff is treated as at least an equivalent to a formal handover process.

As Figure 5.36 illustrates, there had been a slow but steady increase up to 2003 in the proportion of projects where at least some staff involved in the procurement phase continue that involvement into the operational phase. Contracting authorities appear to be regarding staff transfer increasingly as a positive factor influencing improved contract management. From the information provided, it was not possible to establish why the trend had reversed in for projects becoming operational in 2004.
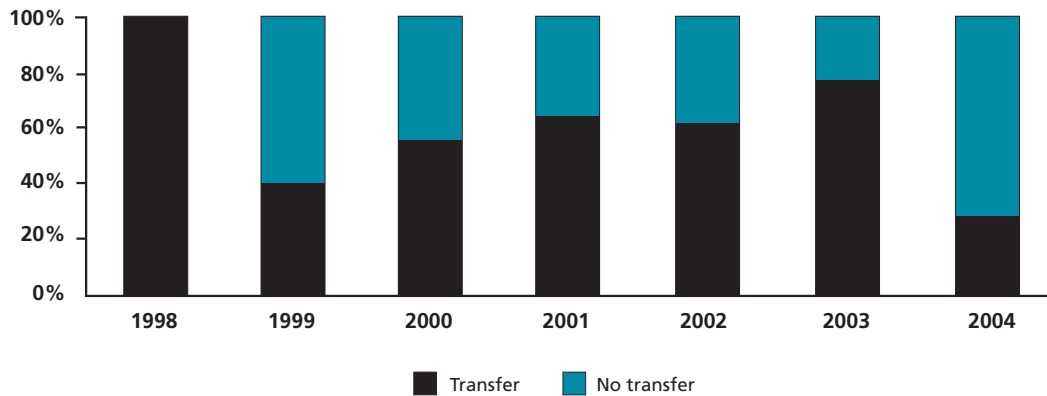
Figure 5.36   *Analysis of whether staff transferred from the procurement team, broken down by the year the project became operational*

A further alternative (or an addition) to a formal handover process is to draw up a simplified guide to contract working. It is worth noting that, despite the fact that a significant number of contract managers identify difficulties with using certain aspects of the contract (see comments under payment mechanism above), only 35% of contract managers surveyed have access to a contract guidance manual. This is a considered to be a low proportion, particularly, as Figure 5.37 shows, the production of a simplified guide does appear from the statistical testing to improve the operational performance of the project.
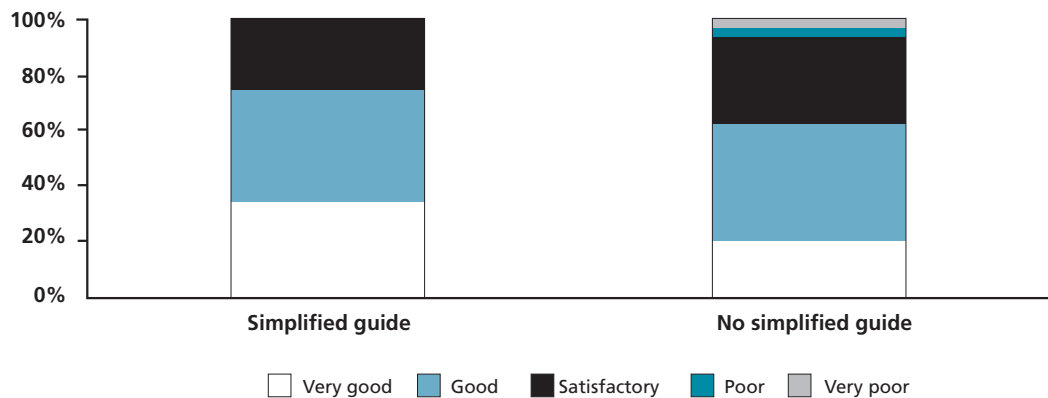
Figure 5.37   *Correlation between availability of a simplified contract guide and contract managers' assessment of performance*

One of the reasons for the apparent lack of importance of the simplified guide to contract working was tested by asking contract managers how frequently they need to refer to the contract itself. Almost half of respondents said they needed to refer to the contract weekly or more frequently. There are a number of possible explanations for this. It could be seen as good practice in its own right as contract managers are referring to the primary sources on a regular basis and measuring the service provider against this standard. Alternatively, it could be that frequent reference to the contract is because there are difficulties with interpretations and possible differences in understanding of requirements

between the authority and the contractor. Both of these reasons were mentioned during the in-depth interviews with contract managers. A number of respondents also mentioned that, as both sides become more familiar with the contract and any differences of interpretation are resolved, the frequency of referral to the contract has fallen or is expected to fall over time.

Figure 5.38 indicates that, looking across the main departments, the MoD has a simplified guide available in a higher proportion of projects than the other three departments. This may be a factor of the particular complexity of its contracts, although the reasons for the differences between departments were not explored in the survey.
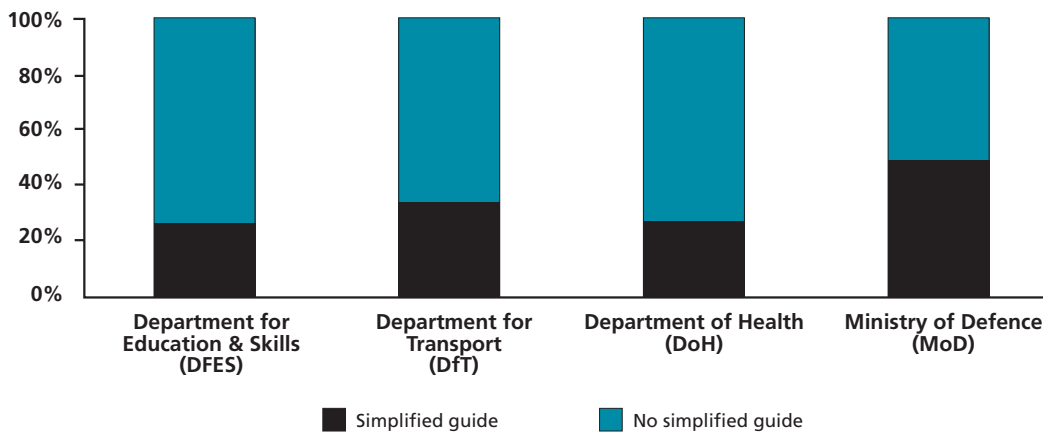
5.38   Departmental analysis of availability of simplified guide to the contract

The third hypothesis in this area looked at whether changes in public sector contract management personnel, or in sub-contractors or SPV shareholders during the operational phase adversely affect the project (reduces operational performance). The issues relating to sub-contractors and shareholdings are covered in the analysis on "Change Mechanism" earlier in this Section.

Changes in personnel in the public sector contract teams as measured by the length of tenure of the contract manager are illustrated in Figure 5.39:
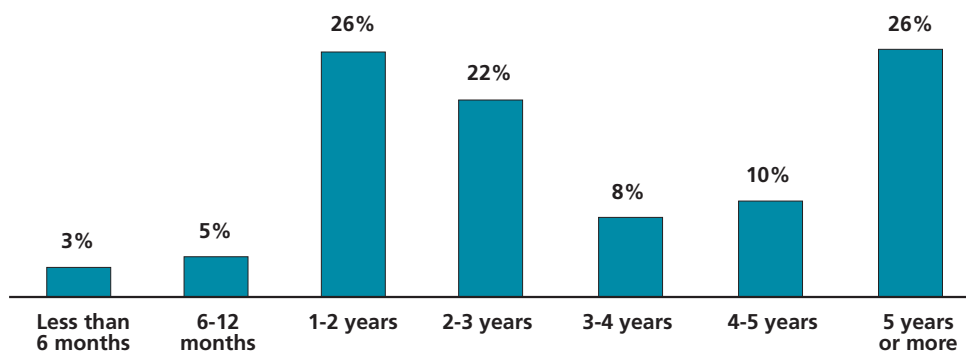
Figure 5.39   Time in post as the public sector contract manager

Responses to this question showed a level of continuity and low staff turnover as nearly 60% of the contract managers had been in post for more than 3 years and over 25% had been in post for more than 5 years. There was, however no clear statistical correlation between length of time in post and performance.

Relationships

Relationships between public sector contract managers and their private sector counterparts are generally strong with 72% of contract managers describing them as "Very good" or "Good" and only 3% describing them as "Poor" (see Figure 5.40):
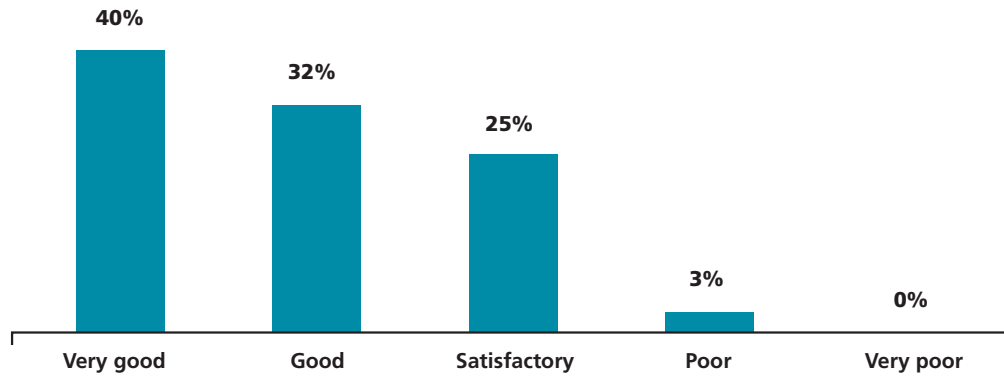
Figure 5.40   Contract managers' assessment of relationships with their private sector counterparts

Comparing the responses to this question with the questions relating to performance there was a clear correlation between "Good" or "Very good" relationships and high levels of performance. This correlation is probably to be expected: good performance by the service provider must almost inevitably be a factor influencing good relationships. Although not quite so strong, there is also a positive link between good relationships and user satisfaction.

Respondents were also asked what they saw as the key factors (good or bad) that influenced the day to day relations between the public sector and the private sector contract management teams. In response, the word 'communication' was the one most commonly referred to, mentioned by over 30% of respondents. Other common drivers mentioned were the level of trust established between the two parties (20%), and shared objectives (17%). Clarity and understanding of the roles and motivations of the respective parties, and a willingness to be flexible and to share information were also mentioned as being important.

Not surprisingly, high levels of staff turnover on either side, projects in difficulty due to poor performance or contractor "distress" and/or where the private sector contractor had underestimated the resource requirements were all issues that put a heavy strain on relations.

Whether or not the respective public sector and private sector contract management teams are located together or apart does not appear to be a major influence on the performance of the contract. Figure 5.41 shows where the two contract management teams are located in relation to each other on the projects surveyed.
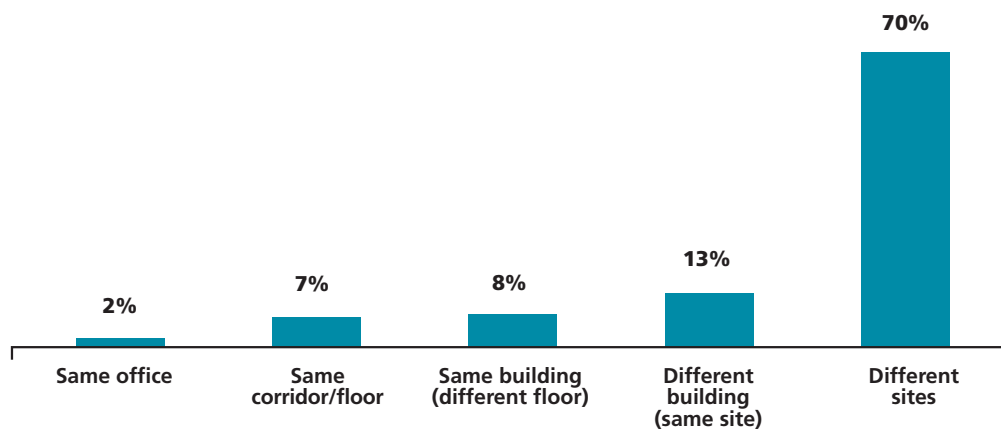
Figure 5.41   Location of contract management teams

A significant majority of public sector contract managers are not co-located with their private sector counterparts with just over 70% being located on different sites and about 13% being located in different buildings on the same site. However, this lack of proximity to their private sector counterparts does not appear to have an impact upon the operational performance of the contract.

The frequency of formal meetings between contract management teams is shown in Figure 5.42.
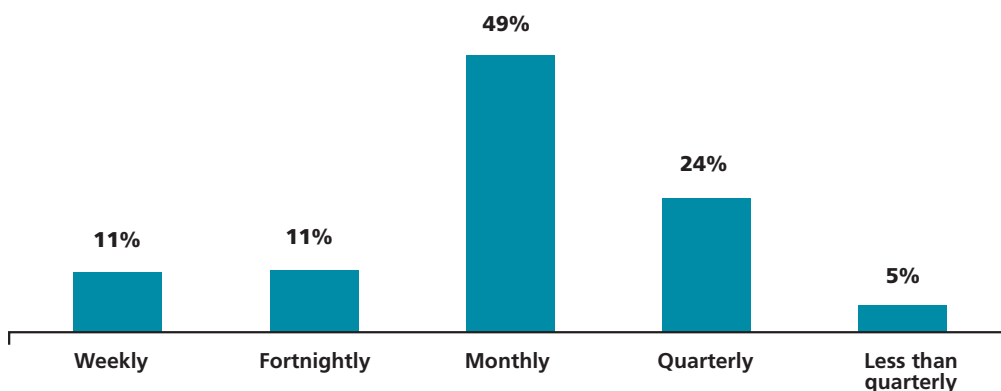
Figure 5.42   Frequency of formal meetings

Nearly 80% of projects have arrangements for formal meetings once a month or less frequently. The frequency of formal meetings does appear to have a statistically significant impact, with the 11% of projects that have a formal weekly meeting reporting better performance than those that meet less frequently. However, this is a relatively low percentage from which to draw any definite conclusions. Also not disclosed by the responses is the extent to which there is in some projects a tier of meetings at different frequencies and, sometimes, at different levels in the organisation. Thus there may be a formal weekly meeting of on the site representatives of the two sides and monthly and/or quarterly meetings at a higher level.

Dispute Resolution

Although no hypotheses were developed in the questionnaire directly relating to dispute resolution, questions on the issue were included as part of the survey. The answers to one such question asking how many times the formal dispute resolution had been invoked during the operational phase are shown in Figure 5.43.
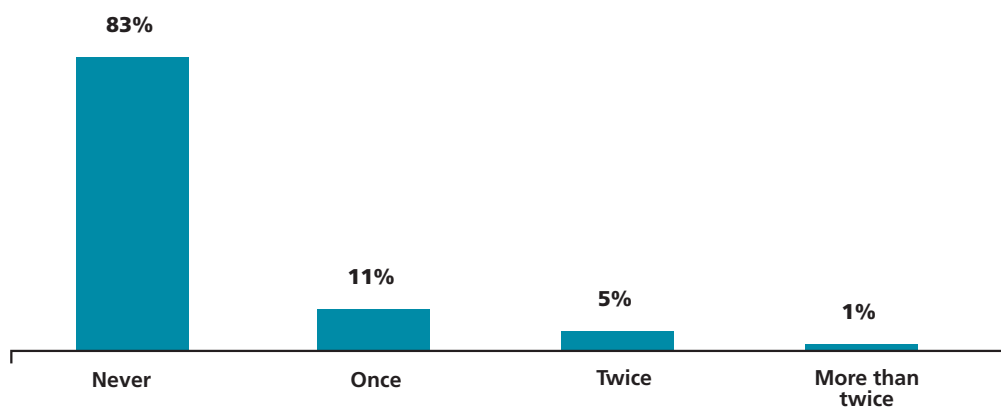
Figure 5.43   Use of contractual dispute resolution procedure during the operational phase

A return of over 80% of projects reporting not having to resort to the contractual dispute mechanism suggests a general willingness to resolve issues without having to escalate them and to regard recourse to formal dispute resolution procedures as a last resort. Where the dispute resolution mechanism was invoked, the largest cause appeared to be service performance, followed by design and construction issues and late delivery of facilities. One cause of the use of the contractual dispute resolution procedure was as a result of a dispute relating to benchmarking.

Training and Support
The subject of training did not appear in any of the hypotheses, although as with dispute resolution, it was covered in the survey by a stand-alone question asking respondents to specify any contract management training that they had received.

The most commonly identified sources of training were in-house training courses (12%) and courses organised by the Chartered Institute of Purchasing and Supply (CIPS), mentioned by 8% of respondents. Over 40% of respondents either said that they had received no specific contract management training, or left this question blank, although a small number (6%) referred to relevant experience if not training.

The relatively low level of specific training is an issue and of those claiming to have had contract management training there was no reference to specific PFI contract management training. This issue was further highlighted in the responses to the hypothesis which tested whether there is adequate support to contract managers.

In the responses to the question asking whether there were areas in which it was believed that public sector PFI contract managers would benefit from further advice or guidance, just under 70% said "Yes". Asked in which areas advice or guidance was needed, a large number of issues were identified which can be broken down into two main categories:
1. Development of Public Sector Skills – this covers the whole spectrum of the project lifecycle. Specific issues that were highlighted here included:
   • General commercial skills;
   • An understanding of what PFI is;
   • Negotiation skills training;
   • How to approach contract variations; and
   • How to deal with market testing/benchmarking.

2. Project-specific Advice – it is clear in some of the responses from certain projects that specific issues have come to prominence in the management of the operational phase. Examples include:
   • Implications of certain European legislation on the contract; and
   • Drafting of accurate Service Level Agreements.

Additional Questions

The survey was used as an opportunity to gather more general information on operational project management and potential future developments by asking respondents which areas of managing the contract they believed will represent the main challenges over the next 5 years.

The largest single issue, mentioned by 40% of respondents, was coping with change in two distinct areas:

- Changes in public sector requirements and by implication the need for resources and experience to negotiate these; and
- Changes of the service provider.

Almost a third raised the issue of benchmarking and how this was going to be carried out. Around 20% mentioned the issue of dealing with variations, although this possibly links to the concerns about changes in authority requirements. Some respondents also raised the issue of the increasing pressure that will be placed on managing performance as the underlying facilities get older.

Further Comments

- Generally, respondents were pleased with the quality of the asset provided;
- Where only hard FM is provided, there can be grey areas of responsibility between the parties to the contract;
- A number of contract managers indicated that the resources needed for contract management had initially been underestimated;
- The importance of good quality sign-off after construction was also mentioned to prevent snagging issues affecting performance of the facilities later on;
- Most respondents referred to the importance of establishing and maintaining good relationships with the service provider;
- There have been challenges in getting stakeholders to understand fully that they have signed up to a long term contract in which they have an active part and therefore that they cannot change their requirements without taking this into account; and
- Several responses referred to the importance of trying to establish shared objectives between the parties to the contract.

Section six: In-depth Reviews

Projects Interviewed:

6.1 Transport System

The Project

The project is to design, construct, finance and operate a municipal transport system. The project has a capital value of over £150 million and is for 27 years. It has been operational for just over 1 year.

Performance

In the survey return, the authority described the overall performance of the service provider as "Good" and indicated that performance measurement shows that contract service levels are being achieved "Almost always".

During interviews, both the authority's and the service provider's representatives confirmed that view. This was supported by the fact that over 99% of performance targets are being met. The authority's contract manager attributes the success of the project to the fact that, as a transport project, it is extremely well planned and integrated with other transport services. The authority also regards the project as a PPP, rather than just a simple PFI. The fact that the public sector transport authority is a shareholder and is in partnership with the private sector in the operating subcontract, and is also the main shareholder in the consortium running the bus service, means that there can be good integration between the two services. Bus and tram timetables can be coordinated to ensure that one service feeds the other. A further advantage identified by the contract manager is that the organisation responsible for managing the contract is the City Council and not a Passenger Transport Executive. The Council is therefore not only the transport authority; it is also the planning authority and the highways authority and can ensure that the needs of tram and bus services are coordinated with all its other highway and planning responsibilities.

User Satisfaction

User satisfaction is assessed by an annual survey, supported by a helpdesk. The survey is managed by the service provider and the results are published on a website that has been set up to provide information to the public about the service. The last survey produced high (96%) satisfaction ratings from users and the helpdesk is regarded as efficient. Passengers can also write to the authority about the service. Quite often the letters are complimentary about the tram service and often commend the service provided by the helpdesk. Comments and complaints to the helpdesk are discussed between the service provider and the authority and, where appropriate, action to resolve problems is agreed.

Payment Mechanism

Payment is based on the service provider receiving all of the fare revenue, making up approximately 25-30% of its revenue, with the balance being based on a fixed availability payment. Availability payments are based on 25 weighted criteria and approximately 85% of the availability payment is based on reliability and punctuality. The other measures deal with issues such as noise levels, cleanliness of trams and tram stops, lighting of tram stops, cleaning of graffiti, repairs, provision of a conductor and lighting and signage at the Park and Rides which serve the termini of the tram line. The service provider has to achieve a minimum 98% performance against the targets to receive the full availability payment.

The only risk borne directly by the SPV contractor is revenue risk through the fares collected. Although the SPV takes the full revenue risk, the construction partners took the full construction risk and the operating sub-contractor, in which the city's public transport authority is a partner, takes full operating and maintenance risk.

The authority's contract manager believes that the payment system is relatively easy to understand and use and that it broadly supports the effective contract management of the project. It has been carefully balanced to ensure that the service provider is incentivised to correct failures rather then leave them and incur deductions. Performance deductions imposed are considered to have led to a slight improvement in the levels of service. This is evidenced by the improvements in punctuality.

The service provider thinks that the payment mechanism works well as an incentive to the operating sub-contractor to perform because the risks and responsibilities are generally with the parties that can best manage them. It does not act as an incentive on the SPV contractor itself because all of the construction risk was passed down to the construction sub-contractor and all of the operating risk has been passed down to the operating sub-contractor. The service provider does however believe that the performance measurement system applied to the operating sub-contractor is possibly not stringent enough and that it is too easy for the operating sub-contractor to achieve the required performance

target of 98%. Although the operating sub-contractor is delivering a more frequent service than required under the contract, the service provider's contract manager believes that tougher targets might incentivise the operator even more to improve service levels, particularly punctuality and faster repairs to damage to trams and tram stops.

There has been one change to the payment mechanism and performance management system since contract signature. Because the payment mechanism is unique there had been nothing to compare it with and in addition, some of the original measures were seen as counter-productive and some of them did not incentivise the service provider to rectify failures. In some cases, leaving a fault un-rectified and incurring the penalty was financially more advantageous to the operating sub-contractor than correcting the fault. This has been rectified through a process of negotiation which was relatively straightforward between the authority and the service provider as the changes were regarded as mutually beneficial and therefore not contentious. In fact, it had been the service provider that originally pointed out the anomaly and suggested the change. However, although the authority's and the service provider's contract managers reached agreement on the amendment fairly quickly, it took a long time for the change to be formally agreed and implemented because of the lengthy internal approvals process required by the SPV.

Change Mechanism

There have been two major changes to the contract since the service become operational: the one referred to above to the payment mechanism to remove anomalies and one to the fare collection system.

The change to the payment mechanism was seen as mutually beneficial and both sides were content with the change. The change to the fare collection system, replacing the automatic ticket machines originally proposed with conductors on the trams, was more contentious. In both cases, change was very difficult to achieve. This was partly because, in the view of both sides, the change mechanism in the contract is cumbersome and laborious. However, the main difficulty was said to have been the amount of time it took to get approvals from parent companies and funders on the consortium side. The service provider described negotiations with the authority as "quite straightforward".

The authority do not think that there will be many changes to the contract in future as there is a base service that has to be delivered and the service provider is actually providing a more frequent service that required by the contract. However, it is expected that there will be a significant change to the payment mechanism in any future contracts because the private sector is no longer prepared to take full "patronage" (fare revenue) risk. This is mainly because of the difficulties of dealing with fare avoidance by passengers. This is also expected to offer better value for money in future projects as the cost of transferring this risk is quite high.

The one major change likely to occur in the near future is a result of a proposed new development at a shopping centre in the city which would require a new tram stop and may also require a change to the timetable to take account of the additional stop. There are likely to be fairly significant planning related issues and this would be dealt with under the variation procedure in the contract.

One other change that may occur is a proposed extension to the service to provide a new tram line but European procurement rules mean that it can not be dealt with as a variation. This means that the current contract will almost certainly have to be terminated and a new tender exercise undertaken for the bigger service. It would not be practical to have two different operators for different parts of the system. If the new contract is won by the existing consortium, moving from Contract 1 to Contract 2 is expected to be relatively straightforward. If another consortium wins the new contract, it is anticipated that it will be a major problem to transfer the existing service and workforce to the new contractor. The existing contractor is aware of this development. Timing of the new extension is still uncertain and although the prospect of losing the contract is said not to have affected relationships, both the service provider and the authority say that they are frustrated that it is taking so long for a decision about whether and when the extension should go ahead. The existing service provider is naturally keen to win the new contract and has incurred the expense of putting together a bid team. The delays are costing it money but recognises that the authority have no control over central Governments approvals processes.

There has not been a refinancing of the project to date. This has been considered by the SPV contractor but any progress has been deferred awaiting the outcome of the decision on the extension.

Benchmarking and Market Testing

The contract does not have benchmarking or market testing provisions. It was decided that it was not possible to benchmark the main tram service and that the maintenance elements could not be separated from the overall service.

Monitoring and Governance Arrangements

The public and private sector's monitoring teams are based on different sites in the city but neither party regards this as a particular issue and regular communication is maintained both through telephone and email and through informal meetings outside the regular formal meeting structures.

The public sector employs a monitoring resource of 2.5 full-time staff who audit and monitor the day-to-day performance of the service provider. The team also deals with planning issues and complaints from the public about the service. This team is supported by consultants in specialist areas such as legal, planning and building as and when necessary. The operating budget for the contract monitoring team includes funding for this consultancy support. The team is unchanged since the contract became operational in terms of numbers and there has been an element of continuity, as two members of the team were involved with the project through a large part of the procurement and construction phases. The authority's contract manager has been involved in the project since it started and led the procurement team; his deputy came on board eighteen months into the project and another member of the team started six months into the project. The authority believes that it has benefited from the fact that at each different stage they use a number of experts from different disciplines, including environmental, legal and financial and gain knowledge and expertise from each of them. But none of these experts see the whole project through and it is considered helpful that some of the monitoring team do follow the whole project through, as it is then easier to understand why certain things have been dealt with in certain ways in the contract.

Performance is monitored by the service provider self-monitoring and providing performance information to the authority. This information is audited by the authority on a regular basis. Much of the information, particularly the data relating to the punctuality and availability of the service, is provided electronically and is therefore extremely accurate. A computerised system identifies where every tram is at every minute and means that, unless there are problems with the computer software, the measurement of availability and punctuality is straightforward and accurate. The contract operates on an "open book" basis; the authority has the right of access to any monitoring information and carries out periodic random checks of the information. The resource required by the authority in auditing the information provided by the service provider is slightly less than one full-time equivalent.

The service provider's monitoring team has reduced from 5 during construction to 3 during operation as there have been far fewer issues to deal with. The service provider's contract manager regards his monitoring role as ensuring that the sub-contractors meet all the obligations that have been passed down to them. The service provider's monitoring team was put in place about 6 months before the start of the operating phase but none were involved in the procurement or the contract negotiations.

Formal monthly meetings are held between the representatives of the authority, the SPV contractor and the operating and construction sub-contractors to review progress and discuss strategic issues. This meeting started during the construction phase. Gradually, the construction issues are becoming a smaller part of the agenda. These meetings do not deal with performance deductions or disputes which, if necessary, would be handled separately. It has not yet been necessary to have that level of formality to deal with performance issues and problems have been resolved satisfactorily without the need for formal meetings.

Both the authority and the service provider believe that the monitoring and governance arrangements are working well and there are no plans to review or change them.

Relationships

Both sides believe that relationships between the service provider and the authority are good. One of the key factors for this cited by the authority's contract manager is the continuity of personnel on both sides. The service provider also believes that the fact that the authority has kept a consistent team supports good relationships. There is regular informal contact and the majority of problems and issues are resolved without the need for recourse to formal meetings or the contract.

Dispute Resolution

There have been no disputes about the operating element of the contract.

Training and Support

The two sides describe experience and understanding of contract forms and processes as key skills required for successful contract management. Team working and relationship management are also seen as critical factors.

The authority's contract manager does not believe that there is sufficient training or support in contract management. He said that there had been criticism from the Transport Committee that the Department for Transport does not provide enough support to local schemes and that there is therefore a lot of wasted effort because projects start using people who do not have the necessary experience and skills and so delays occur and costs increase. It is believed that there should be more in terms of providing sources of expertise for contract managers.

There are various industry wide fora – one for the operators, one for the constructors and one for authorities - where information and best practice can be shared. A new organisation called UKTram has been established which brings together all three groups to provide an industry voice to central Government. The authority also maintains close contact with other local authorities.

It is considered that there is a limit to the amount of experience and best practice that can be shared as the organisations involved, and their requirements, are different. Standardisation of processes and organisations is very difficult when the parent organisations are so disparate. For example, Transport for London is totally different from a Passenger Transport Executive which, in turn, is totally different from a unitary council.

Concluding Remarks

The authority's contract manager believes that the benefit of the PFI contract is that it allows for payment over time against performance which gives the authority greater control over the service provider. In a PFI contract the service provider is incentivised through both the fares and the availability payment system. In a conventional contract, the only incentive for the service provider is the fares.

The authority considers that projects could be improved by earlier contractor involvement and the introduction of a tender process to select a partner to work with the authority in the development of the requirement and to ultimately become the concessionaire. This would enable significant design and development work to be done and risks reduced before going out to competition for the sub-contract for the actual design and build.

The service provider believes that the contractual structure works well and that there is a good operator providing a good system. This is attributed to the fact that the process worked and created an arrangement where the risks and responsibilities all lie where they should.

Key Findings

1. The payment and performance mechanisms are relatively easy to understand and are seen to support effective contract management
2. Change has been very difficult to achieve, mainly because of the lengthy approval processes required by the contractor
3. Geographical separation of the public sector contract and service provider's manager is not regarded as an issue by either side
4. It is seen as an advantage that some members of the contract management team were also involved in the procurement phase
5. Continuity of personnel is identified by both parties as a key factor in building good relationships
6. There is considered to be insufficient training or support for contract management in the public sector
7. The value of future projects could be improved by earlier contractor involvement

6.2 Hospital Project (1)

The Project

The project provides a new serviced building for cardiothoracic and neuroscience services on a large hospital site, most of which is not part of the project. There are 209 beds. The capital value of the project is about £50 million. The contract is for 35 years and has been operational for just under two years. It started 5 months later than originally planned.

Performance

The service provider provides hard and soft services (estates, maintenance, cleaning, window cleaning, and laundry). The authority provides portering, catering and security and some equipment. The authority's contract manager considers that they are in a "honeymoon period" at present in the life of the contract. The building is new so any maintenance works required are fairly standard and no major items of life cycle work have been undertaken yet. He also states that the service provider receives more money per square metre than is available for the rest of the hospital. The service provider's contract manager believes a high level of service is being delivered, with 97 to 98 % of delivery target levels being achieved. As a result the service provider has not incurred any payment deductions although the service provider's contract manager states that the authority expects 100% performance which is neither realistic nor achievable.

User Satisfaction

Users are said by both parties to be generally content with the standards of service being delivered and this is borne out by the service provider's six-monthly user satisfaction survey. The majority of services measured were rated as either "Satisfactory", "Good" or "Very good".

The authority's contract manager reports that there is a communications issue in that some users do not understand that, as this is a PFI contract, there are some requests for changes that the authority is not able to implement without incurring a cost and there may not always be funding available for these changes.

Payment Mechanism

The authority's contract manager believes that the project agreement and payment mechanism have very few teeth and do not incentivise the service provider to deliver the contractual requirements. For the service provider to incur financial deductions there would have to be a very high level of unavailability.

The service provider has not suffered availability deductions and has performed at high service levels and its contract manager considers that the prospect of availability deductions acts as an incentive to perform within the agreed contractual tolerance levels.

The authority's contract manager believes that key performance indicators will need to be changed in future as the health service changes in order to keep up to date with NHS standards.

Change Mechanism

Both parties expressed reservations about the change procedure specified in the contract. The consensus view is that the health sector is constantly changing with new legislation and different requirements and it remains to be seen how a PFI contract will deal with the need to reflect changing policies and standards.

The service provider's contract manager does not think that the procedure is satisfactory for all types of changes and does not allow for simple changes to be made quickly or efficiently. He believes that the contract would be improved if it provided for three different procedures for managing different types of change: one procedure for minor works, one for service changes and one for major capital expenditure. In addition the service provider believes that the contract should set out an agreed level of profit that should be achieved as part of any change process.

The authority has not implemented any changes to date. The authority's contract manager says that there has been difficulty in obtaining information from the SPV in relation to proposed changes. The building service provider is not part of the SPV and is not therefore seen to be incentivised to provide information because it has no long term interest in the project. The authority's contract manager also considers that the change mechanism is not detailed enough and does not provide precise timescales. In addition, there is no requirement on the service provider to seek competitive

tenders if the cost of the change is below £500,000. Obtaining the service provider's agreement to performance and/or availability deductions relating to the changes is expected to be difficult.

The change procedure also does not fit well with how new works are evaluated within the National Health Service. For example there is no requirement on the service provider to prepare outline business cases for changes.

Benchmarking and Market Testing
The contract provides for benchmarking in the 3rd, 5th and 7th years of the contract with different services being benchmarked in different years. According to the service provider, the authority can choose to delay benchmarking and neither party has yet taken any steps to address the issue. The authority's contract manager is concerned about the process and about the level of resource that will be needed to manage it. The resources currently available are intended to provide for regular contract monitoring and may not be sufficient to deal with the additional workload that will be caused by the benchmarking process.

Monitoring and Governance Arrangements
The authority's and service provider's contract managers are located in different buildings on the same site. Neither regards the matter of where each is located as an important issue and both believe it has little or no impact on the effectiveness of contract management arrangements.

None of the authority's monitoring team was involved in the procurement phase, although the contract manager oversaw the establishment of the contract monitoring team about six months before the contract became operational. The authority's contract manager believes that these arrangements were adequate in supporting effective contract management.

The service provider self-monitors its performance and its self-monitoring is subject to regular audit by the authority. The authority is however reliant upon users recording when issues are rectified. There are three people in the authority's monitoring team although they are not full time. The authority's contract manager does not think that monitoring was allowed for at financial close. It is anticipated that monitoring levels will need to increase as life cycle works are required.

The service provider states that his organisation's monitoring resources are constant.

There is a monthly services committee to discuss performance and deal with issues raised by users. This committee consists of users' representatives, the SPV, the FM service provider and the authority. In addition there are quarterly liaison meetings which are attended by higher level representatives from the SPV and which focus on more long term and strategic issues affecting service delivery. Both parties consider that these arrangements are satisfactory and there are no plans to review them.

Relationships
The authority's contract manager confirmed the assessment in the survey response that relationships with the service provider were "Good", although there had been difficulties in obtaining information from the SPV in respect of proposed changes. Neither the FM provider nor the building contractor are members of the SPV and the building contractor in particular is perceived as having no long term interest in the project and relationships with the building contractor are poor. The authority's contract manager says that, as far as possible, he works with his counterpart to resolve issues on an informal basis.

The service provider's contract manager believes that there is a reasonable working relationship with the authority and that there are no major problems. He maintains that this is achieved by being up front and honest in their dealings with the authority, working together as a team and supplying a good service.

Dispute Resolution
There have not been any disputes regarding service provision. However, there has been arbitration concerning claims from the design and build contractor against the service provider that the Authority was joined into. The claim was for about £1 million and related to alleged delays caused to the design and build contractor by the service provider. The design and build contractor lost the arbitration.

Training and Support

The authority's contract manager believes that he would benefit from support and advice in relation to benchmarking and market testing and in dealing with variations. These are seen as two major issues for the authority, for which it is under resourced and lacks adequate information.

There is a National Health Service PFI forum which is a vehicle for exchanging information and best practice but many of the other projects in the Department are not of the same type as they are projects for whole hospitals on green- or brown-field sites and therefore face different issues. Nevertheless, it is considered helpful to be able to share experiences.

The service provider believes that previous experience with PFI contracts and an understanding of the contract and its implications for operational delivery is a key training requirement. Communication and negotiation skills and knowledge and understanding of sub-contractor language are also considered to be important skills needed for managing service contracts.

Concluding Remarks

In future, the authority would be careful with the selection of bidders and ensure that the building contractor is a member of the consortium so that it has a long term interest in the project. It is also considered that the variation procedure could be improved and the payment mechanism changed to give it more teeth. The authority believes that it would be better if there was more of a "landlord & tenant" relationship with the service provider, under which the authority could carry out alterations with the consent of the SPV. The authority's contract manager also believes that it is important for the contract management team to get involved with the development of the operational requirement at the earliest possible opportunity.

The FM service provider's contract manager agrees that the FM company should be involved at SPV level. He shares the authority's view that the variation procedure is in need of change and that generally the contract is perceived as inflexible.

Key Findings

1. Both parties believe that performance would be improved if the FM service provider was part of the SPV
2. The contract needs to be more flexible to cope with constant changes to requirements
3. It would be preferable for there to be different procedures for dealing with different types of variations
4. The authority is concerned about how benchmarking will be performed and how the organisation will be resourced to manage it
5. The authority will need support with managing variations and benchmarking
6. Early involvement of the contract monitoring team is seen as essential in building up relationships and obtaining an understanding of the contract and specification
7. The location of respective contract managers is not seen by either party as an issue affecting contract management

6.3 Schools Project

The Project
The project was to finance the reconstruction of a secondary school and the refurbishment and extension of a primary school, and to provide hard and soft facilities management services to both schools. The project has a capital value of just under £15 million and the contract, which is for 25 years, has been fully operational for just over three years.

Performance
In the survey return, the authority described the overall performance of the service provider as "Good" and that performance measurement shows that contract service levels are being achieved "Almost always".

During interviews, both the authority and the service provider confirmed that view although both referred to the fact that one sub-contractor providing grounds maintenance had been replaced because of unsatisfactory levels of performance, leading to the service provider terminating the sub-contract.

The authority's contract manager's view of overall performance is that at the start of the operational phase there had been a number of problems, particularly of communication. It was highlighted to the service provider that there was a relationship issue and the two parties had worked together to resolve it and now, three years into the contract, the authority believes that considerable improvements in both performance and relationships have been achieved.

The service provider's contract manager acknowledges that improvements in communications and relationships had been needed and that the evidence that performance had improved was contained in the responses to customer surveys, the most recent of which indicated that 90% of users were happy with the levels and quality of services being delivered.

The authority does not consider that the service provider is performing above the standards set in the contract, although the service provider considers that it is very responsive to the needs of the customer. There are no mechanisms in the contract that would incentivise the service provider to deliver in excess of the levels of service specified in the contract.

User Satisfaction
The service provider's latest customer survey, seeking the views of teachers, indicated 90% satisfaction with the service. The authority has separately commissioned an independent evaluation of the project from consultants who also interviewed pupils who, on the whole, were reported as being "quite impressed" with the service.

There is one helpdesk covering both schools which is generally regarded to work well.

Payment Mechanism
Payment is based on availability with 95 Key Performance Indicators (KPIs) covering the hard and soft facilities management services. Most of the KPIs are based on inputs but there are some output measures covering areas such as cleanliness and health and safety requirements.

The authority's contract manager considers that, although the payment mechanism is complex, it broadly supports the effective contract management of the project. However, it is not considered to be an incentive scheme encouraging the service provider to deliver better than the basic level of service. The private sector believes that the payment mechanism does incentivise them to perform well.

The performance measurement system operates as a self-monitoring scheme. The service provider produces a performance report for the monthly Facilities Management Meeting. The authority can challenge any aspect of the report but has not yet carried out any audits of the service provider's information. A conscious decision was taken at the start of the project not to have duplicate monitoring arrangements.

The KPIs have not changed since contract signature and both sides consider that they are appropriate and incentivise the service provider to deliver the correct levels of service.

The public sector has occasionally waived relatively low levels of performance deductions to which it was entitled where the failure was not a problem or an inconvenience to the school, and has looked to the service provider to reciprocate in terms of dealing with short-term changes in requirements.

Change Mechanism

There has been only one major change to the contract during the operational phase which involved the change of use of a room. Both sides think that the contract's change mechanism was fairly easy to use and supported the implementation of the change. The change was not contentious so there were no major problems in reaching agreement.

There have been some cost-neutral minor changes to the operational requirements which are recorded separately and not as contract variations. They are considered by both parties to be too minor in nature to necessitate the use of the contractual change mechanism.

There has not been any refinancing of the contract. The service provider said that refinancing had been considered but there were no plans to take it forward at this stage.

Benchmarking and Market Testing

The contract has benchmarking and market testing clauses requiring both hard and soft FM services to be benchmarked and market tested every seven years. The first benchmarking exercise is due to be completed in 2007. Under the contract, either party can manage the benchmarking/market testing process.

The authority's contract manager confirmed that the authority is beginning to consider the requirements and the resource implications to manage the benchmarking and market testing processes.

Monitoring and Governance Arrangements

The authority's and the service provider's respective contract managers are located over 100 miles apart. Neither party considers this to be a particular issue and, apart from the formal meetings, maintain regular contact by telephone and email and the occasional informal meeting.

Day to day monitoring and liaison is managed between the service provider's on site representatives and the schools' representatives. The authority's contract manager co-ordinates management arrangements on behalf of the authority and, where appropriate, liaises with colleagues in the legal, financial and property sections of the authority and with the schools' representatives. There are regular site meetings between the authority's and the service provider's representatives on site to discuss day to day performance issues and there is a monthly Facilities Management Meeting to discuss the previous month's performance and to deal with changes to requirements.

The authority's contract manager was brought in to the project about six months before contract signature and believes that continuity is important so that those managing the contract know what was negotiated and what the understanding between the parties was and to facilitate the development of the relationship with the service provider. The service provider's contract manager and the directors of the consortium had been involved from the start of the project and the only significant changes to the service provider's team had been three changes of site manager at the high school, due to personal reasons.

Relationships

The authority's contract manager confirmed that relationships at both site level and contract manager level are good. There is perceived to be an element of partnership in that a lot of minor issues are resolved informally without referring to the contract, but more significant issues often require reference to the contract.

Both sides confirm that they have to refer to the contract on a regular basis. The authority's contract manager does not consider that the contract is difficult to understand but there are some areas in the operational specification which caused difficulties because of differences in interpretation between the authority and the service provider. Management effort on both sides has been required to resolve these issues.

Dispute Resolution

There have been no formal disputes during the operational phase and neither side had any comment on the Dispute Resolution procedure in the contract.

Training and Support

The authority's contract manager had previous experience of managing non-PFI service contracts but did not receive any specific training related to the current contract. PFI training would have been helpful, although the contract manager was not aware of any being offered. The authority's contract manager also thinks that formal networking arrangements to share experience and best practice with other contract managers would be beneficial.

Concluding Remarks

Both parties believe that, overall, the project is delivering what it was set up to deliver.

The authority's contract manager believes that the lack of involvement of anyone from the Council's education department from the beginning of the project was initially a problem. The procurement and contractual negotiations were lead by legal and financial departments as PFI was seen simply as a means of procurement.

Both sides have concerns about how the benchmarking and market testing arrangements will operate and the authority is concerned about the resource requirements.

Key Findings

1. The payment and performance measurement systems are not seen to act as an incentive to deliver better than the required levels of service
2. Minor changes to requirements are agreed without recourse to the formal contractual variation procedures
3. Neither side is clear at present about how to manage the benchmarking and market testing process
4. Contract management meeting structures have been changed to reflect changing requirements
5. The geographical separation of the public and private sector contract managers is not considered by either to be an issue affecting performance
6. Both sides think that the resolution of some issues has been particularly contractual due to differences in interpretation of contractual requirements
7. It is considered that contract managers should be involved at an early stage in negotiations of the contract and the operational specification and Key Performance Indicators
8. It is beneficial to have continuity of staff in key areas

6.4 Accommodation and Training Facilities

The Project

The project was to finance the reconstruction of a training facility and the construction of new accommodation and training facilities and for the provision of hard and soft Facilities Management services. The project has a capital value of over £70 million and the contract, which is for 30 years, has been in operation for just over 5 years.

Performance

In the survey return, the authority described the overall performance of the service provider as "Very good" and that performance measurement shows that contract service levels are being achieved "Almost always".

The authority considers that the service provider is delivering what is required by the contract with particularly good service in the stores area. Both sides confirmed that this had originally been a poor area of service delivery but that action taken by the service provider to recruit more professional and experienced staff had led to significant improvements. The service provider's contract manager commented that, in theory, the stores facility should have worked well from the start. The finances were right, the specification was right, the asset, the facilities, the IT, and the communication arrangements were all in place. But without the right people to drive performance, it did not work effectively.

The authority also commented on the effectiveness and efficiency of the IT system.

Both sides agree that much of the success of the contract is attributable to individual personalities and the development of good working relationships between the key players on each side. The authority commented on improvements in both performance and relationships since a change in the service provider's project director. The authority also point to continuity on the service provider's side as being a positive factor influencing performance. Because of the high turnover rate of students and of authority staff on site, most of the continuity of personnel is provided by the service provider's staff.

The authority also believes that the two sides share the same mission statement and have shared objectives in delivering high-quality training services to students.

The service provider's contract manager supports this assessment. His view is that the service provider's objective is to run a very safe environment and the fact that there have been no serious accidents demonstrates the success in achieving this objective. The service provider is also successful against the measure of availability, achieving over 99% availability of all the facilities on site.

The authority believes that the way in which the output specification in the contract has been written is supportive of good performance. The performance requirements set out in the contract are perceived to be clear and the service provider knows what they are, and is aware of the deductions from payment that will be applied in the event of failures to deliver them. The only negative aspect raised in relation to the contract was the use of some prescriptive and, in some cases, outdated input specifications relating to internal departmental building regulations.

User Satisfaction

User satisfaction surveys are managed by the service provider. The last survey took place about six months previously and was comprehensive in its coverage. Response was mixed with positive comments about the stores and the administrative arrangements and negative comments about the standard of cleaning, laundry and food (the authority recognises that responses to questions about food are often subjective). Responses are discussed at the monthly contract review meetings and, where appropriate, action agreed to deal with issues raised. The outcome of user satisfaction surveys does not affect payment.

The helpdesk receives on average 1000 calls per month and both parties believe it works well due to being staffed by experienced and intelligent operators. Management information is provided on the work of the helpdesk and this is discussed at the contract review meetings and appropriate action agreed where necessary.

User satisfaction is also assessed through the provision of comments books at various points for users to comment on performance of a particular service. These comments are fed back to the service provider to take action on where necessary.

Payment Mechanism

The authority believes that the payment mechanism is "quite difficult" to use and understand but believes that it supports the effective management of the contract and that the imposition of appropriate performance deductions has led to significant improvements in the service. This has applied in particular to the stores area. The authority does not however believe that the payment mechanism acts as a positive incentive on the service provider to improve performance.

The service provider's contract manager does not have a particularly strong view about the number of KPIs but considers them to be broadly appropriate for measuring what is required to be delivered. The KPIs are seen to act as an incentive to deliver the requirements because the service provider is driven by the fact that financial deductions would be incurred for failures to deliver.

The service provider's contract manager does however consider that some performance measures are perverse and that there is a lack of materiality and proportionality, with failures for minor maintenance shortcomings having the same financial impact as major periods of unavailability of important facilities. The service provider's contract manager believes that his organisation could stretch itself more and deliver higher levels of service if the payment and performance mechanisms incentivised it to do so.

The Post Project Evaluation Report has recently been produced and has recommended that the performance measurement system should be reviewed.

Change Mechanism

There have been over 30 changes to the operational requirements in the contract, leading to an increase of approximately 10% in the price of the contract.

Achieving change has been difficult. Both sides refer to the fact that getting change agreed involves a number of parties and unless everyone is committed to that process it will not happen. Things only move at the pace of the slowest party involved and a disproportionate amount of personal involvement is needed to make fairly basic changes to the operational requirement.

Both parties think that, by and large, the contract has served them reasonably well but change management is always going to be an issue. That is not to say that the contract or way of contracting is wrong. What both parties believe it does mean is that it is necessary to be very clear about what change is required and why it is required, and that they have to be smart at delivering the process.

A large number of relatively minor changes have been made without going through the formal change mechanism process set out in the contract. The service provider sees that as one of the strengths of having an intelligent customer and an intelligent supplier who work together professionally to use their discretion and to make judgments that are in the best interests of the users. Levels of priority about when things should be done are often agreed without always invoking the contractual change mechanism. Strong business-like relationships are needed to agree changes to the programme on this semi-formal basis.

Benchmarking and Market Testing

The contract requires the first market testing process to be completed by early 2007. Strictly under the contract, the service provider is responsible for managing the market testing process but the authority expects that it will be a joint process as there would be no point in the service provider merely reporting on the final outcome without having discussed it with the authority. The process is expected to start in the next few months.

The authority has major concerns about market testing. It is believed that the consortium lost significant sums on the build of the project and that the main service provider and at least one of the sub-contractors are not making the planned levels of return from the project. The authority believes that certain aspects of the contract were originally underbid and that the outcome of market testing will be for the sub-contractors to raise prices because they have had to employ more staff than originally planned and local labour conditions mean that some of the sub-contractors have to pay higher employment costs than originally budgeted for. This leads to concerns on the authority's side about whether the outcome will be affordable. If there is a substantial increase in price as a result of market testing, the authority believes that its only option may be to have to agree to reduce service levels if the new price for current levels of service is unaffordable.

The authority is not certain that it yet has sufficient comparative pricing information to be able to assess the value for money of the process and does not yet know where to obtain comparable information, other than from similar projects in the department. The authority also does not believe that locally there are adequate skills or financial resources to manage the process as the contract management budget does not provide for the extra work that will be involved. This issue is under consideration by the department's Private Finance Unit.

The service provider has not yet begun planning for the process.

Monitoring and Governance Arrangements

The authority's and service provider's respective contract managers are co-located on site, with offices at separate ends of the same corridor. Both sides consider that this is beneficial in terms of being able to resolve issues quickly and informally.

The authority's contract monitoring team consists of three full-time staff on site, supported by a number of subject matter experts to deal with issues such as health and safety. None of the authority's contract monitoring team was involved in the pre-operational phase of the project. There was an in-depth handover from the procurement team to the contract monitoring team which sought to explain how the contract is structured and intended to work, and those involved in the procurement remain on call to provide advice and briefing where necessary. This is seen as a helpful resource in terms of providing background information on contractual interpretation but the authority believes that it would have been more beneficial if at least some of the contract monitoring team had been involved in the negotiation of the operational requirement and the performance measurement system.

The service provider's contract manager is responsible to the SPV Board for delivery of the project. No particular dedicated functional managers are employed but use is made of the resource of the corporate safety department to manage performance from a safety aspect. The service provider's on site team monitors the performance of the sub-contractors who are required to deliver in accordance with the sub-contracts and who self-monitor and report on performance to the contract manager. These reports form the basis of the service provider's reporting arrangements to the authority and are audited by the authority. The service provider's contract manager also has regular performance meetings with each sub-contractor's manager.

Performance measurement is based on self-monitoring by the service provider against 361 KPIs. The authority audits the service provider's self monitoring reports on a regular basis. The contract monitoring team has some concerns about the accuracy of the self-monitoring information provided and believes that, on occasion, faults are rectified before the authority finds out about them and are not reported.

Formal weekly meetings are held between the service provider and the authority to review day to day performance and there is a quarterly contract review meeting to deal with more strategic issues.

Relationships

In its survey response, the authority described the day-to-day operational relationships between the public and private sectors' contract management teams as "Very good". This was confirmed during the interviews. The only negative factor raised by the authority was the frequent changes of personnel in the SPV's staff and the difficulty of dealing with the consortium. The response times from the SPV in dealing with relatively minor issues are regarded by the authority as being frequently too slow.

The service provider's contract manager believes that relationships are very good. He said that conscious efforts have been made to build relationships: to separate the people from the problem, and to deal with issues and to manage conflict. He further believes that the relationship is a partnership based on clear performance criteria. In his view, to make PFI work there has to be a relationship, driven by the need to deliver, between a high calibre customer and a high quality supplier who can drive teams of quality people to deliver services. The most perfectly written contract can fail if it is being managed by two antagonistic organisations and more attention should be paid at the PFI assessment stage to the calibre of people who are going to be running the contract.

Dispute Resolution

There have been no formal disputes during the operational phase.

Both sides believe that the dispute resolution procedure in the contract seems to be as good as any dispute resolution procedure can be. But the private sector's contract manager would prefer to use mediation procedures if they were available because he feels strongly that mediation is a very efficient way of dealing with issues and invites people to achieve solutions. The contract does not allow for mediation.

Training and Support

The authority's commercial officer had previously managed the procurement of goods and materials but had no previous experience of managing PFI or service contracts and did not receive any specific training before taking up the post. It is considered that general training on the differences between "ordinary" contracting and PFI would have been useful because managing service delivery, relationship management and the legal and contractual aspects of a PFI contract need a different type of training from that required for buying products.

Concluding Remarks

The authority believes the contract is working well on a day-to-day basis but there are significant problems and delays in trying to deal with strategic issues at the SPV level. It is also believes that it would have been preferable if at least some of the contract monitoring team had been engaged in the process at a much earlier stage, ideally at the time of appointment of the preferred bidder, so that they could influence and be aware of issues concerning the operational specification and the performance measurement system.

The private sector's contract manager also believes that some of the people engaged in the early part of the contract should continue to be involved during the operational phase and that there needs to be more guidance and leadership on both sides to get people to work together and resolve conflict. It is important to get the key people in the operational customer and the key people in the operational provider involved at a very early stage. "Thought needs to go into the people, before the bricks start to be laid".

Key Findings

1. The contract is perceived to be successful because both parties have common objectives
2. The payment mechanism and performance measurement system are seen to support effective contract management
3. The contract's output specification is seen to support good performance
4. Both parties believe that good performance is built on good relationships
5. Performance deductions have led to significant improvements in performance
6. The service provider considers that some of the Key Performance Indicators are perverse and lack proportionality
7. The Post Project Evaluation Report has recommended a review of the performance measurement system
8. The service provider would stretch itself more to improve services if the contract incentivised it to do so
9. Change is difficult to achieve because of lengthy approvals processes required by both parties to the contract
10. Minor changes are agreed without going through the formal contractual change process
11. The authority is not resourced locally to manage market testing
12. The authority is concerned about possible price increases and their affordability as a result of market testing
13. An in depth handover from the procurement team to the contract monitoring team and availability of members of the procurement team for advice is seen as advantageous
14. Co-location of the authority's monitoring team and the service provider's contract manager is seen as beneficial in supporting fast resolution of issues
15. The service provider would have preferred Mediation to have been included in the contractual Dispute Resolution Procedures
16. Training for public sector contract managers on the differences between managing "traditional" contracts and PFI contracts would be helpful
17. It is felt that at least some of the contract monitoring team should be in place at the preferred bidder stage and participate in negotiations on the operational specification and KPIs

6.5 Flight Simulator Equipment and Training

The Project
The project was to design, construct and finance flight simulator equipment and to provide training to aircrew on two sites. The training service, which has a capital value of over £50 million and is for 25 years, is now fully operational. The authority's contract manager said that it would have been possible to provide the service in-house but the contract was delivering better value for money than the Public Sector Comparator.

Performance
The authority describes the overall performance of the service provider as satisfactory and in its response to the survey indicated that performance measurement shows that contract service levels are being achieved "Almost always".

The authority also said that, although the core service was being delivered satisfactorily, the contractor had been late in delivering the system into service.

Although the system has been in service for nearly three years there are still a number of unresolved issues which have been the subject of lengthy negotiations. For example, databases that should have been provided are still not available. The core requirement of delivering training is being met and the training service is perceived as good but there are a lot of small unresolved clear-up issues which the authority finds irritating. The service provider had not previously appeared to have a plan as to how these issues were going to be closed. A plan has now been agreed and the authority confirmed that the position was improving but that achieving this improvement had involved a lot of time and hard work. Much of the improvement was as a result of the annual revalidation process which raised the issue of management of the service to quite a high level in the service provider's organisation.

The service provider's contract manager said that he believed the project was going well. Feedback from the end users was all positive. He acknowledges that the project had been late and that there were still unresolved issues but the output of the service is highly regarded by users and his organisation had changed the culture from the simulator complex being seen as a sweatshop that nobody wanted to enter, to something that they genuinely believe is really beneficial to them.
The authority's contract manager referred to the fact that all the Department's contracts have a standard layout, which is helpful. It deals with the payment mechanism quite well, with worked examples. His main issue is that the contract requires a lot of things to be done, but there is little impact if some of them are not done. As an example, costed responses to change requests have to be provided within 30 days but there is not any sanction if that does not happen. He also believes that the contract does not adequately cover the issue of equipment support, in terms of reliability and maintenance of the equipment. Also the revalidation process involves checking processes in a contract where the specification is output based. This could lead to some conflict with the service provider who argues that the authority should not be concerned with processes.

The authority believes that the staff on site are very flexible, particularly in dealing with short-notice changes in requirements.

User Satisfaction
There is no formal customer satisfaction survey undertaken as part of the contract because the payment mechanism is influenced by the feedback from users after every training sortie (simulated flight). Users are generally satisfied with the service and the training provided is regarded as top-class.

The authority thinks that the contract is probably delivering what users expect of it and, once the remaining minor issues have been resolved, the service will be outstanding. The RAF has already begun to work with the public and private sector contract managers to increase the synthetic training provided to aircrew as the benefits of the current service have been clearly identified.

Payment Mechanism
Payment is made on a per sortie basis. The contract contains a "take or pay" level which specifies a number of sorties which the authority has to pay for whether or not they are used. Everything over that level is paid for on a lower tariff. Therefore the authority takes part of the usage risk, and the service provider takes the rest.

Performance is also measured on a per sortie basis. Service credits are awarded on the basis of each hour and a half sortie. There is also an annual revalidation of the training service.

Although service credits are potentially a subject for dispute there are few disagreements over them. The authority describes them as fairly objective and the contract contains a list of failures that, if present, would incur service credits. Credits are agreed on site at a weekly meeting between the authority's Synthetic Training Liaison Officer (STLO) and the service provider's site manager. Any disagreement at site level about service credits would be escalated to the authority's and service provider's contract managers. This escalation has not yet had to happen.

The authority described the payment mechanism as fairly simple and "about as easy to use as it could be". It also believes that, in the main, it works quite well but is too narrowly focused on a small part of the overall service. It is based on the hour and a half sortie and does not fully take into account the whole training service, including health and safety, and availability of buildings.

Both parties believe that contract management has demonstrated that the balance of risks in the contract is about right. The service provider is responsible for delivering all elements of the training service which minimises the chances of having any disagreement about who bears a particular risk. The authority ensures that when changes are made to the requirements they do not take risk back by default.

The service provider's contract manager thinks that the performance measurement system has the potential to make the company focus on avoiding deductions rather than on improving performance. He believes that only the professionalism of instructors prevents that from happening. Also, being ex-military instructors, they probably empathise more with the users, because they are from the same community, than with the company. He thinks that this is helpful because generally his own people highlight problems to him long before the authority does. His aim is to keep service credits to a minimum because, once having lost the money, it is not recoverable.

He believes that the service credits system fundamentally misses the point. The loss of revenue does not benefit the user who does not get the money that has been deducted and also is not getting his training. He would like to see something that provides a greater incentive to improve delivery.

There are currently no plans to review the payment mechanism.

Change Mechanism
The authority said there had been a considerable number of changes to the requirement. There are two sources of changes: ones over which the contract management team has control and those over which it has no control. The ones it can control are training enhancements. The ones that it can not control are aircraft modifications which then require changes to the simulator to bring it into line with the latest version of the aircraft.

Part of the service provider's role is to monitor modifications to the aircraft and then raise any new modifications at the quarterly review meeting. This then goes on a protracted process round all the various users in the authority's organisation to confirm acceptability of the change. Estimated costs are obtained and they go back round the users to make sure that they are content with the projected costs. A Business Case is raised, the price is finalised and funding approval obtained. Then a Change Notice is issued on the service provider.

The authority describes the mechanism as quite simple to use but is concerned that it takes a considerable length of time to get all the financial and technical approvals. There is a lot of internal bureaucracy, but the arrangements between him and the service provider are quite straightforward.

The service provider's contract manager describes the change process as "fraught with problems" because neither the contract management team nor the provider are in total control of the change and it is often very difficult to get the necessary information to be able to provide indicative costs. He also believes that the contract can militate against the use of innovation because any change to processes or equipment, even if funded by the service provider to improve reliability, has to be approved by the authority.

Benchmarking and Market Testing
The contract does not have benchmarking or market testing provisions as these are not considered to be appropriate for this type of service.

Monitoring and Governance Arrangements

The authority employs a full-time contract manager whose sole responsibility is to manage this contract. The contract manager is supported by a commercial officer who deals with the day-to-day contractual issues and a finance officer. The authority utilises RAF STLOs who are responsible for monitoring the day to day operation of the contract. All issues are dealt with by the STLOs unless they can not be resolved locally, at which point they are referred to the contract manager. The STLOs are in a different reporting line to the contract manager, reporting to the RAF Station Command structure.

The authority's resource dedicated to managing the contract has increased since the project became operational. The contract manager's post was previously not full-time but became a full-time post when the current manager was appointed 18 months ago. This additional resource was required to resolve a significant number of issues outstanding from the construction phase and to manage the high levels of change experienced in the first years of the operational phase of the service.

The authority's contract manager was not involved in the procurement but believes it would have been an advantage if he had been. Although there may be a risk of being defensive about the decisions made in the past he believes that it is useful to know the history of why things have been agreed. Despite a fairly comprehensive handover process and detailed briefings from the procurement team to the contract management team, it is not always possible to cover all of the issues that arose during the contractual negotiations.

The service provider's contract manager manages two sites. At each site there is a Site Training Manager (STM) who is ex-RAF, an engineering team and an instructors' team which reports to the STM. The STM is responsible for the day-to-day delivery of training on site. Other resources are provided by the parent company to which the service provider's contract manager pays a management fee for two facilities people, a purchasing person, two logistics staff, a chief engineer, an operations manager and a change manager. The overall headcount at both sites is higher than projected in the original Business Case because the original estimates for resources were too low. That was a risk the company had to bear.

Performance is formally assessed at a weekly meeting on site between the authority's and the service provider's site representatives. The authority's contract manager and the service provider's contract manager meet about every two weeks and have almost daily contact by telephone. There is a quarterly Modifications Meeting at which changes to the requirement are discussed.

Apart from the weekly meetings, the authority's contract manager said that there is quite an informal structure at site level. He believes that this is an advantage as long as the authority's representatives did not become "contractorised". At the site, it is very much a team effort. The objective of both parties is the same – which is to train the aircrew – and they do not really concern themselves with profit and loss. They report on the number of sorties flown and the service credits to be awarded without having the financial issues at the forefront of their minds. This removes a lot of the potential sources of antagonism.

The authority's and service provider's contract managers are not co-located. Both believe that this is an advantage. The authority's contract manager believes that co-location might lead to a situation where he tried to do the job of the service provider's contract manager. Both also believe that if they were co-located there would be much more formality in their relationship which may not be beneficial to delivery.

Relationships

In the response to the survey, the authority described the operational relationship between the public and private sector contract management teams as "Satisfactory".

The service provider's contract manager describes the relationship on site as a partnership approach with give and take between the two sides. He does not issue the contract to site staff because he considers that it is his responsibility to run the contract and the best way to resolve operational issues on site is without reference to the contract, if possible. He does not think that the late delivery of the equipment has adversely affected relationships but, because the main build was not yet complete, he believes that the authority's contract management team has a more pessimistic view of performance than users. He believes that although his company had been engaged to provide the service, and to take the risks in the contract, to some extent there was a risk that the authority might focus too much on inputs rather than outputs, although this has recently been addressed by the authority's contract manager.

Dispute Resolution

There have been no disputes about the operating element of the contract and neither side had any comment about the dispute resolution procedures in the contract.

Training and Support

The authority's contract manager had received only general project and risk management training as part of his normal graduate training programme. He has had no specific PFI related training or training in managing service contracts. He has also attended negotiation training courses, but believes that they were more to do with negotiating contracts than managing service delivery. He considers that the key skill required for successful contract management is to be able to identify what motivates other people. If you can understand where the other person and his organisation are coming from, you can develop a win-win situation. He believes that there is a total lack of support, training and guidance for contract managers of service contracts. He considers that there must be a lot of common issues across departments. Because PFI contracts are output based, it does not matter what the service is, it is about how to manage relationships and how to manage change. He has a feeling that whenever he has a problem, someone has probably solved it already on their contract.

There is regular liaison between contract managers of different projects in the department but there is hardly any contact with other contract managers from other departments and the authority's contract manager would welcome a forum to hear about common issues, to share best practice and to be able to discuss what are good and bad performance indicators and how to motivate teams. He thinks this would be beneficial for the service providers as well as it would be helpful to them if they were managed in a consistent way.

The service provider's contract manager believes that the authority's contract management team is under-resourced. When the contract manager is absent there appears to be no one else to deal with contractual issues.

Concluding Remarks

The authority believes that, overall, the deal is working. He believes that a better outcome would have been achieved if the contract had been clearly split into two phases – the delivery phase and the operational phase. He believes that it is important to raise the profile of the operational phase. The majority of the contract is about the initial delivery of the service but there was no clear strategy for how the operational phase should be managed. He believes that the most important thing in a PFI is the people. If you can build good relationships, everything else is that much easier. Also, it is important to identify all the common goals and find out what is motivating people on the other side. He said that some people would see the fact that he and his counterpart are not co-located as a disadvantage. But he believes that it is an advantage. If they sat in adjacent offices he thinks he would risk trying to run the service with the service provider's representative whereas now he is quite hands-off and only gets involved on important issues. He believes that the mix of co-location at the operational level and separation at the more strategic commercial and contract management level is a good arrangement. The people on site are only focusing on delivery and do not get involved in financial issues.

The service provider's contract manager said that because of the late delivery and lower than expected usage the company is not making the level of return that it had planned to make. A possible refinancing may be one way of recovering the situation.

Key Findings

1. The payment mechanism is perceived to be too narrow in focus but the imposition of performance deductions has forced improvements in service levels
2. On site staff from both sides having shared objectives contributes to good performance
3. The change mechanism is simple to use but the process of implementing change is lengthy because of the bureaucracy required in obtaining approvals on the public sector side
4. The authority's contract management resources have been increased to resolve issues carried over from construction and to manage operational phase changes
5. The authority's contract manager believes that It would have been beneficial for him to have been involved in preferred bidder negotiations
6. The service provider's headcount is higher than originally planned because resources in the bid were insufficient to deliver the service requirements
7. Informal resolution of problems is seen to be advantageous provided that the authority's personnel do not become "contractorised"

8. The geographical separation of the public and private sector contract managers is seen by both sides as a positive advantage
9. The standard layout of contracts is helpful to both parties but neither believes that the contract adequately covers non-conformance with contractual requirements
10. The contract is perceived by the private sector provider to militate against innovation
11. Lack of support, training and guidance is identified as a major issue for the public sector
12. It is considered that a forum to share experiences and best practice with other contract managers would be helpful

6.6 Prisons

The Projects

The projects were to design, construct, finance and operate a total of nine prisons. There are also two older 'management only' contracts where the private sector manages a prison that was financed, designed and constructed by the public sector. The contracts have been in operation for between 3 months and 13 years and have capital values ranging from £35-80 million. This interview covers the portfolio of prisons, rather than individual contracts. The governance arrangements are the same for all prisons. The service provider interviewed operates a number of prisons.

Performance

In the survey return, the authority described the overall performance of the service provider as "Good" and indicated that performance measurement shows that contract service levels are being achieved "Almost always".

The authority's commercial manager described the objectives of the contracts as contributing to the Government's aim of reducing re-offending by providing high quality and good value prison accommodation and management, and programmes for prisoners that addressed offending behaviour and reduced the risk of re-offending once prisoners were released from prison.

The service provider's contract manager independently provided a very similar description of his organisation's objectives in managing prisons. He also described performance as good, based on the evidence of achievement against the Key Performance Indicators in the contract. The rigorous requirements of the contract are seen as focusing service providers on delivering and monitoring to ensure that delivery is achieved. He believes that the private sector's focus on delivery and maintaining standards is part of its business culture and is important in ensuring that opportunities for further business are available. He also believes that the private sector has been successful in introducing change and innovation into the delivery of services to prisoners and that the performance of the public sector has improved as a result of competitive pressure from the private sector.

The main problem perceived by the service provider's contract manager to affect performance adversely is that the contracts are all operating on "brown field" sites with relatively immature staff and it is sometimes difficult to obtain the necessary maturity, experience and ability at the middle management level and, as a result, it sometimes takes two or three years to get a contract operating to the right standards.

The fact that the service provider is a full equity partner in the consortium and leads on the design of the asset is seen by both sides as a major factor in supporting delivery. The design is operator-led and therefore provides the optimum solution in delivering cost effective and high quality services.

User Satisfaction

User or stakeholder satisfaction is not formally surveyed or measured. However, the service provider's performance is subject to a number of independent audits, including Her Majesty's Chief Inspector of Prisons and the Independent Monitoring Boards that are established for all prisons in England and Wales. These bodies issue formal reports on their findings with recommendations that the service provider is required to consider and, where necessary, act upon.

Payment Mechanism

Payment is made on the basis of availability of a prisoner place. For a prisoner place to be available a number of criteria relating to the physical aspects of the place have to be satisfied. These include the provision of heating, lighting, sanitation, availability of washing and exercise facilities and food. The prison also has to be operating safely and securely for places to be available.

The authority's commercial manager believes that the principle of the payment mechanism is very clear but that the mechanism itself is very difficult to understand and has some very complicated algebraic formulae. She does not believe that the payment mechanism incentivises improved performance as it is felt that the service provider looks at things on the basis of ensuring they meet the minimum standards to ensure payment and then to see how they can make themselves more efficient to reduce costs. The thing that appears to focus contractors' attention on performance is how many performance points they are incurring and calculating the risk of incurring payment deductions and the risk to their reputation.

Performance is measured against a range of approximately 50 performance measures which can incur "performance points" for failures and "credit points" for performance above the base level for some measures. These measures relate to either maintaining security or delivering services to prisoners. They are a mix of input measures such as the amount of education or work provided for prisoners, and the number of assaults, positive drug tests etc, and output measures such as the numbers of educational qualifications obtained by prisoners. The contract specifies a threshold of performance points and points incurred above the threshold result in a financial deduction. In the event of an escape from prison or from a prisoner's escort provided by the prison operator there is an automatic financial deduction of an amount specified in each contract.

The service provider's contract manager believes that the performance measurement system is very stringent and sets out very clear definitions of performance but that focusing on avoiding performance deductions can detract the service provider from improving outcomes. There is only a certain amount of finance available and resources tend to be directed at those areas where financial deductions are likely to be incurred rather than being invested in service delivery improvements.

He believes that the payment mechanism, which provides payment for an available prisoner place, is appropriate in that it is based on what the authority regard as important but he would welcome a more innovative approach of payment being related, at least in part, to outcomes such as providing prisoners with somewhere to live after release, which is recognised as an important element in reducing re-offending. Renegotiating existing contracts to introduce such a system would, he believes, be extremely difficult but should be seen as an option for future contracts.

The original performance measurement systems in the early prison contracts were generally regarded by both parties as being too reactive and too focused on inputs, rather than outputs and outcomes. The original systems also did not incentivise service providers to deliver in excess of the base requirement. A major "contract refresh" exercise took place between 2003 and 2005 which included renegotiation of the performance measurement system, aimed at reducing the number of measures, focusing more on outputs and providing incentives for improving performance. Although both sides consider that the new system is an improvement on the old, they believe that further work needs to be done to bring the performance measures more in line with the Government's current target of reducing re-offending and to measure outcomes, where possible. The authority's commercial manager is also concerned that the performance measurement system still allows service providers to underperform in some areas, particularly on delivery of education and other programmes to prisoners. Performance points are only incurred if the service provider fails to deliver less than 95% of a target, yet is being paid to deliver 100%. The credit point system is also not regarded as ideal with one prison earning more credits than it can offset against performance points.

Service providers have reportedly bought in to the need to change to a more output based specification and a more incentivised performance management system. This view was confirmed by the service provider's contract manager. The major concern for both sides is how much can be changed simply, without having to involve banks and lawyers which, from previous experience, leads to delays and additional cost. The public and private sectors are working together to establish whether fundamental change is (a) achievable and (b) affordable.

Performance is measured mainly through self-monitoring and reporting by the service provider. In each prison there is a "Controller" who retains some statutory duties that have not yet been transferred to the private sector by the legislation enabling the private sector to manage prisons. The Controller's other function is to act as the on site contract monitor and liaison with the service provider. Assurance that the service provider reports comprehensively on performance is obtained through a programme of audits by the Controller and the Controller's local knowledge of what is actually happening in the prison. The contract also includes a very significant performance penalty for failing to report a failure. There is also a programme of audits by external bodies such as Her Majesty's Chief Inspector of Prisons. The service provider's contract manager holds the view that there is an excess of audits of their performance.

The authority's commercial manager commented that, in the main, the service providers are keen to deliver good quality prisons but there are occasional blips in performance that require significant management action from the authority. Quite often the Controller will offer advice on performance and there tends to be far more of a partnership way of dealing with a lot of the issues. The authority and the service provider are always looking at ways to improve performance.

Change Mechanism

The authority's commercial manager believes that the contract deals adequately with changes but that there had been a lack of understanding on some sides as to how the change mechanism should operate. Before the operational management of the contracts was centralised in 2002 a number of changes were agreed locally which then did not always flow through into the contract. The central Commercial and Competitions Unit has produced guidance on dealing with variations and training is being provided for Controllers so that they can deal with changes at a local level, particularly minor ones to the operational specification. As part of the process they have to seek advice from the centre in case operational changes have an impact on the rest of the contract and the centre audits compliance with the procedures.

The authority's commercial manager said that, in the context of re-negotiating the operational specification, negotiations with the service provider had not been too difficult, although some service providers had been more supportive and co-operative than others. It had been mainly a case of re-engineering requirements and setting one thing off against another. Negotiating changes to the performance management system had proved to be much more difficult because funders needed to be assured that the changes did not increase the operational risk originally anticipated when the contract was signed. Also, what appeared to be simple and non-contentious changes to some of the contract Terms and Conditions, to bring them more in line with SoPC3, had proved to be difficult to implement and it has taken a long time to change some fairly basic clauses. The authority does not believe that this difficulty was particularly related to the contract being inflexible, but more to do with the nature of a PFI and all the checks and balances that go with it. Change can also be difficult to achieve quickly because of the need to involve lenders in the process.

The service provider's contract manager believes that the change mechanism in the contract is straightforward and open and allows for great flexibility in the delivery of services. He has not particularly noticed impediments to change, although a significant amount of minor change is agreed locally and informally. But change mechanisms, like every aspect of the contract, are only as good as the people managing them and if the people are not flexible then the contract will not be flexible.

Benchmarking and Market Testing

The benchmarking arrangements vary from contract to contract. The earlier contracts have a provision for benchmarking only the operating sub-contract at Year 14 of the contract. Later contracts specify benchmarking of the whole contract at Years 10 and 20.

The first benchmarking process is not due until 2009. Neither the authority nor the service provider has yet given any serious thought to the process. The public sector's commercial manager has not yet investigated the availability of guidance or support on benchmarking.

Monitoring and Governance Arrangements

The authority manages the prisons portfolio at two levels: commercial and operational. The Commercial and Competitions Unit (CCU) at the centre deals with the commercial and strategic contract management of privately managed prisons and the public sector prisons awarded a Service Level Agreement (SLA) following a successful market test. Each contract manager in the unit reports to the commercial manager and is responsible for 3 or 4 prisons. A separate unit – the Office of Contracted Prisons (OCP) - manages the operational delivery. This unit has a small central team to co-ordinate policy on operational management; this team also manages the Controllers located in each prison who are responsible for the day-to-day management of the contracts. The authority believes that this structure provides an optimum balance of central oversight and governance at a strategic level, with effective monitoring of delivery in the prison. The only downside is seen to be the difficulty in getting a disparate team of Controllers to monitor contracts in a consistent manner. Actions to try and encourage consistency and the sharing and use of best practice include regular meetings between Controllers and the central teams, and the production of comprehensive contract management guidance on processes.

The service provider has contract compliance monitors in each prison who monitor performance and report on performance to local prison management and to the Controller.

Weekly meetings are held between the Controller and local prison management to review performance and deal with any day-to-day issues. The Controller also has a formal monthly meeting with the Director of the Prison at which penalty and credit points incurred through the performance measurement system are discussed and, where possible,

agreed. Any disagreement on performance points is referred to the Quarterly Contract Review Meeting (QCRM) attended by the Controller, the prison Director and other members of the local management team, representatives from the operating sub-contractor's corporate organisation, CCU and OCP. These meetings review performance and deal with any strategic issues affecting either the individual prison or prisons in general.

Both parties regard these arrangements as an appropriate mechanism for dealing with the majority of operational and commercial issues. A measure of the success of the arrangements is seen to be that, across a portfolio of 11 contracts that have been operating for up to 13 years, only one issue has so far had to be progressed through the contract's dispute resolution mechanism.

Both sides also believe that, broadly, contract management has demonstrated that in theory the risks in the contract lie with the party best able to manage them but the service provider's contract manager believes that there is scope for transferring further risk to the private sector in future contracts by defining high level outputs rather than having relatively detailed input specifications and audits of processes. He believes that that would introduce real transfer of risk as under the current arrangements, whereby the authority are monitoring performance against prescriptive specifications through auditing processes rather than outputs or outcomes, it is questionable how much risk has actually been transferred.

The service provider's contract manager also said that, in addition to monitoring performance against the contractual performance measurements, his organisation also monitors a number of "high-level deliverables" including strategic issues affecting prisons individually and generally: this includes political and legal issues affecting prisons and prisoners. He believes that, as the contracts mature and as confidence in performance increases, there is scope to review and possibly reduce the levels of monitoring and auditing. But it is not believed that the impetus for this review can come from the service provider and it will need a significant effort of political will from the authority to make this happen. This issue has been factored into a wider review of the performance measurement system which is currently in progress.

Relationships
In the survey response, the authority described relationships with the four service providers as "Fair" or "Good". Relationships with the service provider interviewed as part of this review were described as "Good". This assessment was confirmed by both public and private sector managers.

There is generally perceived to be a reasonable amount of give and take between the authority and service providers. Changes in the governance structure about three years ago also mean that the authority is more consistent in its approach to contract management across the portfolio of contracts. Service providers are said to appreciate the more structured and consistent approach now being taken.

The service provider's contract manager confirmed that relationships with the authority are very good. He believes that this is because the culture of his organisation is about delivering high quality services and that the authority recognises this. He also believes that the two sides share common objectives and, even when there are disagreements about issues, both organisations are trying to achieve the same outcome. The disagreement is often more about the process of how things are being delivered. The service provider believes that another factor supporting good relationships is that the customer is an intelligent customer with professional procurement and contract management resources.

Dispute Resolution
Across 11 contracts, operating for up to 13 years, only one issue has led to the contractual dispute resolution mechanism being activated. (This dispute, now resolved, was related to the interpretation of part of the contractual payment mechanism and was not with the contractor interviewed as part of this review).

The authority's commercial manager had not had to deal with any disputes that had gone through the formal process. It had been possible to resolve any issues without recourse to the formal process. The commercial manager had read the relevant clauses in the contract and thought they seemed adequate.

Training and Support
The authority's commercial manager had not attended any specific contract management training courses but had received a lot of on-the-job training, which was considered as more useful than formal training courses, and also a lot of general procurement training, for example in negotiation. Because the PFI contracts are so different, the commercial manager believes that training in understanding the issue of risk management and understanding the contractual

processes would have been useful. The real gaps have been in respect of managing risk, managing change and relationship management. The commercial manager's view is that the biggest issue is the need to be able to manage relationships and to have good negotiation skills, not necessarily in the traditional procurement sense of price negotiation, but more in terms of knowing what is wanted from service delivery and being able to get it.

Because neither the Department nor the centre of Government is considered to provide adequate contract management training, the Commercial and Competitions Unit has developed its own training for contract managers because there was nothing suitable elsewhere. This is seen as a gap that needs filling. The courses that do exist tend to focus on commercial management; and there is not thought to be anything on operational management.

Within the department there are regular meetings to share information and best practice between Controllers and commercial contract managers and there is a communications strategy to ensure that common issues are shared. Within the Home Office, there used to be a forum of departments that dealt with the common custodial supplier base, and the authority's commercial manager believes that that needs to be reactivated so that information about service provider performance and other strategic issues can be shared. Most departments have some sort of contract management structure but the commercial manager believes that contract management has been the poor relation in the procurement family.

The service provider's contract manager believes that the skills required to ensure effective contract management include relationship management, knowledge of the business, and an ability to focus on high level outcomes. He also believes that the current level of authority contract monitoring is about right for the current state of maturity of the contract but, as confidence in the service provider's ability to deliver increases, the authority should look to reduce the levels of monitoring and audit.

Concluding Remarks
The authority's commercial manager believes that the contract structure works well and it is intended to use the structure for all contracts in future. But in future the specification and the performance measurement system will certainly be different, focusing as much as possible on outcomes and incentivising service providers to improve performance.

The service provider's contract manager believes that the contract forms a good basis for ensuring delivery but that some public sector authorities become too involved in the detail of the contract's requirements, while ignoring actual outcomes. He is also concerned about the variable quality of Controllers. He also believes that it is necessary to use a degree of common sense in managing operational contracts but that some contract monitors have a view that common sense and contracts do not always go together.

Key Findings
1. The payment and performance mechanisms are not perceived to incentivise improved performance
2. It is believed that the performance measurement system needs to focus more on outcomes than on outputs
3. The parties say that they have adopted a partnership approach in trying to improve performance
4. The need to involve lenders in the process of introducing relatively minor variations is stated as a reason that change is difficult to achieve
5. The public sector need more training and guidance on using the contract variation mechanism
6. Benchmarking is not due before 2009 but there is no awareness in the public sector of sources of support or advice
7. The balance of central oversight and strategic management and local operational monitoring is seen by both sides to be beneficial
8. The consistency of local monitoring arrangements is an issue for the private sector provider
9. The service provider believes that his company is "over-audited"
10. Greater maturity of the contract and increased confidence in performance is expected to enable monitoring and auditing arrangements to be reviewed
11. The authority's contract manager believes that on-the-job training is more useful than formal contract management training courses
12. In the public sector contract management is seen as the poor relation to other elements of procurement and is not given sufficient focus by the centre
13. It is considered that training in understanding risks and processes would be helpful

6.7 Roads Project

(Note: Only the public sector contract manager was interviewed. The service provider's contract manager declined the request for an interview.)

The Project
The project, which has a capital value of over £200 million, is to build, operate and maintain a road, including improvement schemes to existing infrastructure. The contract is for 30 years and has been operational for over four years.

Performance
The authority considers that service delivery is generally good across all areas including availability, and hard and soft services. The authority is also generally satisfied with the design and construction of the road. The authority considers that one of the factors underpinning the successful construction work is the fact that the parent companies of the service provider also own the main contractors responsible for delivery of the works. As they have a long term contract it is important for them to ensure high quality construction and maintainability.

User Satisfaction
The authority liaises with users on an ad hoc basis. This takes place at local meetings. In addition it liaises with the emergency services and statutory bodies.

Payment Mechanism
The authority considers that the performance indicators are satisfactory. The project risks have nearly all been transferred to the private sector, which is best placed to manage them. The contract's operational specification is largely input based.

Payment is based on approximately 70% of revenue being subject to availability of the road and ancillary equipment and 30% on a shadow toll for heavy vehicles. The authority believes that the payment mechanism is generally an effective means of ensuring that the service provider performs to the standards set out in the contract.

Change Mechanism
There have been a substantial number of changes to the contract requirements and not all of them have yet been agreed. Difficulties have been encountered with changes and using the change process in the project agreement.

Benchmarking and Market Testing
There are limited benchmarking or market testing provisions in the contract as they are considered to be largely inappropriate for a roads project.

Monitoring and Governance Arrangements
There is a helpdesk run by the service provider, although the authority reported that most calls come to the authority rather than to the service provider. The helpdesk is not always manned and, although it has an answer phone facility, this impacts on its effectiveness. The service provider keeps a log of responses and sends this to the authority on a monthly basis. The authority is content with this arrangement.

The authority has maintained its contract monitoring resources at broadly the levels anticipated prior to contract award.

Relationships
In the survey the authority rated the operational relationship with the contractor as "Poor". The authority considers that this is because the service provider claims to have lost substantial amounts of money on construction and has not priced the contract adequately. The authority describes the relationship as adversarial. The service provider declined to agree to an interview.

Dispute Resolution
The authority noted that the service provider has notified its intent to try and recover some elements of its losses from the authority.

Training and Support

The authority seeks advice predominantly in house.

Concluding Remarks

The authority notes that maintenance will always be carried out as it is included in the PFI contract, whereas for conventional procurement maintenance budgets could be cut in times of financial difficulty.

Key Findings

1. Ownership by the parent consortium of both the service provider and the main contractors is seen by both parties as beneficial for long term contracts
2. A partly unmanned service provider helpdesk impacts adversely on the effectiveness of the service
3. A contract considered to be inadequately priced has led to strained relations between the parties
4. The contract is not flexible enough to cope with change and the change procedure is difficult to use
5. PFI contracts ensure that life cycle maintenance is carried out

6.8 Street Lighting Project

The Project

The main aim of the project is to upgrade street lighting infrastructure. This involves replacing about 75% of the lights in the first five years of the contract and maintaining and repairing the lighting infrastructure over 25 years. At the end of the 25 year contract term, the entire asset is required to have a residual life of no less than 5 years. The contract has been operational for one year. The capital value of the contract is approximately £35 million.

Performance

The authority's response to the survey assessed the service provider's performance as "Good" and indicated that the requirements in the contract are generally being met. The service provider has been willing to co-operate with the authority where it has asked for the asset replacement programme to be changed to tie in with other Council initiatives. Where it has been appropriate the service provider has sought financial recompense for making changes, but there have been occasions where, in the spirit of a partnering contract, it has not looked for additional revenue. The service provider is also reported to be good at responding to residents' issues and concerns and tries to develop a lighting solution that satisfies them as much as possible, while still meeting the requirements of the contract.

The service provider's contract manager believes that the company has made a good start and is on course to complete the replacement programme on time and that the response to reactive maintenance issues has been good, evidenced by the very low level of performance deductions incurred to date. He also points to the significant improvement in response times for repairing faults required by the contract, in comparison with the former operation directly managed by the Council. The major difficulty has been changing the culture of staff who were transferred from the Council under TUPE regulations from an attitude where a 75% on time response rate to faults was deemed acceptable to one where 100% was required by the contract. Another major issue faced by the service provider was a perception that the PFI was not widely understood by other Council departments.

On the negative side, the authority's contract manager referred to a number of differences of opinion and interpretation about some parts of the operational requirement. Generally it has been possible to resolve these, but there are some issues that remain unresolved. Another concern voiced by the authority is that there does not appear to be sufficient time in the service provider's programme to carry out all of the various processes: for example, there have been instances when plans have been submitted for a design check when it is known that the lights have already been erected. The authority believes that the service provider seems to be firefighting and also seems to be short-circuiting some of the systems. Also, despite going operational a year ago, there is still a fair degree of work outstanding in getting other aspects of the job up to a satisfactory standard. A lot of these issues are being addressed but the authority believes that they should have been addressed at a much earlier stage.

User Satisfaction

There is a requirement for the service provider to liaise with local representatives before work is started in an area so that views of residents and other stakeholders can be considered.

The service provider has to provide an Annual Service Report which has to include the results of a customer satisfaction survey sent to a random sample of residents in areas where works have been completed. The first such survey was about to be undertaken at the time of the interview. Both parties expected the outcome to be positive. Four wards have been completed so far and the number of complaints has been quite low. Informal feedback is that the new schemes are being well received. The findings of the report do not affect the payment stream although there is a performance deduction if the report is delivered later than the due date. The survey will be discussed with the authority and, where appropriate, an action plan will be agreed to deal with issues raised.

The help desk is operated by the authority who forward messages received to the service provider. This was a late change to the original requirement and the service provider feels strongly that it would prefer to man the helpdesk with its own staff and to have the direct interface with the public, rather than at arm's length. There are often delays in information being passed from the authority's help desk to the service provider, which sometimes is a potential hazard with damaged cables being left un-repaired for too long.

The service provider's monitoring report has a summary of the nature of calls to the help desk and the authority also receives a copy of the service provider's complaints register. The service provider also has to provide details of how complaints are resolved. This information all goes into the service provider's monthly monitoring report but does not affect payment.

Payment Mechanism
Payment is by a monthly unitary charge which is based on performance against six contractual performance standards. The first performance standard is based on the initial asset replacement programme and standards 2-6 cover issues such as reactive and planned maintenance, best value and health and safety. Each month, the service provider submits a monthly report itemising its performance against the six standards. Evidence to back up the assessment of performance is required.

To date there have been a number of relatively small performance deductions from payments.

Other performance measures are based on a customer care regime and the service provider has to report on the telephone calls they get from the public. The measures include the number of times the phone rings before it is answered and the time taken to answer correspondence.

The authority does not currently audit all of the information provided in the monthly monitoring report but is planning to do so. Initiatives being developed include an audit of a service provider's night inspection journey. This is intended to give the authority the confidence that, when the service provider says that they find "x" number of faults during a night inspection, that is an accurate reflection of the situation.

The contract's payment system is based on the number of old columns that are removed, not the number of new ones installed. As part of the contract conditions an independent certifier, appointed jointly by the authority and the service provider, provides a monthly report detailing the number of columns certified as having been removed. The certifier also carries out an electrical check of all of the new apparatus. The authority accompanies the independent certifier on his checks because it wants to be comfortable with the extent to which the independent certifier is carrying out his responsibilities.

The authority's contract manager believes that the payment and performance mechanisms incentivise the service provider because the performance penalties are aimed at those operational issues that are fundamental to the delivery of the service.

The service provider believes that the performance measures are appropriate in what they measure but overly complex in their operation and very punitive, and could be significantly improved. This is considered to be a result of lawyers having too much say in the development of performance measures. The penalties associated with minor faults (e.g. 1 lamp in 25,000 not working) are considered to be disproportionate, as are those for failing to answer the phone within 5 rings or failing to respond to correspondence within the contractual limits. The service provider does not consider that the performance measurement system incentivises the service provider, and the people funding the contract, to deliver an improved service. There is nothing in the contract to incentivise the service provider to complete the asset replacement programme faster than the timetable required by the contract.

Change Mechanism
Since the start of the contract the authority and the service provider have issued a small number of Change Notices. The change mechanism is described by the authority's contract manager as being fairly straightforward to use, with standard proformas.

The service provider's contract manager believes that the contractual change mechanism is another example of too great an involvement from lawyers in creating a system which is unwieldy and an impediment to change. The mechanism does not differentiate between different types of changes and whether or not there is a cost implication. The procedure also defines timescales for information to be provided which in some cases are unrealistic but there is no sanction on either side if timescales are not adhered to.

Benchmarking and Market Testing
The contract contains a requirement to benchmark energy procurement at 5 yearly intervals.

Monitoring Arrangements

The authority's and service provider's contract managers are not currently co-located. The authority's contract manager does not consider that this is a particular issue, but the service provider thinks that it makes it more difficult to resolve issues quickly and informally, and that it has led to an unnecessary number of formal meetings which deal with too many mundane or trivial issues which could have been dealt with informally had the teams been co-located.

On the authority's side, a small team monitors the contract. The contract manager believes that the resource is adequate at present but that there is an expectation that, once the initial asset replacement is complete, there may be a reduction in the amount of monitoring required and a review of the structure of the team. It is not expected to increase in size and may reduce.

The authority's contract manager thinks that it would have been of significant benefit if the contract manager could be involved in the procurement. He understands that there was a formal handover from the procurement team to the contract monitoring team but does not believe that it was thorough enough and did not fully identify specific activities to monitor performance.

The service provider's contract manager believes that the authority's monitoring team is over-staffed compared with other authorities and collects too much data which serves no useful purpose. The service provider has decided to increase its monitoring team slightly because the level of activity in dealing with faults has been higher than anticipated and because of the amount of information that has to be provided to the authority. There is an impression that a lot of information is collected for its own sake and does not actually support the management of the contract. Much of this information is based on centrally developed data requirements for street lighting, whether or not subject to a PFI contract, and the service provider questions the amount of time and effort required to collect the data and its usefulness in improving the operational performance of the contract. The service provider believes that more effort should be spent on discussing how to improve the service, rather than simply measuring what is happening.

There is a formal monitoring meeting once a month attended by representatives from the service provider, the independent certifier and the monitoring team. The main purpose of the meeting was originally to agree the content of the monthly report and, as a consequence, the monthly invoice. The meeting also reviews the monthly service report which deals with operational issues such as health and safety issues. In addition, other informal meetings take place which means that the authority now meets with the service provider once a week.

The authority believes that contract monitoring has shown that the risks in the contract are correctly allocated. The only risk causing problems is the accuracy of the inventory given to the service provider who indicates that the inaccuracies are far greater than had been anticipated. This is a major issue for the service provider who has found a far lower level of inaccuracies on other similar projects.

In the early days of the operational phase there had been a frequent need to refer back to the contract but as people become more familiar with it, this need has reduced.

Relationships

The authority's contract manager describes relationships with the SPV as good and relationships with the sub-contractor as good and improving. There had originally been some difficulties with relationships with some staff who were transferred to the service provider under the TUPE regulations. The fact that people are dealing with their former colleagues, who are now working in a different culture, can cause some friction.

The service provider also believes that a good relationship is being developed with the authority but also referred to the difficulties of the transferred staff becoming accustomed to the different culture of a private sector organisation. The service provider also believes that the contract has not been explained well enough to other Council departments such as highways and planning and these departments have not bought in to the contract. The contract is formally with the authority but there is a sense that in reality it is just with the street lighting department.

The authority's contract manager describes the relationship as increasingly that of a partnership and puts much of the reason for that down to the individuals involved.

Dispute Resolution Procedure

There has been no need yet to invoke the dispute resolution procedure but the authority's contract manager expects that, at some time in the 25 year life of the contract, there will be a need to.

The service provider also believes that it is unlikely that there could be a dispute of sufficient financial impact to justify the expense of formal adjudication or arbitration.

Training and Support

The authority's contract manager has had no specific training in managing PFI contracts. He had previously managed traditional term and lump sum contracts. But he would have liked to have been made more aware of best practice and he feels that there is a lack of availability of basic training.

He believes that the key skills required for effective contract management are awareness of the detail of the contract and the ability to manage change as there is bound to be a need for change in a 25-year contract. There also has to be a desire to embrace the ethos of partnering.

The service provider believes that the key skills required of the authority's contract monitoring team are internal networking skills in order to get buy-in to and an understanding of the contract from the rest of the Council. It is also necessary for both sides to understand each other's culture and the differences between the cultures.

Concluding Remarks

The authority's contract manager considers that, although it may take two or three readings to fully understand the clauses dealing with a particular issue, in general the contract is reasonably straightforward but that there are some gaps in the specification.

Overall, the authority's contract manager believes that the deal is working but that the need to do so much in such a short space of time has inevitably led to problems. He believes it is working because it is in no one's interests for it to fail. He sees his role as not to look for opportunities to apply financial deductions on the service provider but to make sure that it delivers what is expected.

He believes that more time should have been spent getting the operational side of things settled and that there should have been better transition arrangements for staff transferring to the service provider. His advice for other contract managers about to start managing operational contracts is to take advantage of any training that is available and to speak to as many other contract managers as possible to learn from their experiences.

Key Findings

1. The service provider considers that the payment and performance mechanisms are complex and punitive and do not incentivise improved performance
2. Culture change of staff transferred under TUPE is a major issue for the service provider
3. Help desk operation is by the authority; the service provider would prefer to manage the help desk
4. The change mechanism in the contract is regarded as over complex and inflexible by the service provider
5. The service provider has not always sought financial recompense for authority changes in requirements
6. A perceived lack of understanding and buy-in by other Council departments is said to affect the service provider's ability to deliver
7. There are still differences of interpretation of the contractual requirements between the authority and the service provider
8. The service provider believes that the authority's monitoring team is overstaffed and collects too much data which serves no purpose; the authority does not agree with this view
9. Geographical separation of monitoring teams is not an issue for the authority but the private sector believes that it leads to too many formal meetings dealing with minor issues
10. The handover from procurement to operations was considered to be inadequate and to leave some issues unresolved

6.9 Housing Project

The Project

The project is to develop "…a sustainable community with a retail and community heart...a place where people want to live". Historically the estate has been a crime hotspot with a 25% turnover of tenants. The project has a capital value of over £100 million.

Performance

The authority believes that the project has been very successful to the point where there is now a significant waiting list for tenants and crime has reduced significantly. In the survey response, the authority's rating of the service delivery was "Good" and, as an example, non-urgent tasks which under the authority used to take at least 11 days to rectify are being dealt with in an average of 2 days under the new contract.

The service provider also believes that a good service is being provided and refers to responsive repair services as having been particularly successful in reducing the average response time from 4-6 days under the authority's management to its current 48 hours. Housing management services are also being delivered successfully, achieving 99% of target requirements. There has been only one major failure caused by vandalism of the district heating supply network and vandalism levels have been lower than anticipated. While the refurbishment programme has taken longer to reach the required standards and there have been some problems with the scheduling of works, the authority acknowledges that some of the problems were caused by internal delays in obtaining possession orders but some were also due to difficulties in reaching the required certification standards. The workmanship of the refurbishment and new build work is considered to be good.

The authority believes that residents' involvement in preparation of the output specification helped to ensure that the service was properly specified.

The service provider considers that persisting areas of dissatisfaction stem largely from tenants who do not necessarily wish the work to be done. Misunderstandings over the scope of refurbishment also caused problems in the past. The service provider believes that much of this could have been improved through better consultation with tenants immediately after the project was closed in order to clarify the agreed requirement and scope of the service provider's work, e.g. the levels of decorating finish achievable with no re-plastering, and perceived issues over reduced radiator temperatures following introduction of thermostatic radiator valves.

The service provider is largely happy with the design and build quality of the assets but decoration has been an issue, in particular the finish quality achievable without re-plastering, particularly in the older properties. With hindsight it may have been better to re-skim surfaces although this would have had affordability implications. On-site traffic and site organisation were also an issue during the early stages of the contract but the service provider believes it has responded well to these issues. Again better planning and consultation at an early stage would have been helpful.

The help desk, which is effectively run through the Housing Office, is working well and only small numbers of performance targets have been missed.

The FM service provider was involved in the design process. This sub-contractor is also the principal contractor for refurbishment of the district heating system which has been completed one year ahead of programme. Establishment of a 'single service provider' ethos within the SPV and sub-contractors took time and proactive management to develop. In particular the FM provider took time to adjust to an output driven culture, for example, initially failing to recognise the obligation for security within empty properties.

User Satisfaction

Generally the authority is content that the results of the first user survey results were well within target boundaries and achieved an equivalent satisfaction rating to that of the authority before commencement of works. In addition to the annual surveys, the service provider also undertakes customer satisfaction surveys with tenants on hand-back. User satisfaction levels are also monitored informally by a full-time Community Group Officer.

Payment Mechanism

The authority is broadly content with the payment mechanism although the view was expressed that it was "…a little clunky in places…" The ratchet mechanisms are viewed as potentially punitive but act as a good incentive on the service provider's performance. Significant authority resource goes into validation of invoices and review of the supporting information. The decision as to whether deductions should be applied is not automatic and is reviewed on a monthly basis by a Monitoring Panel.

The authority is generally content with the Performance Indicators (PIs) and is prepared to maintain a degree of flexibility around them without necessarily invoking the change mechanism. That said, there are some areas where the authority thinks that PIs could have been improved; for example there are no PIs relating to keeping site areas clean during refurbishment work.

The service provider believes that the PIs are generally satisfactory although it is considered that there are overlaps between some indicators and some are ambiguous. Overall the service provider believes it is "kept on its toes" by the monitoring system. Improvements could have been made through greater sensitivity analysis of the impacts, thereby avoiding some punitive performance outcomes. There is also perceived to be a lack of proportionality: availability measures fail to bite with a daily availability deduction of £3 per property per day but, conversely, failure to provide SPV reports on time results in a £3,000 deduction. The service provider considers that some PIs are not picked up at all, for example full management of neighbour nuisance, and there is a concern that some key output requirements are omitted, possibly due to the difficulty of identifying requisite "SMART" PIs.

The service provider also believes that the performance measurement system could be improved to allow it to share in over-performance benefits, for example, there is no incentive to get ahead of rent collection targets (currently 99.15% recovery). Targets are reset annually based on the previous 5 quarters' performance but the service provider is considering the possibility of negotiating longer term targets with the authority.

The service provider's only major concern relates to problems caused by delays in the statutory order process which affected the uplift to full availability payments and triggered a loss of one month's revenue.

Change Mechanism

Although some minor clarification and changes had been made to the Contract the authority is comfortable that such minor changes were "rolled-up" to avoid the need to make frequent changes. The basis for such rolled-up changes was already agreed and subject only to formal amendment in the contract.

At this stage the Project Agreement change mechanism has not been used although there have been changes negotiated in respect of the office/help desk availability hours. The authority believes that the good relationship it has with the service provider negates the need for rigid application of the change mechanism.

Benchmarking and Market Testing

The authority is concerned that there is little in the way of comparable data to support an effective benchmarking process.

The service provider also has concerns about comparators as they do not consider that models are appropriate and there is a very limited number of reference schemes.

It is recognised that the resources required to manage this process with the service provider will need to be planned.

Monitoring and Governance Arrangements

The levels of resource required by the authority for monitoring are greater than anticipated. The authority acknowledges that little focus was given to the practical issues of contract management resourcing under the weight of issues and pressures of the procurement process. Whilst the authority believes that the transition of senior bid team resources into operational monitoring roles was of value in leveraging the service provider's performance, it placed a strain on resources and was a particular concern in the face of the increasing numbers of projects managed by the housing team.

Monthly reviews of issues with the service provider focus on both macro issues and micro analysis of the payment deductions. Information flow for these meetings is seen as satisfactory and the authority does not hold the view that it is necessary to deploy resources into trying to "catch the service provider out", although the authority does carry out a number of service audits.

The service provider considers that levels of resourcing for monitoring were initially underestimated. With hindsight there should have been an increase in the SPV senior management resourcing and/or a reduction in the number of sub-contractors. Day to day monitoring has not been a problem but dealing with ad-hoc issues has been time consuming. Part of this is attributed to the delay in bedding in SPV communications and the single service provider ethos. This had a knock on effect in terms of the resource and time needed to resolve issues with the authority. With hindsight it is considered that a more effective structure would have been for the FM contractor to report through estates/housing management as a sub-contractor to improve the chain of communication and accountability. The service provider now holds the view that FM and housing management cannot be separated.

Although the contractual requirement is for bi-annual Project Boards, these were effectively happening on a quarterly basis building on the monthly project liaison meeting feedback.

Public/private risk allocations are considered to be appropriate. On going risk assessment is undertaken formally at sub-contractor level and the risk register is updated annually. An issues based risk assessment is also undertaken.

Relationships
Monthly formal liaison meetings with tenants are seen to be constructive, and are underpinned by more informal meetings and discussions and focus groups set up to guide service delivery.

The authority suggests that better standards of performance have been achieved as a result of "staying close" to the service provider. In some areas the service provider has struggled to keep tenants happy but support from the authority in monitoring the works has helped to filter residents' complaints prior to escalation of issues to the monthly reviews; for example residents' complaints that radiators were colder post-refurbishment, which was a result of the fitting of thermostatic radiator valves. Whilst staff turnover had been a point of contention during the early stages of operation, the authority generally believes that the service provider has got to grips with its obligations and that as a result relationships are now good.

The authority thinks that the service provider's perception may be one of some "…harshness…" on the part of the authority, but this is considered to be necessary to maintain the high standards being achieved. That said, there do appear to be examples of give on the part of the authority, for example in allowing the service provider to use empty properties for decanting/programme management.

The issue of joint or parallel responsibilities for some aspects of the service provision is a further example of good partnership working, with a certain amount of give and take over the delineation and responsibility for cleaning of adopted and un-adopted public realm areas.

It is suggested by the authority that the service provider had misguidedly assumed that some liaison activities would automatically fall to the authority's Housing Team, for example liaison with the Authority's town planning officers, Council Members and tenants in respect of town planning applications.

The service provider's view is that, post contract signature, relationships have been very good, despite some initial mobilisation problems. Both parties are viewed as responsive and cooperative. This is ascribed largely to individuals' attitudes and, despite problems, both sides are still working well together.

Continuity of the authority's staff is seen as a positive influence by the service provider, although it was noted that the insufficiency of resources on both sides was problematic in the early stages and the lack of a full-time senior manager at the SPV level at the start caused some communication problems. The service provider's view is that more resources being dedicated to fully understanding and consulting on the detailed nature of the output provision would have reduced the affordability issues and made negotiations easier at the preferred bidder stage. The delayed engagement of banks' advisers also caused problems.

Dispute Resolution
The dispute resolution provisions have not been invoked.

Training and Support

The bid team who moved across into the operational roles had no formal training in contract management although they did make use of the 4Ps training pack, 4Ps 'network' meetings and general conferences and seminars.

The service provider believes that there was not always a mutual understanding of public and private sector goals. A particular example cited was in respect of the 'packaging' of the service provider's approach to development disposals, with the public sector's concern over bias towards investment sales rather than owner-occupiers not matching with the developer's objectives and long term view. However, the solution was one of simple presentation and communication. Knowledge transfer was achieved through 'lessons learned' sessions with the authority and similar internal SPV sessions. Handover meetings and monthly sub-contractor sessions are also used for knowledge transfer. Clear communications and knowledge transfer are seen as essential in forging an organisation with a single service provider ethos, which is essential to the project's success.

Both parties have drawn on external support occasionally although this is not budgeted for. Legal advisers have been used to resolve some sub-contractor issues, to examine an alternative ground rent model and in working up claims arising from statutory order delays. Financial advisers are used for six monthly updates of the financial model and clarification and tweaking of model assumptions.

Concluding Remarks

In summary, based on the 26 months' history of completed reviews, the authority believes that the contract is working well and is underpinned by a good working relationship with the service provider. The contract is seen as working well with one or two exceptions: firstly, the mechanism dealing with leaseholder service charges which is dealt with through the addition of a method statement; and, secondly, the omission of provisions for leaseholder right-to-buy which has yet to be addressed.

The service provider considers that generally the contract documentation is effective and is used effectively for issues resolution and validation. It is seen as a particularly useful tool by one member of the service provider's monitoring team who was not involved in the pre-contract negotiations and who uses the contract as a source of reference on a regular basis.

The service provider has some concerns about the structure of the document, for example some of the drafting, particularly around the payment mechanism, is difficult to use, with fragmentation of the performance measurement and payment elements across several sections and schedules.

Whist the contract is seen as working well, it is acknowledged that this was in part due to greater than planned senior resource input that was not sustainable in the long term. The authority believes that a key lesson learned was the need to put more effort into transition planning, training and general planning of the authority's administration of the contract. Whilst the contract documents are on the whole viewed positively the greatest value is derived by the finance officer who regularly refers to the documents, having not been part of the authority's negotiating team. Other than this, the contract is used occasionally as a source of clarification.

The authority see the monitoring and management of housing PFIs as a specialist area and therefore the body of experience available to provide training or external support is relatively limited.

The service provider has financial and non-financial objectives. The non-financial objectives are regenerative benefits and sustainability; to develop an environment where people want to live and the prestige of being associated with turning around a difficult and ambitious project. Forecast financial returns have been poorer than expected due to delays and associated payment mechanism issues and some model assumption adjustments, e.g. movement in working capital assumptions resulting in drawdown problems and late payment interest. Some contractor returns are also reduced as a result of omissions and under-estimation, e.g. failure by the FM provider to account for security requirements for empty properties.

With hindsight, the service provider would have structured resources and interfaces differently and would have placed more emphasis on earlier tenant consultation to clarify the output deliverables and to manage expectations. The lack of corporate and SPV homogeneity impinged on the ability to deliver a 'single provider' ethos.

Key Findings

1. The payment and performance mechanisms appear to be working well in incentivising the service provider's performance; however some aspects of the calibration are ineffective.
2. Continuity of personnel is seen as a key factor in building good relationships.
3. There was a lack of appreciation on the service provider's part of the need for stakeholder management.
4. There is recognition by both parties that insufficient resource was allocated to contract management and that the issue was not given enough attention during the competitive stage.
5. The authority's contract manager believes that it is an advantage that some members of the contract management team were also involved in the procurement.

6.10 Hospital Project (2)

The Project

The contract is for the construction and operation of a large acute teaching hospital (953 beds) and for the provision of hard and soft FM services. The Facilities Management contract includes catering, cleaning/domestic service, waste management, estates service, laundry, utilities and porterage. Services have been provided for just over four years.

Performance

On the whole, the service meets the expectations of the authority. The hard FM causes no problems and the authority's contract manager believes that it is delivered to high standards. The maintenance service is seen to be of value because the authority's contract manager believes that the National Health Service traditionally does not put money to one side for lifecycle maintenance whereas in the PFI contract the maintenance of the asset is the responsibility of the contractor and is a contractual requirement.

On the soft services side, the overall experience is of a good quality service although there has been some inconsistency. The service provider realises that the cleaning service is the area where most of its continuing focus is required to achieve and maintain acceptable standards and believes that this is partly due to the fact that the measure of the service is subjective. The service provider commented that the national standards which are now being asked for may not be affordable in terms of the amount of money available for this contract.

Both sides confirm that they refer to the contract on a regular basis, around two to three times a month in the case of the authority. The service provider usually consults the contract, generally in connection with the hard FM and the planned preventive maintenance processes. Both parties use a guide to the contract.

User Satisfaction

The users are patients and staff. On the whole, the user satisfaction rating is good. All patients have the opportunity to complete an online user satisfaction survey with regard to catering, and on the whole catering and cleaning are perceived to be of a good standard. The drive to improve standards is from the Trust and staff rather than from the patient and visitor users; however, the authority comments that it is right that staff rectify problems before patients are affected.

Payment Mechanism

The authority has not made any very large deductions; in the four years since the project has been operational there have been a couple of availability deductions, the largest being for £2,000. The project has had to work on the Performance Measurement System (PMS) to make sure that it is clear and measurable. The authority has never been in the position of "give and take" therefore it has not chosen to waive its right to impose any deductions. The service provider confirmed this.

The service provider believes that the risks are correctly apportioned; however it believes that the PMS and Service Levels are vague and need to be revised. The authority also believes that some parts of the contract are open to interpretation; this is probably due to the fact that this was one of the first contracts. There are currently no plans to revise this part of the contract although the PMS mechanism is being reviewed and clarified as part of the market testing process.

Change Mechanism

There have been changes, particularly in respect of design criteria. The authority logs precedents and shows where it has accepted a position and confirms this in writing. Behind this is a process which enables the Trust to control the demands for change made by staff to make sure that there is an appropriate process for their approval. There is now a web based system of recording.

The authority sought support from external legal and financial advisors.

Benchmarking and Market Testing

Market testing or an alternative (i.e. benchmarking) is due under the contract to take place in time for the re-award of sub-contracts by August 2006.

The contract provides protection against increases in price by means of financial caps which are in place and serve as an upper limit on the price of services to be provided through the requirement that the FM provider either provides or procures the services within the caps.

The market testing process has recently commenced.

Monitoring and Governance Arrangements

The authority's and service provider's contract managers are located on different floors in the same detached building on the site; proximity is seen to be helpful in developing close daily working relationships.

None of the authority's monitoring team was involved in the procurement phase and there was not a formal handover from the procurement team to the operational team. The authority's monitoring team currently has two people who monitor the contract on a full time basis; in addition, there has been strong involvement, principally through the matrons and infection control representatives, of clinical staff in the monitoring of the service provider's performance against the contract. The authority's resource has decreased from the number originally deployed when the contract first became operational. The authority's contract manager believes that the current staffing level is about right for a facility of this size. The service provider commented that he believed that there was a large authority team.

The service provider's team liaises with the sub-contractors and meets with the managing director of the sub-contracting company. Four people work for the service provider monitoring the contract. There is a mixture of disciplines including finance and building. The service provider's team also meets monthly with other contract managers within their parent company in order to swap knowledge.

The authority's and service provider's contract managers are said to meet formally once a fortnight. However, there are other formal and informal mechanisms in place which make the partnership work. Outside of the formal meetings, the two parties meet frequently (more than 30 times a month) to discuss issues. The service provider's contract manager sits on the Health Trust's executive board and on its capital planning group and he sees this as a huge step forward and believes the relationship to be good – with an open door with regards to communications. The authority also believes that the relationship has settled down and that there is a partnership and not just a contract.

Dispute Resolution

Once or twice, the parties have got close to invoking the dispute resolution mechanism; this has occurred as a result of different interpretations of whether areas were built to the specification. The other disputes which have occurred have been in connection with the agenda for change. The proposed wage settlement was taken to binding arbitration by the Unions and service provider and the position has now been updated by the guidance on the implementation of the NHS Agenda for Change. This is expected to be a significant and unplanned cost to the authority.

Training and Support

The authority's contract manager has previously worked for the private sector. He believes that support for the public sector is very poor. He believes that it would be helpful to have a training package available to help contract managers through the operational phase – what to look for, what you need to know, the payment mechanism. This could be produced by bringing together a group of contract managers and giving them time to produce this guidance. This way, the mistakes of the past would not be repeated. The need for a good "bible of documents" to be available to both sides at the commencement of the operational phase was also identified as important.

Key Findings

1. There are difficult issues relating to the "Agenda for Change"
2. There is a need to record every change agreed and to have a clear change process which staff understand
3. The lack of sufficient robust information on benchmarking prices has contributed to the decision to request full market testing rather than benchmarking
4. Caps on some of the services may inhibit competition
5. There is a need for a good "bible" of documents – preferably in an electronic format – giving clear guidance on the operational phase
6. There is a need for more central support for the public sector in contract management and identifying and sharing good practice

6.11 Waste Disposal Project

The Project
The project is to provide waste facilities and deal with the waste but does not include collection. The project has been operational for a number of years. The public and private sector contract managers asked to be interviewed together as they 'had no secrets'. There is a significant interface between the client and service provider as the client retains the responsibility for most waste collection and delivers the waste to the treatment facilities operated by the service provider. The contract is for 25 years.

Performance
In the return to the survey, the authority's contract manager rated the overall performance of the service provider as 'Satisfactory'.

Although during the interview it was clear that generally the performance would be rated higher, there is a long standing problem with the delivery of one part of the project which has been delayed for some time and resulted in significant performance deductions being made by the authority. Both sides believed that the service deductions had not provided an incentive to deal with the problem which was complicated by technology and regulator issues. Both parties agreed that, while there was a growing market in waste, the supplier was much more worried about its image than about a monetary fine.

Both sides agree that the complication of regulation on the waste market made risk allocation more efficient.

User Satisfaction
User satisfaction is not formally measured but there is agreement that most issues get resolved locally and very little needed to be escalated, which both parties believe meant there was a high level of user satisfaction. This was helped by the frequent contact that took place between client and service provider as waste was delivered to the treatment facilities.

Payment Mechanism
Payment is based on availability which has generally been very good. Unfortunately there has been a major problem with getting a new facility operational, and although the contractor has incurred a large financial deduction there seems to be agreement that some of the later issues are extremely difficult for the contractor to influence and control. There have been a number of occasions when changes in policy or legislation have led to a significant change in scope, e.g. dealing with abandoned cars, but these had been dealt with jointly and do not adversely affect the relationship.

Change Mechanism
There have been a number of changes to the contract which have largely been dealt with on a 'quid pro quo' basis with no change to the service charge. This has worked particularly well considering some of the legislative changes (e.g. abandoned cars) had the potential to be major variations to the contract.

Benchmarking and Market Testing
There are no benchmarking or market testing provisions in the contract

Monitoring and Governance Arrangements
The authority's and service provider's contract management teams are located separately although, as the performance is based on availability, there is very little need for systems to monitor performance as the sites are virtually always available. The authority's contract manager spends about 10% of his time on the contract and estimates that overall the authority uses one full time equivalent on contract management. The contract managers from both sides were involved with the deal during negotiations and both feel this was vital in ensuring a smooth handover. Approximately 30 people transferred to the private sector organisation under TUPE arrangements and this was also felt to have worked well with several of these staff progressing upwards in their new roles.

There is a quarterly Contract Development Group meeting which reviews the service and is currently looking at how the contract might be "refreshed". Interspersed between these quarterly meetings are formal Contract Operations meetings which address the more day to day issues. There is also frequent contact throughout the year at different levels with daily contact about service delivery.

Relationships

Both parties were keen to be interviewed together and were open in their comments. They meet formally at least once a month and informally as often as needed. The late delivery of one facility did give rise to some short term issues, but these have been dealt with and both parties feel that the relationship is strong.

Dispute Resolution

Dispute resolution was needed on one occasion but both parties were content with the outcome and there appeared to be no damage to the long term relationship.

Training and Support

The authority's contract management staff had undertaken various training courses although it had been difficult to source appropriate ones. They also felt that there was a lack of support from the centre once the contract had been signed. Both parties felt a 'formal refresh' was a good idea and said they were planning to do something like that anyway but would welcome help and guidance.

Concluding Remarks

The project is going well with both parties realistic in their expectations of the other. They have overcome several issues during the operational phase and feel that their relationship is strong and are confident it will last for the 25 year life of the contract. They are aware that increasing pressure from waste diversion targets and responses to new legislation is likely to prove challenging particularly when there was little likelihood of increased funding.

The authority's contract manager believes that there is a lack of support to public sector contract managers from the centre.

Key Findings

1. Service deductions are not seen to act as an incentive to resolve problems
2. The contractor's image and reputation are more important to him than a monetary fine
3. Changes to requirements are dealt with on "quid pro quo" basis
4. Legislative changes led to major specification changes which were handled in partnership
5. The relationship is strong and both parties are realistic in their expectations
6. There is perceived to be a lack of support to public sector contract managers from the centre

6.12 Office Accommodation Project

The Project
The project was to redevelop and refurbish Government office accommodation and provide FM services. The project has been operational for about 3 years.

Performance
In the return to the survey, the public sector contract manager described the overall performance of the service provider as "Very good" and that performance measurement shows that contract service levels are being achieved "Almost always".

During interviews, both the authority and the service provider's representatives confirmed that view, although there were some issues with some parts of the service and there were some items that had to be reviewed after the construction phase, e.g. the acoustics in certain parts of the building, but the plan is to close these out as soon as possible.

Performance is monitored by the service provider self-monitoring and self-reporting and providing performance information to the authority.

There had been some significant operational problems during the first year of operation and the authority had imposed some larger than normal financial deductions although they were still small in relation to the unitary payment. Part of the problem had been getting the right people in the right place, with particular issues relating to the performance of the helpdesk. Although a lot of time had been spent explaining what was needed the service did not initially deliver what was required. This led to a number of "partnering workshops" and increased staffing levels.

User Satisfaction
A monthly survey of people who have contacted the helpdesk is undertaken to get feedback on how their call was dealt with and the results are fed into the monthly monitoring report. There are also random surveys on particular areas of the service (cleanliness, catering, security, reception, etc.) but the rate of return of these surveys is usually disappointingly low. This might indicate a high level of satisfaction with the service as people who are content with it may tend not to respond to the surveys. Because of the low rate of return, the authority and the service provider have replaced the monthly surveys with a more comprehensive and in-depth annual survey.

Payment Mechanism
Payment is based on availability and service levels. The authority's contract manager believes that the payment system is relatively easy to understand and use and that it broadly supports the effective contract management of the project. Although the contract refers to a "performance incentive scheme" the authority's contract manager does not think that it operates as a true incentive scheme. The incentive on the contractor is that of avoiding performance deductions, it is not seen as an incentive on the service provider to improve performance. The authority's contract manager's major issue with the system is that it gives the service provider no incentives other than the avoidance of deductions. He believes that the service provider sees the KPIs as a disincentive and as a "big stick" for the authority to use. He believes that this can lead to the service provider "taking his eye off the ball" and that it can also sour relationships.

The other issue of concern for the authority's contract manager is that all performance deductions are passed through to the various sub-contractors so, other than the reputational risk – which it is recognised as a powerful tool and is taken seriously – there is no impact on the main contractor. The main contractor is however subject to availability deductions. Although this is common across a number of PFIs, it can mean that the main contractor is not necessarily always focused on the quality of service delivery.

The service provider also does not think that the payment mechanism and performance measurement systems act as incentives on the sub-contractors. The concern is that they only consider the financial impact of their actions and also that performance deductions, and consequently reduced revenue, can lead to a vicious circle of performance deteriorating being followed by further performance reductions being followed by further deterioration. The service provider's contract manager says that one of his main tasks is to get the sub-contractors to share a common vision about service delivery.

Change Mechanism

The survey return indicated that there had been 301-500 variations to the contract. The system records all changes including "churn" (moving people about) and the authority's contract manager reported that all changes go through the variations process, even those that are cost neutral. He believes that the process for managing variations is quite simple and easy to use. Those changes that have a cost do not necessarily have an impact on the unitary charge as some costs are not part of the unitary charge. There have been no changes to the contract itself.

Refinancing

The authority's contract manager says that the contract defines that 75% of any refinancing benefit should be passed on to the authority, although the service provider's contract manager thinks that the authority may possibly get a bigger share, if there were to be a refinancing.

Benchmarking and Market Testing

The contract requires benchmarking of soft FM services to take place firstly after 7 years and than every 5 years thereafter. The process is to be managed by the service provider. Although the first benchmarking deadline is still about four years away the authority's contract manager has asked the service provider to start thinking about how the process will be managed. He is aware that not many projects have yet undertaken benchmarking or market testing and would welcome advice on how to deal with the process

Monitoring and Governance Arrangements

The authority's and service provider's monitoring teams are based on the same corridor and both believe that this geographical proximity helps relationships and enables the majority of issues to be resolved informally without the need for formal contractual action.

The authority employs a monitoring resource of 1.5 full-time staff which is a slightly smaller resource than at the start of the contract. There has been an element of continuity as the contract manager arrived when the project was still at an early stage and had input into the development of the authority's KPIs. The contract manager believes that this early involvement was helpful in that it enabled relationships to be developed at an early stage. Another important initiative that helped towards a smooth implementation of the contract was the considerable effort that went into preparing people for the change. The department organised road shows, magazines and a "people's panel" with representatives from each department to feed back comments on the operational proposals. The authority also organised scenario testing and took people offsite to look at mock-ups of various planned facilities, such as the vending areas.

There is a formal meeting structure set out in the contract, describing the requirements for monthly, quarterly and annual meetings which deal with different operational and strategic issues. There are also a number of ad hoc meetings including weekly work update meetings. The authority's contract manager believes that it is helpful to have a formal governance structure defined in the contract as it forces people to reflect on the contract and on future developments. Both the authority and the service provider believe that the monitoring and governance arrangements are working well and there are no plans to review or change them.

Relationships

In the response to the survey the authority described the relationship with the service provider as "Very good" and the regular user surveys indicate that services are being delivered to an acceptable standard "Almost always".

The public sector contract manager attributes the development of good relationships to continuity of staff on both sides and to the fact that both organisations are working to common goals and have an open and honest dialogue about all relevant issues.

Dispute Resolution

There have been no formal disputes about the operating element of the contract.

Training and Support

The authority's contract manager attends a forum organised by a service provider for accommodation managers from across government which meets every three months. The meeting enables contract managers to share experience and best practice and talks are given on subjects of interest.

The key skills required for successful contract management are identified as negotiation, relationship management, understanding of KPIs and incentive schemes.

Concluding Remarks

The authority's and the service provider's contract managers believe that relationships are the key to a successful contract. They both believe that a bad relationship can ruin even a good contract. He and his counterpart say that they have built up a professional and co-operative relationship. That good relationship is fostered by both parties having at least some of the same objectives.

The authority and the service provider are developing a separate "compact" or "Service Level Agreement (SLA)". There is a lot of work that goes on outside the contract and it is seen as important that a non-contractual agreement is drawn up to cover such issues and the processes for dealing with them.

The service provider's contract manager believes that the project is making the anticipated financial returns, but stressed that he does not have access to the detailed financial information about the contract.

Key Findings

1. Early performance problems were resolved following significant payment deductions
2. The payment mechanism is relatively easy to understand and is seen to support effective contract management
3. The "performance incentive scheme" is not seen as an incentive
4. There is seen to be a risk that the service provider may focus too much on avoiding deductions at the expense of improving the service
5. It is felt that performance deductions can create a "vicious circle" of declining performance and further deductions
6. Because of the low response rate to monthly customer surveys, they have been replaced with a more comprehensive annual survey
7. Changes to requirements are relatively easy to achieve
8. The authority is seeking advice on how to manage benchmarking
9. Continuity of personnel is seen as a key factor in building good relationships
10. Geographical proximity of the two parties' contract managers is considered to help the development of relationships
11. It is seen as an advantage that the authority's contract manager was involved in the procurement

Summary of Findings from the In-depth Reviews

Despite the fact that the twelve projects interviewed covered eleven different sectors and varied in capital value from less than £15 million to over £400 million, there was a strong degree of consistency between many of the views expressed by those interviewed. There was also confirmation of a number of the findings from the survey.

Performance

There was a general consensus that projects were working well almost in spite of some of the difficulties encountered by both sides with the obligations imposed on them by the contract. The very high satisfaction ratings revealed by the survey were also confirmed during the interviews with public sector contract managers.

Reasons for these positive assessments varied and included the development of close working relationships, both parties having a "shared vision" of the outcomes they were seeking and the responsiveness of contractors. The main areas of concern in terms of performance were soft services, particularly cleaning and catering, and resolution of snagging issues. However, where there had been problems, there was a clear focus on working together to resolve them.

User Satisfaction

Again, the positive findings of the survey were confirmed by contract managers. All of the projects interviewed measured user satisfaction, although there was no consistent method of doing so. Given the diversity of projects, this is perhaps not surprising. In most cases, the results of the surveys were discussed between the private and public sector managers and, where appropriate, action was frequently taken to deal with issues raised by the surveys.

In a number of cases, users seemed to rate the service being delivered more positively than the public sector contract manager. In at least one case, this was explained by the contract manager as users experiencing a better service than they had previously, but not getting everything they were entitled to under the contract.

Payment and Performance Mechanisms

Payment and performance mechanisms were often perceived to be difficult to understand. More significantly, none of the interviewees believed that the mechanisms acted as a positive incentive on the service provider to deliver a service of higher quality than that required by the contract. It was very much seen as a "negative" incentive to make sure that the service provider met the base standards specified to avoid incurring performance reductions. There was concern that this sometimes led to the service provider focusing his efforts on avoiding deductions, rather than improving performance.

On the positive side, there was a clear opinion, supported by the survey responses, that the application of contractual sanctions for below standard levels of service had generally led to improvements in service delivery, without adversely affecting relationships or the spirit of partnership.

Change Management

There were two main issues. The contractual variation procedures were generally perceived to be cumbersome in dealing with change, particularly minor variations to the operational requirements with more than one interviewee suggesting that different mechanisms for different types of variation would have been more useful. (All of the contracts covered by the interviews were pre-SoPC3 and therefore generally only had one procedure for dealing with all change). In a significant number of projects, this problem is being overcome by agreements between the two parties being made outside the contractual framework. In some cases, these minor changes are logged and a formal contract variation applied when there is a sufficient number of changes to make the application of the formal procedures worthwhile.

The other area of concern, felt by both parties in many cases, was the length of time needed to achieve agreement to formal contractual changes. This was again partly due to the cumbersome nature of the process, and the timescales for actions set out in the contract, but also as a result of the approvals process being bureaucratic on both sides, but particularly when funders' approvals had to be obtained.

Benchmarking and Market Testing

Not all of the contracts include a requirement for benchmarking or market testing and none of the projects interviewed had yet undertaken the process, but several were due to do so in the relatively near future. Where benchmarking and/or market testing was imminent no one had yet worked out exactly how the process would be managed. There were concerns about the resources needed with most public sector contract managers doubting they had the physical and financial resources, or the right skills, to deal with it.

There was also concern about how comparative benchmarking data could be obtained and shared with other contract managers.

Monitoring and Governance Arrangements

Contract management team structures varied considerably – again, not surprisingly, given the different types of contracts. The issue most commonly raised by public sector contract managers was the need for those who were going to be managing the contract to be involved during the procurement phase, particularly in the negotiations with the preferred bidder about the operational specification and performance measurement system.

Frequency of meetings between the parties also varied but in all cases there was at least a monthly formal meeting with usually much more frequent informal discussion. This was naturally more prevalent where the two contract managers were located on the same site. Those who were co-located found, in all cases, that this was a positive advantage and helped to develop relationships and often enabled issues to be resolved informally without recourse to the contract. On the other hand, geographical separation of the two teams was seen as an inhibitor to effective contract management by some, but was not an issue by others.

Relationships

With one exception, the interviews confirmed the positive assessment given in the responses to the survey. There was strong evidence of a desire to work together although some interviewees felt that sometimes the prescriptive nature of the contractual requirements and a bureaucratic approach did not always support good relationships.

It appeared that those contract management teams who were co-located had developed more of a partnership approach to working than those who were separated. There was also some evidence that relationships at the operational working level were generally more positive than at higher levels in the respective organisations.

Dispute Resolution

Only three of the projects interviewed had been through the dispute resolution process, indicating a general willingness to work together to resolve issues. Where the procedure had been invoked, there did not appear to be any long term adverse effect on relationships.

Both sides generally regarded the formal dispute resolution procedure as a "last resort" option and something to be avoided if at all possible.

Training and Support

Insufficient support from the "centre" (which means different things to different people) on issues such as benchmarking was mentioned by every public sector contract manager interviewed. The feeling was prevalent that once the deal was signed contract managers were left to get on with things without the support that is provided through the procurement phase.

Linked to this was a lack of training opportunities, particularly in managing service contracts, managing change and managing relationships – all of which are vital to the success of a PFI contract.

Section seven: Conclusions

The main conclusions from the literature review, the surveys and the interviews are highlighted in bold under the key headings which have been used throughout this report.

PERFORMANCE

1. The majority of contract managers say that their projects are working well

Participants in this study were asked how they would rate the overall performance of the project in terms of delivering the services stated in the PFI projects. The survey found that 96% of respondents rated overall performance as either "Satisfactory" or above, with 66% saying that their projects were "Good" or "Very good". A further question was asked about whether the service provider's performance against the requirements set out in the contract meant that service levels were being achieved, which resulted in 89% of respondents saying that these were "Always" or "Almost always" achieved. There were no responses indicating that service levels were "Never" achieved.

The literature review indicates that a number of other studies have revealed similar results. In nearly all of the reports high levels of satisfaction with performance has been found. Typically, the 2005 report for the Scottish Executive on schools' PFI noted that 71% of projects rated the delivery of soft FM services as "Good" or "Very good".

Another indicator of good performance highlighted by the survey is that where faults do occur they are normally rectified quickly, with 82% of projects reporting that problems are resolved always or almost always in line with the timescales for rectification allowed for in the contract.

During the detailed interviews with the public and private sector contract managers, more information was sought on why they thought that service targets were being met. Reasons given included good project planning, good quality personnel on the private sector side, payment mechanisms incentivising the provider to deliver the service to the required standard and both parties having shared objectives.

Where the public sector rated projects as not always performing to an acceptable standard, the reasons given by those who were interviewed included poor communication by the private sector and poor relationships between the private and public sector managers, rather than as a result of any of the contractual documents being deficient.

USER SATISFACTION

2. Users are generally satisfied with the services being delivered

Consideration of the performance of any contract, and in particular of service contracts, must also take account of the views of users of the service. Respondents to the survey stated that the latest user satisfaction surveys demonstrate that, in 79% of the projects, users are "Always" or "Almost always" satisfied with the services which they are receiving from the service provider.

The evidence from earlier reports also demonstrates a consistently high level of positive views from users. The Audit Scotland report on PFI schools referred to councils, pupils and teachers welcoming the improved accommodation and improved levels of service and 4ps also commented on high levels of user satisfaction.

Satisfaction with the service and improvements to the service were discussed in more detail with interviewees. Nine of the twelve projects had a programme for carrying out regular user satisfaction surveys. These were undertaken by the private sector partner, with the results published and discussed with the public sector partner. Some of the projects go beyond the formal customer satisfaction survey by including the comments and complaints which have been submitted outside the survey.

For some projects, there are multiple layers of users; for example school staff, students and third party users of the service. One hospital project manager commented that more complaints were received from hospital staff than from patients, but saw this as a positive because they felt that faults should be prevented or rectified before they affected the end user. In another project, the public sector commissioned its own survey of end users to check the level of satisfaction from this single group.

However, customer satisfaction surveys on their own should not be regarded as a fail safe method of recording the success or failure of a project. Two of the people interviewed commented that end users do not always know what they are entitled to receive through the contractual documents, so they may have either low expectations of the service provider or else too high expectations.

Cleaning and catering, which are the services where normally there is a significant degree of subjective opinion, are not surprisingly the ones that provoked the most comment, both positive and negative. One of the projects interviewed mentioned these as good services, particularly the catering, although problems outside of PFI such as local labour shortages do affect performance. One hospital project manager described the level of cleaning as "disappointing". This service may be one which parties need to revisit and check the performance indicators to make sure that they are measurable. In the case of hospitals, the private sector providers felt that the new standards required were different from those specified and the level of cleaning resulting may not be affordable.

3. User satisfaction is measured in various ways and at various frequencies

This study also attempted to ascertain how satisfaction was measured and whether there was any uniformity in approach. From the survey information we found that the methods for assessing user satisfaction varied widely. In around 40% of projects a formal customer satisfaction survey was used and other, sometimes additional, methods included: regular meetings with stakeholders, feedback from the help desk log and informal comments from users. It is not clear whether the feedback is being recorded in a consistent manner by the public sector.

PAYMENT MECHANISM

4. Payment mechanisms and performance measurement systems are being applied

The public sector appears to be using the payment mechanism and performance measurement systems to ensure that it receives the levels of service specified in the contract, and 78% of contract managers agree that the payment mechanism supports effective contract management of their project.

None of the respondents said that they did not understand their payment mechanism and there was a correlation between those who said that they strongly agreed that they understood their payment mechanism with those who said there was improved performance. However, the public sector responses demonstrated that around 45% of payment mechanisms were considered to be either quite difficult to use or very difficult to use. This finding is supported by the 2004 PUK/DfES study into PFI schools, although this report found more polarisation of opinion amongst contract managers, with 35% rating their payment mechanism as difficult to use, but 47% finding it straightforward.

The survey also found that most payment mechanisms are effective in ensuring that services are delivered to an acceptable standard but are not seen as an incentive for enhanced delivery. Choosing to waive deductions did not show a direct correlation with good performance although reductions in payment imposed because of service failures have led to an improvement in services in 68% of projects and has never led to deterioration in the service.

In the interviews, most service providers did think that the payment mechanism worked well as an incentive on the operating sub-contractor to perform because the risks and responsibilities lay with the parties best placed to manage them. However, some contract managers commented that as sub-contractors bore the risks there was little incentive on the SPV contractor to rectify problems. Some interviewees also commented that the payment mechanism may have the effect of making the private sector focus on avoiding deductions rather than focusing on how to improve performance because there were few incentives for contractors to deliver in excess of contractual requirements.

Some private sector managers referred to a lack of materiality and proportionality in some performance measures and, particularly in some of the earlier contracts, there were performance measures that were difficult to apply because of their subjective nature.

CHANGE MECHANISM

5. Some improvement is needed to contract variation mechanisms

The results of the survey indicate that over 70% of projects had made changes but that most of the changes that have occurred so far within PFI projects have been relatively small and have generally had little impact on the unitary charge. The survey found that 80% of projects have made fewer than 25 variations.

For some of the participants in this study, the process of effecting a variation was seen as unwieldy and the future challenge most consistently raised by public sector contract managers is the need for adequate resources and expertise to cope with change.

Despite the perceived complexity of variation mechanisms, the survey shows that 83% of contracts are described as always or almost always accurately specifying the services required which indicates that contract managers are, for the most part, successfully implementing change to ensure that contract specifications continue to reflect the services required.

Earlier studies have indicated a difference of opinion between the public and private sector on this issue and the 4ps report of 2005 found that 64% of respondents believed that the PFI contract did offer sufficient flexibility.

One of the factors appearing to affect the ability to implement change is that early PFI contracts only have one change mechanism which is meant to be used for any change, however small. (This issue has been addressed in newer contracts through the variation mechanism in SoPC3 which differentiates between large and small changes). As a result of the length of the process and the costs incurred, in some cases only major variations are being agreed through the formal variations procedure. Where small variations were requested, the public and private sectors sometimes made side arrangements for these and there was also some "give and take" so that variations are shown to be cost neutral. Because of personnel changes on both the public and private sector sides, both parties agree that it was important that whatever the solution, all of the variations/changes are logged on a formal change register to avoid disputes in the future.

BENCHMARKING

6. Benchmarking is an important issue for contract managers

The survey found that over half of projects have benchmarking and/or market testing provisions. If this finding is representative of the total PFI population, this would suggest that over 350 projects are going to have to benchmark or market test at least some of the services being provided. Benchmarking usually applies to soft FM services but there are a few instances, for example prisons, where the complete operational service is required to be benchmarked. Most projects have not yet reached the stage where the first benchmarking or market testing process is due to take place, but a large number of projects are due to reach this stage over the next 2-3 years.

Where projects have a benchmarking obligation in their contracts, some contract managers have not yet considered it. Where the process has been considered, there was concern about how it would be managed and about some of the possible outcomes, reflecting a similar finding in the 4ps report that benchmarking could be a contentious issue. There is concern amongst public sector contract managers that possible mispricing in the original contract may lead to benchmarking prompting increased costs. This concern is real as the Scottish Executive's study on schools reported that where benchmarking had been undertaken, the outcome has been an increase in price, mainly reflecting higher than anticipated increases in labour costs.

The survey also indicated that, although 78% of public sector contract managers felt that the requirements for benchmarking/market testing were clearly explained in their PFI contract, the fact that a substantial minority of 18% felt that the requirements are not adequately explained indicates a need fo more clarity about the process.

There is also concern about the lack of advice and support and about the lack of comparable data available to provide a benchmark. A strong message which was picked up in this study was that most contract managers see benchmarking as a resource intensive exercise for which they have neither the resources nor the experience. They are therefore looking for support in managing the benchmarking and/or market testing provisions specified in contracts. This support includes access to good information against which to benchmark, assistance on how the exercise should be carried out and advice on what to do if the benchmarking exercise does not work in practice.

MONITORING AND GOVERNANCE

7. The importance of formal meetings between the private and public partners

Effective payment mechanisms and performance measurement systems need to be underpinned by the right contract monitoring and governance arrangements, including appropriate reporting, feedback and meeting arrangements.

Some respondents reported that some of the required monitoring processes were not always in place when the project first became operational. The recent study by 4ps also found that the level of contracting authority input required for contract monitoring was greater than originally estimated. This finding was also reflected in PUK's study of schools' PFI projects. Some interviewees commented on the need to ensure that resource requirements are accurately assessed and that, during the negotiations with the preferred bidder, more thought needs to be given to the subsequent monitoring arrangements.

The study found that those who meet formally once a week had higher approval rates for their projects than those who met formally less frequently. The survey also showed that, irrespective of frequency, a regular formal meeting structure is essential in ensuring delivery of services.

Continuity of information was important and the use of a formal handover mechanism would appear to be leading to improved performance but simplified guides to contract working do not appear to have the same effect. This result may have occurred because 60% of the projects which responded had continuity of staff from the procurement phase to the operational phase and therefore they would not have rated the existence of simplified contract guides as highly as those projects where there had been a turnover in personnel. We found that 65% of projects do not have contract guidance manuals.

RELATIONSHIPS

8. Relationships between the public and private sector are positive

PFI contracts have been cited in previous studies as being "new partnerships" or "different ways of partnership working". Because of the length of the contracts, it was expected that the public and private sectors would try to establish positive, collaborative ways of working together. In the survey, 97% of public sector project managers rated day-to-day operational relationships with the private sector provider as "Satisfactory" or better, with 66% rating them as "Good" or "Very good"; only 3% rated relationships as "Poor" and none rated them as "Very poor". The study for the Scottish Executive also found strong evidence that public sector contract managers believe that relationships between them and the contractor are good.

This does not necessarily mean that the two sides always agree but does indicate that differences are normally resolved amicably. It would also appear from this information that the imposition of performance deductions does not appear to adversely affect relationships.

The main factors that put a strain on relationships were said by public sector contract managers to include different interpretations of the contract, delays in resolving snagging issues and high turnover of staff. This latter issue was also a factor in the PUK study of operational schools' projects which found that the public sector often commented on the frequency of change amongst contractors' staff and the effect that could have on building good relationships.

9. It is not clear whether co-location of public and private sector contract management teams is a factor in whether a project is successful

The location of the private and public sector teams does not appear to be a major influence on performance and the survey showed a mixed response from surveys as to whether co-location or separation of contract management teams was preferable. Generally, those who were co-located found it beneficial and most of those who were not did not regard separation as an issue affecting performance.

10. Continuity of staff is identified as important

Our research found that the continuity of contract management staff on both sides is considered to be a factor influencing the performance of PFI projects. There does appear to have been some continuity of staff and staff retention from procurement through to operational phase in most projects although the survey did not statistically demonstrate that continuity of staff was a driver in improving performance. However, all of the managers interviewed thought that it was extremely valuable to have continuity of staff on both sides.

The 4ps study also emphasised the need for continuity of staff and succession planning.

DISPUTE RESOLUTION

11. Very few contracts have been through formal dispute resolution procedures
Less than 20% of the projects which we surveyed had had to resort to the contract dispute mechanism, which would suggest that there is a willingness to resolve issues before going into formal contractual procedures. It appears that invoking the dispute resolution procedures is regarded by both parties as a last resort, with at least one private sector contract manager saying that he was under instructions to avoid the process if at all possible. The study for the NLGN also referred to a new form of management behaviour that had grown up for PFI projects, with parties trying to solve problems rather than reach for contractual resolution.

Where the dispute resolution mechanism was invoked, the largest cause appeared to be service performance, followed by design and construction issues and late delivery of facilities. One cause of the use of the contractual dispute resolution procedure was as a result of a dispute relating to benchmarking and, given that many projects have not yet gone through a benchmarking exercise and the concerns expressed about the possible outcomes, this might be an area for future disputes.

TRAINING AND SUPPORT

12. 70% of survey respondents said that they would value more support
Slightly fewer than 70% of the public sector contract managers who responded to the survey said that they believed that further advice or guidance was needed from the centre, both in developing their skills and in project specific advice dealing with specialised issues. In particular they thought that support would be needed in managing the benchmarking and/or market testing provisions specified in contracts and in managing major changes to the contractual requirements.

Previous studies also found that the intensive focus on a project during the procurement phase was not sustained into the operational phase and that there were also few opportunities for communicating and sharing best practice and experiences with other contract managers.

Many contract managers say that they would also welcome an independent review of their project, and support in realigning operational specifications with current requirements and in reviewing the effectiveness of the performance measurement systems.

Appendices

Impact on Performance (Performance Index (PI) Questions)

B4   Please rate the day-to-day operational relationship between the public and private sector contract management teams

C1   How would you rate the overall performance of the project in terms of delivering the services stated in the PFI contract?

C4   Performance measurement shows that the contract service levels are being achieved

C5   Are reported operational problems resolved within the time allowed under the contract?

C7   Did the last user satisfaction assessment find that services were being delivered to an acceptable standard?

Hypothesis 1 - The existence of a dedicated public sector contract management team has a positive impact upon the operational performance of the PFI project.

A2   What percentage of your time do you devote to managing this contract?

A4   Is there a dedicated public sector contract management team that monitors and manages the performance of the PFI project?

A5   How many public sector staff are allocated to the day to day management of the project? (Please express as full time equivalents).

Hypothesis 2 - The completion of a formal handover process between the public authority's procurement and contract management teams results in improved operational performance.

A6   Was there a formal handover from the public sector team that procured the project to the operational public sector contract management team?

A6.1 What did this handover involve and was it effective in preparing you to manage this contract?

A7   Did any of the public sector team that procured the project transfer to the operational public sector contract management team?

A7.1 On average, how long did they stay in the contract management team?

C13 On average, how many times a year do you refer to the PFI contract?

C14 Is there a simplified guide to contract working for your project?

Hypothesis 3 - Changing personnel/sub-contractors during the operational phase adversely affects the project (reduces operational performance)

3a Change in personnel in the contract teams

A1   How many months have you been in post as the public sector contract manager of this project?

3b Change of sub-contractors

D4   How many (if any) of the project's main sub-contractors have been replaced since it reached financial close?

D5   Please explain the reasons for the replacement of the sub-contractors

3c Change of SPV shareholders

> D6 Have the shareholders of the Special Purpose Vehicle changed since the PFI project became operational? Please exclude transfers of ownership within the same company group
>
> D6.1 Please give details (please include the names of the organisations involved and how you were consulted in this process)
>
> D6.2 Where the shareholders of the Special Purpose Vehicle have changed since the PFI project became operational, how has this impacted upon the level of service received?

Hypothesis 4 - Strong and frequent communication improves operational performance and outputs

> B1 Please choose the phrase that best describes the location of the public and private sector contract management teams in relation to one another
>
> B2 How regularly do you have formal meetings with the private sector contract management team?
>
> B3 Outside of these formal meetings, how many times a month (on average) do you discuss project issues with the private sector contract management team?

Hypothesis 5 - The public sector body is failing to exercise its rights under the PFI contract because it is too complex/difficult to use

> C15 I understand the payment mechanism for this project
>
> C17 How difficult / easy do you find the payment mechanism to use?

Hypothesis 6 - The benchmarking/market testing process is not properly covered in the project documents

> C9 Does the PFI contract include a requirement to undertake periodic benchmarking or market testing of services, insurance, etc.?
>
> C9.1 How are price levels reassessed throughout the project life?
>
> C9.2 Are the benchmarking / market testing processes explained clearly in the project contract?
>
> C10 How often does the contract state that benchmarking / market testing has to be carried out over the life of the contract?

Hypothesis 7 - Some of the problems with operational PFIs are due to variations

> D1 How many contract variations have there been during the operational phase of the project?
>
> D2 How many of these variations have resulted in a change to the unitary charge?
>
> D3 What has been the overall impact of these contract variations upon the unitary charge payments to the contractor? Please express your answer as a percentage increase or decrease from the unitary charge payments

Hypothesis 8 - There is currently inadequate external support within the public sector

> E1 Are there any areas in which you feel that public sector PFI contract managers would benefit from further advice/ guidance?
>
> E2 Please give details

Hypothesis 9 - PFI contracts become misaligned with current public sector drivers

> B4 Please rate the day-to-day operational relationship between the public and private sector contract management teams
>
> C1 How would you rate the overall performance of the project in terms of delivering the services stated in the PFI contract?
>
> C12 The PFI contract accurately specifies the type and level of services that are required
>
> C16 The payment mechanism supports the effective contract management of this project

Hypothesis 10 - Failure of the public body to levy the contract deductions to which it is entitled jeopardises the value for money of the project

C18   Has the private sector contractor been subjected to any performance or availability deductions?

C18.1 How many times have such deductions been imposed since the PFI project became operational?

C18.   What has been the total value of such deductions? (£)

C19   How many of these deductions have been greater than £5,000 each?

C20   Please estimate on how many occasions the public sector has chosen to waive its right to impose deductions

C21   What is the impact of levying payment deductions on the performance of the private sector contractor?

Additional Questions (non-hypothesis related)

A3   Please can you specify any contract management training that you have taken

B5   What do you believe are the key factors (good or bad) that have influenced the day to day relations between the public sector and the private sector contract management teams?

C3   How do you assess the performance of the private sector contractor?

C6   How do you assess user satisfaction?

C8   In the last user satisfaction assessment, what were the main positive / negative issues raised?

C22   How many times has the contract's dispute resolution mechanism been used since the project became operational?

C23   Please provide examples of both the types of disputes that have resulted in the use of the contract's dispute mechanism and those that have been resolved without resorting to it

D7   Which areas of managing this PFI contract do you believe will represent the main challenges over the next 5 years?

F1   General comments

APPENDIX TWO: DETAIL OF RESEARCH STRATEGY

2.1   Introduction

This Appendix outlines the processes undertaken in designing and developing the research strategy including data gathering formats, development of different research methodologies, the mechanics of the actual collection of primary data, and issues associated with the approach taken. The results and their analysis are covered in Sections Four, Five and Six of the report.

2.2   Designing and Developing the Research Strategy

The research strategy for the project was hypothesis driven. Hypotheses were developed initially between HM Treasury and Partnerships UK, reflecting the collective experience of the personnel involved in the project in the delivery and operation of PFI projects. To act as an external check, 4C Associates were engaged to review the questions supporting the hypotheses and the methodology undertaken. They also hosted the online survey section of the primary data gathering exercise (see section 2.3).

The hypotheses developed can be broadly split into two main categories. First, those designed to test the factors that pertain to the success (or otherwise) of a PFI project in the operational phase:

- Does the existence of a dedicated public sector contract management team have a positive impact upon the operational performance of the PFI project?
- Does the completion of a formal handover process between the public authority's procurement and contract management teams result in improved operational performance?
- Does changing personnel/subcontractors during the operational phase adversely affect the project (reduces operational performance)?
- Does strong and frequent communication between contracting parties improve operational performance and outputs?

Others were more "factual" in nature and designed to understand how the contracts were being managed by the Public Sector in general:

- Is the public sector body failing to exercise its rights under the PFI contract because it is too complex or difficult to use?
- Is the benchmarking/market testing process not properly covered in the project documents?
- Are some of the problems with operational PFIs due to variations?
- Is there currently inadequate external support within the public sector?
- Do PFI contracts become misaligned with current public sector drivers?
- Does a failure of the public sector body to levy the contract deductions to which it is entitled jeopardise the value for money of the project?

Questions supporting or testing these hypotheses were generated and a complete list by hypothesis is given in Appendix One. Responses to questions were both quantitative and qualitative in nature. This interrogation of primary data therefore encompassed numeric analysis, as well as allowing respondents to express some of the "softer" issues surrounding the day-to-day practicalities of contract management.

Based on these questions, it was necessary to decide upon the level of detail and breadth of sample to test from the operational PFI population. As at 1 April 2005, over 400 projects were in the operational phase. A detailed interview approach with all projects would be prohibitively expensive and time-consuming.

A sampling methodology was therefore adopted, with two approaches to gathering primary data:

- A survey sent out to all operational projects, aiming to collect a statistically significant sample of returns as the basis for a broad, high-level analysis of the population of operational projects; and
- In-depth interviews with 12–15 operational projects, meeting with both the public and private sector parties of each contract.

These approaches were further supported by a review of the literature published about operational PPP/PFIs.

The detailed build up of these methods, and issues associated with the process of gathering this primary information, is discussed in detail in the following paragraphs.

2.3 Defined Methodology

The review was based on an approach which had three strands: a review of literature; a survey testing a number of hypotheses; and in-depth reviews with a selected number of projects.

2.3.1 Review of the literature

A number of previous studies referred to surveys and/or interviews which were conducted in order to provide both qualitative and quantitative evidence; however, only a small number of these studies provided details of the questions asked. We were aware that some of the projects surveyed in the earlier studies would be the same as those included in this study; however, as these projects would have been operational for a longer period than when first surveyed, we did not necessarily assume that we would get the same answers to questions around areas such as user satisfaction, payment mechanisms, etc. The review of the literature proved useful in establishing the approaches which had previously been employed and also in revealing the paucity of data.

2.3.2 Primary Research (Survey)

The survey was based around the hypotheses described in Appendix One. In terms of a research methodology, the process could be broken down into three discrete steps:
- Design;
- Implementation;
- Analysis.

2.3.3 Survey Design

To reduce the likelihood of respondents identifying which questions are linked together, and manipulating their responses, the question order was then rearranged prior to coding of the survey. As can be seen from Appendix One, responses could take a number of forms:
- Multiple selection;
- Numeric fields; and
- Free text fields.

This allows for different approaches to the analysis of the surveys, a subject that is discussed in paragraph 2.3.5. In terms of design of the survey, it does however impact on the development of a performance index (PI).

As discussed in section 2.2 above, the first four hypotheses relate to specific actions or approaches taken by the public sector (e.g. the presence of a dedicated public sector contract management team) and determining if the action is driving better operational performance. To test these hypotheses it is necessary to have some mechanism by which to measure the operational performance. As discussed in Section Four of the report, previous studies on PFI had taken different approaches to establishing the success of a project. PUK considered this and identified the following factors:
- Contractual Factors – the robustness or otherwise of the underlying contract;
- Systemic Factors – the quality or otherwise of the procedures in place to manage the contract; and
- Relationship Factors – how well the public and private sector partners are working together to deliver the objectives of the contract.

Project performance will be as a result of a blend of these three factors. As such, a performance measure that only captures one of these factors (e.g. performance to contract terms), may not be an appropriate measure of the holistic operational performance of the project.

Furthermore, given the nature of the population spanning across government departments and projects of significantly different sizes and scope, it was felt that identifying a quantitative measure from operational data was not an appropriate means of measuring operational performance.

Given the lack of a quantitative measures to rank operational performance, the simplest approach is to ask the question directly (i.e. "how well is your contract working?"). There are however potential issues around this:

- Honesty of response – asked bluntly and given the role of Partnerships UK and its links with HM Treasury, it is possible that respondents would not feel that they were able to say if they were experiencing difficulties with their project and might complete the survey incorrectly.
- Breadth of response – there are only 5 grades to rate operational performance, from "Very poor" to "Very good".

Following discussions with 4C Associates, the method they recommended and that was adopted was to ask a series of performance questions and embed these within the body of the survey. By asking the question in a number of different formats, and in both positive and negative senses, it reduces the likelihood of manipulation of the answers. In addition, with 5 questions, there is a range of 5 to 25 for the ranking of operational performance, thus reducing potential breadth of response issues.

For reference, the questions that generate the operational performance score in Appendix One are B4, C1, C4, C5 and C7. The generation of the PI and the profile of responses is discussed in Appendix Five.

2.3.4   Survey Implementation

Following a final review of the survey by HM Treasury, the coding was completed and the survey went live in May 2005. A final response of 105 completed surveys was received. Discussion of the responses and analysis of the results is covered in Section Five of the report.

To enable respondents to complete the survey, 4C Associates hosted an electronic survey for a 3 week period. Each project was emailed an encoded internet link, which directed the respondent to their personalised copy of the online survey. Benefits of the approach used included the following:

- Simplicity – one template was designed and emailed to all operational PFI projects. There was scope for customisation of the survey allowing respondents to check and amend their contact details (see paragraph 2.4.1). Electronic data gathering of results removes the need to input data manually from paper-based forms, simplifying the process, although it should be noted that it was possible to print out a copy of the form, fill it in by hand and post/fax it back, which happened in a small number of cases.
- Control of inputs – especially for the multiple selection options, the electronic approach ensures that only certain answers can be given, simplifying analysis.

Part completion does not result in no data – the web link approach meant that it was possible for users to part-complete the survey, but the data was still captured when the user left the session.

In terms of issues with the methodology adopted, the most prevalent was that some respondents' local IT security would not allow them to gain access to the survey link. In almost all cases this could be overcome by the respondent accessing the survey from another PC with different security settings. In only one case was it necessary to fax a copy of the survey for the respondent to complete by hand.

2.3.5. Survey Analysis

Using the surveys completed, responses were of 3 types:

- Multiple selection;
- Numeric fields; and
- Free text fields.

The raw data from the first two types of responses lend themselves to quantitative analysis. Quantitative analysis carried out was then subdivided into two distinct subsets:

- Informational (e.g. what proportion of projects have a dedicated contract management team?); and
- Hypothesis Testing (e.g. does the presence of a contract management team improve the operational performance of PFI projects?).

Finally, analysis of the free text fields was more qualitative in nature, and did not lend itself to the same levels of numerical analysis. A summary of the three analysis techniques used is covered in paragraphs 2.3.6 to 2.3.8.

2.3.6   Quantitative Results – Informational

Given the relative lack on information on the operational PFI project population, a great deal of the quantitative analysis was fact-finding in nature. The results of this work therefore allow a "snapshot" of what is actually happening at these public/private sector interfaces. This information gathering aspect of the survey is the reason for questions in Appendix One that are not linked to specific hypotheses.

As a result of this, the "outcome" of the analysis is more informational in nature, and provides the basis for further areas of questioning, rather than aiming at proving or disproving hypotheses.

2.3.7   Quantitative Results – Hypothesis Testing

Using the PI developed as part of the survey design, it is possible to further develop some of the quantitative questions to see if they are driving operational performance. Taking the example of question A4 "Is there a dedicated public sector contract management team that monitors and manages the performance of the PFI project?" and splitting the survey responses into two sub-categories ("No Contract Management Team", and "Contract Management Team"), we can then look at the profile of PI scores for each of these sub-categories (see figure 2.1):
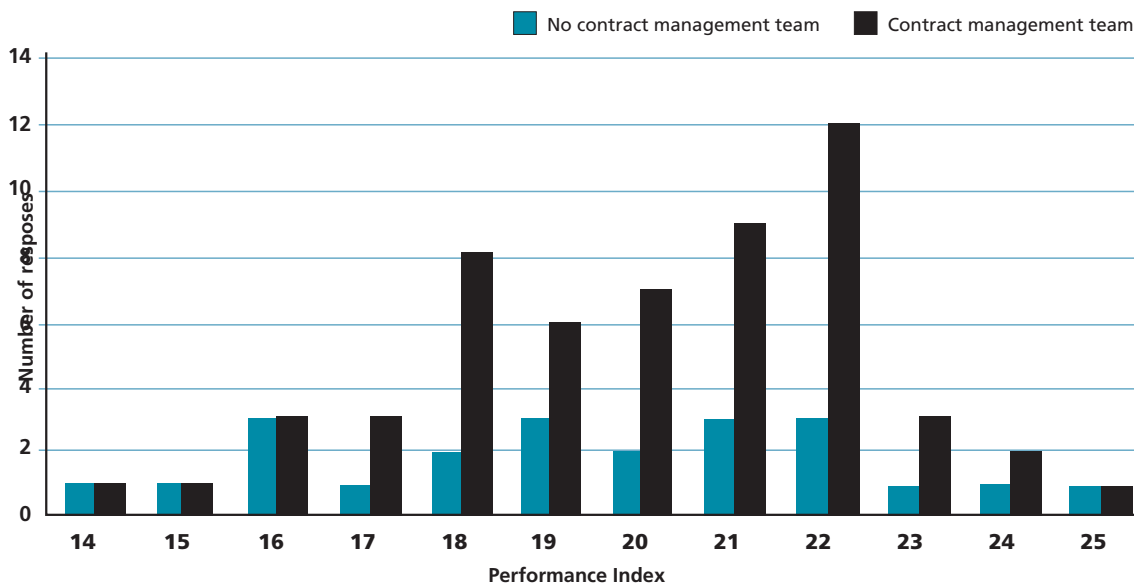
Figure 2.1   PI scores for the two sub-categories identified in survey question A4.

For each of these profiles, we can calculate key statistical parameters:

Sub-Category	Minimum	Maximum	Range	Mean	Variance	Standard Deviation
No Contract Management Team	14	25	11	19.45	8.93	2.99
Contract Management Team	14	25	11	20.02	5.73	2.39

Looking only at the average values for each category, it could be argued that the presence of a dedicated contract management team results in an increase in PI Score of approximately 0.5. Similarly it could be argued that the ranges are the same so there is no impact of the contract management team on the PI score.

Given the sample size, the statistical test that is used to resolve the issue is a two-tailed Student's t-Test on two samples with unequal variance (heterosketastic)[†]. The result of this t-Test is a probability that two samples are likely to have come from the same two underlying populations that have the same mean (i.e. as the result tends to 100%, it is concluded that the two samples are actually part of the same population).

For the purposes of this research, the aim is to prove the opposite – i.e. our two sub-categories are actually part of different populations. If this is statistically significant (i.e. the two populations are different), then the difference in average PI Scores is a result of the sub-category, which in this example is the existence of a dedicated project management team.

In this example, the result of the Student's t-Test is 43.5%. For a statistically significant result, a value less than 10% would give a 90% confidence interval that the two populations were different. The value calculated does not conclude this, indicating that the two populations are not different, and hence we can not conclude that the presence of a dedicated contract management team drives better performance in operational PFI projects. It is important to note that, although the statistical analysis does not prove that the presence of the dedicated contract management team improves performance, it equally does not prove the contrary position (i.e. the presence of the team is to the detriment of operational performance).

Of the hypotheses developed between HMT and PUK, the first 4 lend themselves to this type of analysis most readily, as the related questions can be tested against the PI scores. The remaining 6 hypotheses give a sense of how the public sector is behaving, rather than testing the impact on operational performance. Some were hypothesis tested, but the analysis of these hypotheses has tended to focus around the quantitative analysis and the "softer" qualitative analysis identified in paragraph 2.3.8.

2.3.8   Qualitative Testing

Finally, free text boxes were included as part of the survey, allowing the person completing the survey to elaborate or comment in greater depth on specific topics such as the reasons for good or bad relationships with the contractor, whether sub-contractors had been replaced, what were the reasons, etc. Given the more time-consuming nature of completing this part of the response, the response rate was lower – typically 40-60%, compared with over 95% for most of the multiple selection questions. Based on their experience in managing online surveys, 4C Associates consider this to be normal in work of this nature.

The free text nature of the responses also does not lend itself to numeric analysis. Analysis of the responses was carried out by a PUK professional reading through all the responses for a given question and drawing out the key themes raised by the people completing the survey. As such, conclusions from this work capture some of the "softer" issues around operational projects, although not with the same depth as the detailed interviews.

2.3.9   Primary Research (Detailed Interviews)

Twelve of the projects that submitted returns to the survey were selected for a more in-depth review. These reviews were semi-structured and based on a series of questions developed to obtain more detail about the operational phase of projects, and to seek opinions from public sector contract managers and their private sector counterparts on various aspects of the performance of the contract and the governance structure. The questions sent to the respective parties in advance of the interviews are listed at Appendix Six.

The questions were sent to the public and private sector interviewees about one week before the interviews. Interviews with the public sector contract manager were held at the contract manager's office location. Where possible, interviews with the service provider's representative were held on the same day at the same location. Because of scheduling issues, three meetings with the private sector were held on different dates and/or at different locations.

Interviews lasted between 1 and 2 hours. Interviewees were asked for their permission for the interviews to be recorded and all except one agreed. Additionally, one service provider declined the request to be interviewed. Recordings of the interviews were used as the basis for the creation of the In-Depth Reviews Section of the Report (Section Six).

[†] For details of the methodology behind this statistical technique, see "Statistics" by Downing & Clark, 1997 (3rd edition), p. 285.

2.4   Issues Arising

The process of conducting the primary research unearthed a number of issues facing operational projects as well as issues in the primary data gathering exercise. It would be imprudent not to raise these here, as there were a number of lessons learnt and issues to be aware of in future similar pieces of work.

2.4.1   Identification of Appropriate Public Sector Contract Manager

There was a general paucity of data regarding the identity of the public sector contract managers. In building the Projects Database at Partnerships UK, all departmental Private Finance Units were asked for information on the name, job description and contact details of the public sector contract manager for each PFI project. This information was not available from certain PFUs, raising questions as to what they would do if there were issues with a particular contract or service provider providing services.

Following significant input from Partnerships UK, contract managers were identified for approximately 390 of the operational projects. The robustness of this dataset is not fully known, although will have improved through the electronic survey as respondents were able to update contract manager details.

2.4.2   Generating an Appropriate Response Level in Surveys

It was calculated that a minimum of 80 responses from the electronic survey would be required to test the statistical significance of the hypotheses where appropriate (a response rate of approximately 17.5%). Whilst this may appear to be relatively low, advice received from 4C Associates was that this response rate would be difficult to achieve given the level of motivation (or lack of) to back up the survey. In terms of best practice, the following behaviour would generate the optimum response rates:

- Duration – surveys should take about 20 minutes to complete (30 minutes maximum);
- Ease of Completion – the web link approach allows for part completion/returning to the survey if the respondent is missing a piece of information. It also allows for review of part-completed responses;
- Completion Options – multiple options (internet link, email a completed word processing document, print out and complete by hand before posting/faxing, etc.) restricts an excuse for not completing the survey;
- Hard Copies – respondents have a tendency to ignore emails. Receipt of a letter introducing the survey to them/telling them to expect an email allows contract managers to "look out" for the follow-up message;
- Follow-up Calls – following letter and email, a direct phone call is a powerful (if expensive) method of increasing response rates;
- Other incentives – financial awards, entry into a lottery, etc.

Whilst these may not all be applicable to an HM Treasury sponsored survey, they address the central question for the participant of "why should I complete this survey?"

One very powerful "lever" that was available but not used in this case was to explain the implication of completing this survey on the shaping of policy at HM Treasury. Whilst there were specific reasons for this, it should be recognised that a response rate much higher than the value achieved would not have occurred without the significant effort of follow-up calls, which increased responses from 70 to 105 surveys.

2.4.3   Survey "fatigue"

In completing this survey, a common complaint or reason for people being reluctant to respond was that this was "yet another survey" that central government was pushing down to operational projects. This may be an impulse reaction from a contract manager, but it should be noted for example that responses were particularly low from Scottish projects, where a recent study into the performance of operational projects had been commissioned by the Scottish Executive.

Were work of this nature to be repeated, consideration should be given to the timing of other similar surveys going out to the operational project community, and the impact these may or may not have on response rates.

Summary of Findings and Recommendations
from selected reports on operational PPP/PFI Projects

1996

Ministry of Defence and Central IT Unit: Private Finance and IS/IT case study: TAFMIS and After; London HMSO

The procurement through PFI of TAFMIS, a management information system to support training administration and the financial management of the business, took place in 1995/96. The contract is scheduled to last until 2026.

Part two of this study looks at the operational phase one year after contract award.

Key findings relating to the operational phase
- A strong working relationship has been established from the outset; an essential factor was that individuals involved in the project have been retained
- The major process of transforming the business was not easy, and there have been some difficulties in introducing business change
- There have been a number of misinterpretations of the contract on both sides; more time should have been spent explaining the contract for both sides
- The private sector often needs help to understand public sector culture
- Performance incentives rather than penalties are preferred by the public sector
- A senior private sector manager was invited to be part of the public sector board and an open book approach has been adopted by both project teams
- Expertise in contract management on the public sector side has meant that the public sector has dealt with the private sector on an equal footing
- Changes have been accommodated on a "quid pro quo" basis where a change solution has been negotiated to benefit both parties

2000

Arthur Andersen and Enterprise LSE: Value for Money Drivers in the Private Finance Initiative; commissioned by The Treasury Taskforce

This study looked at value for money in PFI. Part of the work involved carrying out a survey of public sector project managers to find their opinion on what drives value for money in PFI projects. Twenty two responses were received from project managers in relation to thirty four projects.

The implementation of the projects was looked at in sections 4.93 – 4.96.

Key findings relating to the operational phase
- The operational benefits of PFI will take more time to establish
- The public sector project managers returned to their "day job" once the project was procured. The report expressed concerns that their skills would be lost; however, the report did not look at who managed the operational phase and what, if any, skills transfer took place
- There were mixed messages about the effectiveness of payment mechanisms. The report concluded that without more detailed work on the operational performance of the projects it was difficult to draw any definite conclusions on their effectiveness
- More could be done in the public sector to share experiences of developing output specifications and applying them in practice
- Transfer of operational costs was rated as one of the risks transferred to the private sector which was key in providing value for money for the public sector
- Project managers believed that the long term nature of the partnership would allow the private sector to invest in long term approaches to service delivery
- There is value in the public sector providing opportunities for secondment
- The emphasis on whole life costing and continuity of service standards by the private sector were also identified by the public sector as drivers of value for money

Recommendations relating to the operational phase
- The public sector authority should maintain close working arrangements with the supplier in order to establish frequent and open communications between the two parties
- Clear monitoring and progress reporting should be established so that each partner would have confidence in the information
- There should be more work to examine the effectiveness of payment mechanisms
- The benefits and practicalities of establishing a central system that collects information on project performance and provides a facility to benchmark performance against comparable PFI and other projects should be investigated
- A central resource of experienced project managers to work on a series of projects across sectors should be established

2001

National Audit Office: Managing the Relationship to Secure a Successful Partnership in PFI Projects; London, HMSO

At the time of the report, there were over 400 signed PFI contracts. The report aimed to highlight key issues which authorities need to consider when developing and managing relationships with service providers. The key question which it sought to answer was whether authorities manage their PFI relationships to secure a successful partnership.

The survey included authorities and contractors responsible for managing 121 PFI projects where contracts were let before 2000. The OGC and various other public sector bodies were also surveyed. The response rate was 90% from public authorities and 75% from contractors.

The topics surveyed relevant to the review of operational projects were: the relationship with the contractor; building blocks for a successful partnership; contract management mechanisms; staffing of the contract management function; administration of the contract; learning from others; and actual performance.

Key findings relating to the operational phase

- Most authorities consider that their PFI projects deliver good value for money although there was a decline in satisfaction since the contracts were let
- To ensure value for money the public sector needs careful project management and a close attention to managing the relationship with contractors
- Most relationships with contractors are good
- Development of a successful relationship will be assisted by the right contractual framework which will include allocating risks correctly and clearly defined areas of service quality
- Although most authorities were satisfied with the risk allocation in their contract, only two thirds of contractors felt the same way
- Over half of the authorities had made deductions for poor performance
- There was evidence that authorities and contractors are using performance review processes to bring about positive changes in the way services were delivered
- Authorities had limited experience of using benchmarking
- Dealing with change was a significant issue; the change mechanism had been used by 55% of projects with change procedures
- Having staff with the right skills is critical to good contract management; this includes a thorough understanding of the project and an ability to build effective relationships with contractors
- There was considerable variation in the extent of the training provided and also difficulties in achieving staff continuity
- Contractors also believed that there should be better training for public sector staff
- Most authorities and contractors believed that governance arrangements were working well
- Some contractors said that they were unable to be innovative due to the fixed views of departments
- Three quarters of contractors thought that authorities had adopted an appropriate approach to contract monitoring although some contractors thought that the authority had become too closely involved
- Both parties need to review their relationships on a regular basis to establish how they can be improved and maintained

Recommendations relating to the operational phase

- The public sector should consult with users about their level of satisfaction with services
- Projects should be approached in the spirit of partnership; this requires an understanding of each other's business and a common vision of how the two sides can best work together
- Authorities should consider contract management at an early stage in the procurement
- Appropriate contractual procedures for dealing with change should be built into the contract
- A contract management staffing plan should be developed during the procurement stage
- Authorities and contractors should consider how their relationships will be managed before contracts are let
- Authorities should regularly re-assess their relationship with the contractor and the value for money from the contract
- OGC should publish further guidance on contract management and facilitate workshops

Key comments from The Committee of Public Accounts on this report

- Better evaluation is needed of PFI projects in progress
- Post implementation reviews are particularly important for projects where perceived value for money had declined since contract award

- 23% of authorities surveyed considered that there had been a decline in value for money in PFI projects after contract letting; only half of these had benchmarking and open book accounting
- A low proportion of contracts provided the authority with a share in refinancing gains
- Concerns had been raised over the high charges for additional services
- 58% of authorities have made performance deductions, from which the report concludes that many authorities are not getting the services they require
- Staff continuity is desirable so that there is continuity of knowledge
- There are still gaps in the guidance and training on how to manage PFI projects as distinct from how to negotiate them at the outset
- There are significant shortcomings in authorities' training in contract management

Recommendations relating to operational phase
- Authorities should ensure that value for money is maintained over the life of a project
- Contractors should expect to lose their investment in PFI projects when things go wrong and to be rewarded reasonably when things go well
- The public sector should not insulate the contractor from the consequence of the risk which it has been paid to take on
- Staff responsible for managing PFI projects must be equipped with the appropriate skills.
- Very little information is available on the returns which private sector partners earn on PFI projects; this should be completed by OGC
- There should be a proper handover from the procurement phase to the operational phase
- The public sector needs to be more commercially aware

PricewaterhouseCoopers (PwC): Public Private Partnerships: A Clearer View
Following the publication of "Building Better Partnerships", PwC's report summarises the findings from a survey of 27 operational PPP and PFI projects. The projects are drawn from transport, defence, water, education and health. Interviewees included managers, users and the private sector. Sixteen public sector managers responsible for 23 projects were interviewed, in addition, ten private sector representatives involved in managing service delivery were asked for their views.

The report covers the following areas: the facilities; staff and user satisfaction (including the success of staff transfers); service delivery (including output specifications); partnership; innovation and competition; risk transfers and incentives; and the flexibility of PPP/PFIs.

Key findings relating to the operational phase
- There is room for improvement in the shape of PPP models and in the roles the public and private sector assume
- There is clear evidence that difficulties, where they exist, are being resolved
- Trust and teamwork rather than confrontation is the key to getting the best out of PPP/PFIs for the public sector
- Most of the public comment on PPP/PFIs is poorly informed; most of the impressions and inferences are contradicted by what users say about their projects
- Of the 26 people interviewed, all but three rate their projects as successful and none said that they were poor or dysfunctional
- Both staff and users are happy with their PPP/PFIs
- Staff and user satisfaction is greater where there has been good communication and consultation
- Most of those interviewed recognise the importance of developing the relationship through a constructive attitude rather than turning to the contract
- Specifying outputs has been difficult, especially in service delivery, but this may now have changed with later projects
- The private sector has new ideas and innovation and this is also seen in service provision in sectors e.g. prisons
- Financial penalties from the payment mechanism appear to act as an effective incentive on the private sector to perform and respond quickly to problems
- There is concern about whether PPP/PFIs would be flexible enough to respond to changes in the future
- A number of authorities mentioned that they had subsequently applied a more commercial approach to other non-PFI agreements as a result of the experience gained through their PPP/PFI project
- In twelve of the schemes, staff had transferred to the private sector; in all cases, the transfer was largely problem free; in half of the sample, managers concluded that, overall, staff were happy with the arrangements
- None of those interviewed believe that career opportunities available to transferred staff would be reduced and a number believe that they would be enhanced

2002

Audit Scotland: Taking the Initiative: Using PFI projects to Renew Council Schools
This study looked at the nine schools' PFI contracts which had been signed to date. It aimed to help inform the debate on the initiative and examine whether the Scottish deals delivered value for money. It also hoped to identify lessons for future procurements. Of the procurements examined in this study, only three were in the operational phase.
The operational phase is covered in sections 3.4 – 3.20.

Key findings relating to the operational phase

- Councils, pupils and teachers generally welcome the improved accommodation and levels of service that had become operational thus far
- There is no systematic sharing and development of staff skills and knowledge in the area of PFI schools procurement and project management
- Councils and the private sector appear to have managed the TUPE transfers effectively with due consultation with the staff involved
- PFI contractors are providing a satisfactory FM service
- Deductions for service failures in the first year of operation were low, at 0.2% of the total value of payments
- Cleaning services are equivalent in standard to the service delivered before PFI
- Once contract terms have been agreed, the arrangements tend to promote a collaborative approach to problem solving rather than an adversarial relationship

Recommendations relating to the operational phase

- Councils should share information such as unit construction costs and operating costs actually experienced in individual projects
- Schools should be involved in development of the specification to minimise dissatisfaction later in the project
- Councils should gain early feedback from users on the quality of the facilities
- Each Council should have a commissioning and monitoring regime which tests and confirms the accuracy of the provider's reports
- Councils should consider in advance the best options for addressing serious under performance if it should materialise (particularly during construction)

2003

Confederation of British Industry: Competition: A Catalyst for Change in the Prison Service: A Decade of Improvement

The first privately managed prison opened in 1991 and by 2003, 7% of prisons were managed by the private sector and 10% of prisoners were housed in privately managed prisons. This report, based on independent research, sought to provide a comprehensive analysis of the value that PFI has added to the custodial sector in the UK.

Key findings relating to the operational phase
- In general, privately managed prisons are delivering good quality services, and in some cases, the services are significantly better than in publicly managed prisons
- Comparative analysis indicated that private sector prisons perform better in terms of preventing escapes, time out of cells and hours of purposeful activities
- Privately managed prisons brought a revolution in staff/prisoner relationships although assault rates were higher in private prisons
- Privately managed prisons introduced changes to the management of prison staff and improvements in productivity with a younger and more productive workforce and lower staffing costs
- There are concerns regarding the competitive advantage of the prison service in market testing and the lack of comparative benchmarking information
- There were perceived to be some shortfalls in Performance Indicators
- Performance Indicators do not recognise exceptional performance

Recommendations relating to the operational phase
- Overlaps and duplication in performance assessment should be avoided
- Practical means to refresh contracts should be found

National Audit Office: The Operational Performance of PFI Prisons; TSO, London

This study looked at twenty one prisons, of which seven were operational PFI prisons; two were privately managed prisons and twelve were public sector prisons which were used as comparators. The evidence for the report was gathered by examining the PFI contracts; visiting the prisons themselves; surveying prison officers and prisoners and carrying out semi structured interviews.

Key findings relating to the operational phase
- The operational performance of PFI prisons against contracts has been mixed
- Most PFI prisons have had problems when they first opened but, with one exception, they have improved
- Amending PFI contracts to reflect changing priorities is difficult
- The private sector has brought benefits to the prison service
- Competition has been important for improving management and conditions for prisoners; however, as bids have become increasingly competitive, there appears to be evidence that private contractors and successful in-house bid teams are struggling to meet standards of performance
- The use of PFI has brought innovation, mainly in the recruitment and deployment of staff and the use of new technology
- A key innovation has been in promoting a more constructive staff/prisoner relationship
- The level of financial deductions is not necessarily an accurate indicator of performance
- Prisoners in PFI prisons feel they are shown greater respect and treated better than in public prisons

Recommendations relating to operational phase
- The Prison Service should share its measurement techniques with other government departments
- The number of performance measures should be reviewed
- The quality and collection of performance data in the public sector should be improved
- The link between performance and financial deductions should be monitored closely
- Greater flexibility should be introduced into earlier PFI contracts as priorities have changed
- The system of performance measurement should be sharpened
- The role of the Controller should be enhanced
- Good practice initiatives in the day-to-day operation of prisons should be shared between the public and private sectors to a greater extent

CIPFA: Private Finance Initiatives / Public Private Partnerships

This report reviews PPP and PFI across all sectors of local government. The report provides information on project costs and financing; budgeted and actual times of work undertaken and detailed descriptions and problems encountered. 302 responses were received giving a 55% response rate and of these, 45% of the projects fell into the category of education, with transport and street lighting the next highest at 14%.

Key findings relating to the operational phase
- The time between contract signature and the start of service was less than budgeted for
- With the benefit of hindsight 96% of project managers would still have undertaken the project
- 54% of project managers were experiencing post contract issues which have not been analysed in the report; however, an appendix lists the main reasons as poor specifications; different expectations; problems in getting variations done; arguments over performance deductions; and the difficulty in achieving small works changes

Audit Commission: PFI in Schools: The Quality and Cost of Buildings and Services Provided by Early Private Finance Initiative Schemes; Belmont Press, London

The purpose of the study was to review what PFI contracts were delivering in the schools sector by the end of 2001 and users' experience of those schools during the first half of 2002, by comparison with schools provided through traditional procurement. The study was undertaken in 2003 when over 500 primary and secondary schools were already part of PFI deals which were signed or currently in procurement (67 schemes in all). The report examined whether the first buildings were of good quality and what the schools' users thought about the buildings and services and their costs. To do this, the report compared the PFI funded with traditionally procured schools within the same local authority. Information was gathered from Local Education Authorities, schools and private consortia members.

The Audit Commission visited nine LEAs across England and Wales with PFI schemes that had been delivering Facilities Management services for close to a year or more. Alongside this, a MORI survey based on a design evaluation tool developed by the Construction Industry Council was sent to a range of pupils and staff in 18 new built schools: ten traditional (59 people) and eight PFI schools (35 people).

The operational phase was covered in sections 3.1 – 3.5.

Key findings relating to the operational phase
- No statistically significant differences between PFI and other schools in the costs of building maintenance, grounds maintenance, water and sewerage or fuel were identified
- The average costs of cleaning and caretaking are higher in PFI schools but this was probably because of higher levels of service required by the contract
- There was a poor understanding of furniture, fittings and equipment needs of the users
- There had been little service innovation
- Bidders had underestimated the vandalism risk
- Many contracts did not anticipate the need for many small variations rather than large ones
- Contract clauses do not allow for streamlined, cost-efficient and rapid processing of high-volume, small-value transactions
- There was a mixed picture on the number of payment mechanism deductions and the payment mechanism was not always enforced rigorously
- There was a mixed response to the helpdesk – some users saw this as a loss of control by the school head
- Some saw FM services as more responsive due to a good specification
- PFI should improve with time as lessons are learnt

Recommendations relating to the operational phase
- Contracts should be managed from the start of the procurement so that all parties see themselves as partners, not adversaries or competitors
- There should be agreement of and commitment to a shared vision
- There should be a regular dialogue between the parties, openly sharing all relevant information
- It should be recognised that boundary/interface issues should be dealt with constructively
- Contracts should have a governance structure which engenders public confidence and involves stakeholders
- Regular external reviews of the scheme should be commissioned to measure the degree to which the agreed outcomes are delivered

- There should be more work to ensure that performance deductions are a proper reflection of the impact of the non delivery of the service
- Contract terms should not be so elaborate that the management time required in putting arrangements in place and then monitoring them outweighs the return in service improvement
- The public sector should get better information on whole life costs and financial information on the cost of the schemes
- There should be more support for LEAs to become informed clients so that there is a level playing field for negotiating; contracting and dispute resolution

Partnerships Victoria: Guidance Material – Contract Management Guide

This guide sets out best practice principles relevant to managing a PFI contract. The information has originated from operational PFIs in the state of Victoria, Australia.

Key findings relating to the operational phase
- The Government party must devote adequate resources to contract management activities, including an adequate budget and experienced personnel with knowledge and experience to manage relationships with the private party and other stakeholders
- Planning, information collection and analysis are the first steps towards effective contract management
- There is a need for contingency planning to react to any unplanned events
- Effective relationship management is needed

Recommendations relating to the operational phase
- Where possible the Project Director from the procurement phase should either be the inaugural Contract Director or should work with this person
- Effective public sector governance and compliance practices should be established
- Effective change management procedures should be in place
- Projects should carry out ongoing reviews of contract management processes to make sure that the knowledge gained is retained and spread

Not so Great: Voices from the Front-line; UNISON: London
- This report quotes staff reactions to the support services offered by Carillion for Great Western PFI hospital in Swindon.

Key findings relating to operational phase
- There was disappointment with cleaning and catering in particular.
- Staff employed by the private sector contractor complained that some of their pay and conditions are worse
- PFI is described as not working for the public sector

4Ps Operational PFI Schools – Pocket Case Studies; London
This first set of case studies looks at five early schools' PFI projects. The studies are short snap shots of the projects shortly after they became operational.

Key findings relating to the operational phase
- Most of the pathfinder schools' PFI projects have now become operational and most have done so successfully
- There were a few cases of disappointing standards of service delivery but many more where users were happy with the standard
- Subsequent projects have learnt from the problems of the first
- There were concerns about refurbishment and problems with output specifications for refurbished schools projects

2004

Hatter, W and Reeve, S: Beyond Contract – What Makes a PPP Successful?: New Local Government Network (NLGN) London

A group of practicing contract managers met to consider "what makes a PPP successful?" focusing on post contract signature issues. The project managers included private and public sector practitioners. This group met on several occasions and finally put together a list of "dos" and "don'ts" for each stage of the PFI project.

Key findings relating to the operational phase

- There are various stages in a PPP project when handover occurs between different teams; at these critical points staff change, knowledge can be lost and the initial guiding principles can mutate and new ideas gain currency
- It is important to identify and bring on board new stakeholders as different stages progress
- Different people (or at least different skills) are needed for "keeping it going" rather than "setting it up"
- In the PPP field, a new form of management behaviour has occurred where managers try to behave as if in true partnership and with limited recourse to contractual support; for these managers recourse to the contract is deemed as "failing" in professional terms
- When partnership behaviour fails, practitioners do not tend to slip into contractual behaviour as a default, rather they lapse into professionally-contextualised positions or an organisationally loyal stance
- Original or agreed vision is hugely important as an ongoing reference point and to establish a common purpose
- A high level of emotion and emotional commitment is engendered by partnership working – this had not been anticipated by practitioners

Recommendations relating to operational phase

- Workshops with the private and public sectors should be held to explore the operational aspects of the partnership and the transition as well as the structure of the contract
- Effective internal communications should be established
- Authorities should develop a team working, horizontal networking style and working environment
- Where possible staff from the different sides of the partnership should be co-located
- An environment should be created where staff generate innovation and improvement
- A strong governance system should be established for the mature stage of a project
- As trust develops over time, spontaneous creativity should occur in this phase and should not be smothered by an overly contractual approach

National Audit Office: London Underground: Are the Public Private Partnerships Likely to Work Successfully?; TSO, London

This report examines whether the tube deals are likely to work successfully in practice. It focuses on whether performance is likely to improve; whether there are key success factors in place for the partnerships to work and whether there are any constraints on the success of PPPs.

Key findings relating to the operational phase

- To date, performance against benchmarks is mixed and it will take time and good information to determine whether performance will improve
- In general the deal is clearly specified and understood and the parties are building a good relationship; however it is unclear whether the oversight mechanisms in the contracts will be sufficient
- An Independent Arbiter can review the contract every 7 years and as a result of this, price and scope can change
- Availability performance was very volatile during the period of shadow running
- Performance was uneven in the first year of PPP
- Parties have entered into the spirit of partnership and monitor and review the partnership regularly
- It is too early to see if parties will promote innovation and a whole business approach

Recommendations relating to the operational phase

- The Department should avoid a complete "hands off" approach to oversight
- London Underground (LUL) should maintain its knowledge base and benchmark the private sector proposals to make sure they offer additional works at a fair price
- LUL should maintain accurate, regular and consistent information from each infrastructure provider company to make sure they have good information as to whether the re-pricing in seven years time represents good value for money

Partnerships UK (PUK): Schools PFI – Post Signature Review for Department of Education and Skills. (Phase One Report: March 2004; Phase Two Report: November 2004.)

For the Phase One report, Partnerships UK undertook an online survey of all LEAs with signed schools' PFI deals. Twenty four responses were received from 66 LEAs. Once the Phase One report was completed, Phase Two was an in depth review of particular projects and through interviews with Schools Representatives and LEAs the following were probed:

- Usability and possible improvements to the payment mechanism.
- A difference in impressions between the LEA and school representatives
- The level of resource provided at school level to monitor contracts
- Why small capital value schemes appear to be working better than larger ones
- The performance of Jarvis projects
- The performance of Eric Wright projects
- The performance of single schools projects
- Particular reasons for dissatisfaction

Key findings relating to the operational phase

Phase One report:

- Of the 16 fully operational projects which completed the Phase One survey, 47% gave a very or extremely satisfied rating to the services being provided
- Phase One participants reported that the availability mechanisms in the payment mechanism work well but that the performance measures were not so good
- Eric Wright Group was given a high rating by the two projects which had this group as contractor
- Jarvis projects were given better than average scores for buildings and services
- Some payment deductions had been made by most projects
- There is wide variation in the ways in which project monitoring is carried out
- Higher levels of satisfaction with services provided were recorded on new build only schools as opposed to refurbished schools
- 70% of contract managers rated their payment mechanism as acceptable or better

Phase Two report:

- There was a consistent rating of satisfaction with buildings between local authorities and schools
- Schools tend to rate services lower than local authorities
- Many authorities had underestimated the resources required to monitor the contract
- Projects should not necessarily take comfort from a consortium where shareholders, construction contractors and FM providers are part of the same group of companies
- Tight pricing of contracts led to high pricing for variations and small works
- There was polarisation of opinion on the payment mechanism with 47% saying they were straightforward or very straightforward but 35% rating mechanisms as difficult to use
- For many of the services there was insufficient detail in specifications and no objective criteria for measurement
- There was difficulty in incentivising contractors to close out snagging items

Recommendations relating to the operational phase

- Provision for extra monitoring resources should be made for the first 18 – 24 months of the operational phase
- The post of project manager should be funded appropriately and part of the role should be to transfer skills
- Support and advice during this phase should be available from the centre
- Bid evaluation should look more closely at the FM providers and the interface with construction
- There should be more support and dissemination of information about help desks
- There should be provisions in payment mechanisms on help desk performances
- There should be sanctions to ensure that the variations procedure is carried out within a defined period of time
- Objective measures are needed for calculating payment deductions and performance points
- Contracts should accommodate the fact that small works are likely to be the norm
- Best practice guidance is needed on agreeing and costing variations

PricewaterhouseCoopers, Partnering in Practice – New Approaches to PPP Delivery. Published on www.pwcglobal.com

This report looks at partnering and when it should be used for projects. Reviews of signed PPP and PFI deals have shown that success depends on the ability of the partners to work together. It then turns to PPPs to look in detail at commercial arrangements; financial issues for partnering; contract structures; risk allocation and payment mechanisms; value for money; and governance and management.

Key findings relating to the operational phase
- PPPs have focused on their partnering protocol; however PPPs allow the private and public sectors to work more closely together.
- PPP needs more robust ways of ensuring continuing value for money
- The public sector needs to change its view of partnering and particularly of incentive payments

Recommendations relating to operational phase.
- PPP should be an active choice for project delivery as it is a way of working together to deliver unforeseen improvements in cost and delivery
- PPPs should draw on a whole range of structures and contractual precedents available for partnering
- Management of the partnering should be addressed explicitly from the outset and cannot be achieved through mutual board membership alone

2005

Cambridge Economic Policy Associates: Public Private Partnerships in Scotland – Evaluation of Performance – Report for the Scottish Executive

The report was commissioned by the Scottish Executive to further its understanding of the performance of PPP projects in Scotland. The aims of the research were:

- to provide an initial assessment of the relative costs and benefits of PPP procurement in comparison with conventional procurement and of the underlying causes of good and bad performance; and
- to assess the potential merits of centrally collecting additional performance monitoring information and other data to inform future PPP performance evaluations and provide recommendations on what data should be collected.

Questionnaires were sent to each authority responsible for a live PPP project (e.g. Health Boards, Councils and the Scottish Executive) covering a total of 69 operational projects. The questionnaires were supported with interviews with private and public sector contacts for a sample of the projects.

Section five of this report deals with operational performance.

Key findings relating to the operational phase

- 91% of respondents rated "availability" as "good" or "Very good", with 90% considering that availability meets or exceeds expectations
- Soft FM was rated "good" or "Very good" by 71% of respondents (although 85% said that this service met or exceeded expectations)
- Cleaning is a particular problem due to the buoyancy of the employment market
- Hard FM was rated "good" or "Very good" by 57% of respondents and 69% considered this service met or exceeded expectations; "poor" ratings were mainly due to the slow resolution of snagging issues
- It is too early to draw conclusions about the impact of PPP on longer term maintenance
- Issues were raised on the interaction between hard and soft FM providers
- Respondents did not think that services were better or worse because they were PPP projects
- No evidence was found that PPP operators delivered a better or worse standard of service than the public sector
- Several authorities were surprised by the input required on their part
- PPP contracts are seen as less flexible than non PPP contracts
- Making changes to the contracts was time consuming and slow therefore the public sector sought to wrap up a number of changes in a single negotiation
- Changes are rarely incorporated in the unitary charge mechanism because of the complication of agreeing the financial impact
- Works' costs for contract changes are perceived as expensive in the absence of the ability to tender these
- In the case of operational risks, authorities noted that ambiguities in the contract drafting made it unclear where risks lie and presented opportunities for risks to shift
- In the health sector, interaction between hard and soft FM and the risks associated with the needs of different user groups are not always clearly defined in the contract
- The majority of relationships between authorities and contractors are good and both parties recognise the advantages in developing a long term partnership

Recommendations relating to the operational phase

- There should be further work to assess whether costs quoted by PPP partners reflect an allowance for maintenance and renewal
- Wherever possible, authorities should ensure that formal feedback systems, e.g. user surveys, are part of the contract process
- There should be further work to review whether contractual remedies relating to snagging provide adequate incentives for contractors to resolve the issues
- Best practice guidelines should be issued for hard FM provision
- There should be further work to examine how to enhance flexibility without losing the benefits of PPP, focusing on areas where there are issues (e.g. health)

European Investment Bank (EIB): Evaluation of PPP Projects Financed by the EIB: Synthesis Report; prepared by Operations Evaluation

The report presents the findings of an evaluation of PPP projects funded by the EIB. Fifteen projects which were either fully operational or close to full operation were selected for a desk review based on data and information available within the Bank. Ten of these were then selected for in-depth evaluation to assess the performance of the projects against the Bank's standard evaluation criteria (Relevance/Efficacy, Efficiency and Sustainability).

Page five and Sections 4.4 and 5.5 of this report deal with project performance.

Key findings relating to the operational phase
- Of the ten projects evaluated in depth, four were given an overall rating of "Good", four were rated "Satisfactory" and the remaining two (which were non operational) were assumed to be "Satisfactory"
- All projects were rated as "Satisfactory" or better against Relevance/Efficacy
- Two projects were rated as "Unsatisfactory" for Efficiency mainly because the traffic demand for road projects was lower than expected
- For Sustainability, only one project was rated as "Unsatisfactory"
- As the projects evaluated were all quite new, no conclusions could be drawn on whether long term benefits could be achieved, for example on whether maintenance costs would be no higher and possibly lower than the public procurement option

Recommendation relating to operational phase
- To manage PPPs properly, the Bank's procedures and systems should be modified to suit multi stage approval procedures, waivers, complex contracts and contractual relationships and multiple clients at appraisal

4Ps: Review of Operational PPP and PFI Projects

The 4Ps undertook a review of 30 operational PPP and PFI schemes over a period of six months during 2004/5. The purpose of the review was to answer the question "are PFI contracts working in terms of providing improved public services?" The review took the form of interviews with key stakeholders including the Local Authority project or contract managers, the private sector representative and users of the services – for example head teachers and tenants. The study did not cover any health projects or any projects covering non local government functions. In practice, the main focus of the review was on whether the services were being delivered in line with the approach set out in the service specifications, how effective the payment mechanism was and how the contract was being used in delivery of the services. The report also asked about the handover to the operational team, including contract monitoring arrangements, partnership relations, satisfaction and benefits realisation and change management. However, the findings dealt with mobilisation and developing new partnerships, output specifications, the payment mechanism and the contract.

Key findings:
Partnerships
- Users rate services more highly than the Local Authority
- Partnerships are working
- Service providers are delivering services on time, to budget and within the specification
- Service providers feel that they are contributing to the delivery of local services
- There was a feeling that there had been a smoother implementation than with traditional procurement
- Different local authorities had different experiences
- Many local authorities had underestimated the scope and costs of contract management
- Long term issues should be taken into account during the procurement stage

Payment Mechanism and Output specification
- In some sectors there is room for improvement in the development of the output specification and the performance monitoring regime and payment mechanism
- There were few examples of genuine innovation but some new ways of working had been developed
- Service providers are providing a high level of delivery against the service specification

Contract
- Parties should try to work together to resolve difficulties
- Minor changes had been made to contracts

- Variations are being costed highly
- There is a need for greater understanding by the private sector of local authority processes

KPMG and the Business Services Association (BSA): Effectiveness of Operational Contracts in PFI

KPMG and BSA commissioned an internet based survey of PFI projects that are in the operational phase. The survey was conducted exclusively with 79 private sector contract managers and was focused on operational performance, the clarity and usability of PFI contracts, operational relationships and what the future might hold for all PFI stakeholders. In addition to the online survey interviews were conducted to obtain additional qualitative data to expand on and clarify the findings from the online responses.

Key findings:

- Investing early in the relationship appears to be a key determinant in the success of the operational contract
- At the heart of every good relationship is ongoing communications
- The PFI contract schedules could be improved to avoid conflicts and potential disagreements over interpretations
- The level of reported deductions is low in comparison to the payments to operators
- The health sector appears to exhibit better performance levels than the education sector
- The future looks good but there are still potential hurdles to be overcome
- The survey was overwhelmingly positive with the private sector reporting high levels of operational performance and good relationships with the public sector

Ministry of Defence Private Finance Unit (MOD PFU): Review of MoD PFI Projects in Construction and Operation

The MOD PFU initiated a review in August 2005 to assess how PFI has performed to date in practice, both in construction and the early years of operation within the MOD. The review included all 29 PFI projects signed as at 30 September 2005 that come within the definition of PFI as set out in the HMT document "PFI: Meeting the Investment Challenge". It therefore excludes projects that predominately involved Information Technology and those with a capital value below £20M. The primary objective of the review was to assess the performance of MOD in delivering procurement outcomes through the use of PFI as a procurement tool and to enable the development of best practice going forward.

Key findings:

- PFI delivers projects on time and within budget; all 29 projects were delivered within budget and all except three were delivered within two months of the agreed date
- PFI projects are performing well and delivering the services required; all of the project teams surveyed reported that the performance of their PFI project was satisfactory or better; three quarters of project teams rated the performance of their PFI project as good or very good
- PFI contracts are flexible enough to accommodate future change and to deliver on a sustained basis; 85% of projects reported that their PFI contracts were suitably flexible to accommodate change and had effective change management mechanisms
- There was feedback that changes to the contract require extensive effort and are costly
- 41% of PFI project teams reported imposing no performance deductions to date; of the remaining 59% the level of deductions being imposed amounted in 76% of cases to no more than 1-2% of the unitary charge
- 90% of PFI project team contract managers felt the performance mechanism supports the effective performance of the contract but some considered that the payment mechanism was unnecessarily complicated and that the effort involved in making deductions was disproportionate to the incentivising impact on the contractor
- 90% of MOD PFI project teams assessed the working relationship between the public and private sector partners to be good or very good

The review identified that MOD management practices could be improved in terms of allocating the right resources to contract management teams, improving business continuity and improving the process for learning lessons from one project to another.

Key Points to be Addressed

The review found that the MOD could secure additional procurement outcome benefit by:

- Constructing more effective and simple performance mechanisms;
- Ensuring that in-service contract management teams are appropriately resourced with suitably qualified staff;
- Improving the promotion and adoption of best practice and lessons learnt;
- Supporting teams in carrying out benchmarking and value for money reviews;
- Supporting project teams in managing change; and
- A programme of ongoing operational review.

Conclusions

- Notwithstanding the difficulties that MOD has previously experienced with the PFI procurement process, the review of MOD PFI projects has provided good evidence that PFI has performed very successfully in operation

- The review has demonstrated that PFI has delivered assets on time, to budget and has overwhelmingly met the Department's service delivery expectations

- Although many projects are still in the early years of operation, the good performance of the PFI projects provides a solid case for continuing with the use of PFI to deliver capability to the defence environment where it is appropriate to do so

Related material

Negotiations and Public/Private Relationships

Confederation of British Industry: Delivering for Local Government: The Impact of Public-Private Partnerships; 2003
The report sets out evidence which proves that competition in general, and the private sector in particular, can play a constructive role in local government service delivery. The report looks back on the past 20 years of procurement.

Key findings relating to operational phase
- A number of local authority markets are not constructed to deliver the benefits that the private sector can bring
- In some areas there is a stop/go market
- There is a lack of central capacity in local government to manage markets

Recommendations relating to the operational phase
- Lack of commitment and lack of procurement skills should be addressed if local government is to make the best use of the market
- Some capacity building should be undertaken
- Where a service is failing, the government should be able to order an externally led "Best Value" review
- A stream of bidding opportunities should be established to develop a strong market
- Councils should realise efficiencies and improvements through joint, parallel and aggregated procurement
- Councils should work with the private sector to make sure propositions are realistic

National Audit Office: PFI Construction Performance; London, 2003
This report covers the construction performance achieved in PFI projects (up to the end of 2002). It focuses on three key areas of construction: price certainty for projects; timing of construction delivery; and the quality of design and construction. The background information was gathered by surveying 38 projects which were complete or due to be completed according to the original timetable by the summer of 2002.

Key findings relating to the operational phase
- Research shows that projects are delivering to price
- Most managers are satisfied with the design and construction of the building
- 28 of the 37 projects were delivered on time or earlier than specified
- User surveys will help with the development of future projects

Recommendation relating to the operational phase
- Departments should carry out user surveys as part of their post contract evaluation to gather information about how well an asset is operating and to identify problems and issues which the departments can pick up and discuss with contractors.

Southwood, E.: Procurement & Partnership: Doing it Right, Making it Work; New Local Government Network (NLGN); London, 2004
Following the Gershon efficiency review, this report sought to provide perspectives from the public and private sector on how to procure projects. Each chapter of this study is written by a different author and the issues covered include perspectives from the private and public sectors, partnerships and councils, setting objectives, legal issues and continuous improvement.

Chapter Thirteen covers continuous improvement and the role of the private sector. The report identifies that:
- The private sector needs to understand the nature of public service, public accountability and the local democratic processes
- There are signs that a more collaborative process is being adopted by more sophisticated authorities
- Incentive payments linked to public satisfaction surveys focus on customers' perceptions
- The public sector is now looking closely at bidders' financial models

PwC: Peter van der Heijden: Key Risks to Project Acceptance, 2004

The author has put together a checklist of the key risks to any project (not solely PFI projects). The list is based upon the author's experience in setting up projects, implementing systems and procedures and carrying out audits of projects. Relevant risks from the top ten identified are:

- Inadequate project organisation
- No communications plan to keep users and the broader organisation informed
- Inadequate change management processes
- Culture not supporting projects; dependencies (with other projects or aspects within the organisation) not foreseen
- Poor people management
- Handover from project team to broader organisation is not arranged
- Project is not supported by senior management

Ertel, Danny: Getting Past "Yes": Negotiating as if Implementation Mattered, 2005

This paper contrasts the behaviour of "deal minded negotiators" with "implementation minded negotiators". The author believes that these negotiators negotiate differently. There is a danger that the deal maker will only be concerned with closing the deal rather than considering what effect the negotiation is having on long term relationships and on value for money. A further risk in adopting a "deal closure" style of negotiation is that negotiators become detached from their implementation team and are likely to focus on the deal rather than on its business impacts.

The article suggests ways to achieve a new mindset in negotiations:

- Start with the end in mind;
- Help the other side to prepare too – make sure they have the information they need and do not introduce surprises; and
- Treat alignment as a shared responsibility: send one message and manage the negotiation like a business process.

Internal Council Report

Cornwall County Council: Single Issue Panel, (2003). Report on the Lessons Learnt from the First Phase of the Private Finance Initiative for Schools in Cornwall: Report by the Single Issue Panel established by the Lifelong Learning Policy Development and Scrutiny Committee, Published on www.cornwall.gov.uk/Councils/scrutiny/llpdsc/pfireport.htm.

This is an internal report to the Council on the first grouped schools PFI project. The panel that produced this report looked at project documentation, carried out interviews with key personnel on the public and private sector and met with head teachers of the schools in the project.

Key findings relating to operational phase
- Not all of the schools visited felt that they had received the improvement in services that they had expected
- Problems with lack of resources on sites had led to delays in getting maintenance jobs done
- The helpdesk, though useful, was slow and school staff had spent a lot of time chasing helpdesk issues
- Cleaning staff levels may not be adequate
- The council's implementation team had worked hard to address the issues that had arisen during the delivery of the Scheme and had increased supervision and monitoring
- Service deductions had been made
- The catering service had improved
- There had been some communications problems between schools and the contractor
- Schools felt "stuck in the middle"
- There was uncertainty from schools about the cost of variations
- Some schools felt their contribution to the unitary charge should be revisited
- A lack of on-site management had caused difficulties for some schools
- Council monitoring arrangements and staff resources had been under-estimated (as had the private sector's)

Recommendations relating to operational phase
- The Council's implementation team should be well established and fully resourced with staff with appropriate skills before the contract commences and should be phased in during contract negotiation stage
- In developing future contracts, the Council should be satisfied that there are good links between bidding and operational teams
- The PFI implementation team should make sure that assistance is given to schools so that they are aware of how the payment mechanism and monitoring systems work
- Schools should be consulted on key appointments, e.g. Caretakers
- There should be "bedding in" periods for FM
- The performance monitoring system should be Specific, Measurable, Attainable, Realistic and Timely
- Officers should take a more robust approach to contract management
- A senior LEA official should be appointed to the capital team to bring an educational perspective to PFI

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Survey Response Rate by Government Department

Department	Operational PFI Projects		
	Total PFI Projects	Survey Responses	Response Rate (%)
The Scottish Executive	62	6	9.7
The Welsh Assembly Government	25	1	4.0
Department of Health	90	17	18.9
Department for Environment, Food & Rural Affairs	8	1	12.5
Department for Work & Pensions	7	1	14.3
Office of the Deputy Prime Minister	26	5	19.2
Department of Trade & Industry	7	1	14.3
Foreign & Commonwealth Office	1	0	0.0
Department for Culture, Media & Sport	4	0	0.0
Government Communications Headquarters	1	0	0.0
HM Revenue & Customs	9	0	0.0
Department for Constitutional Affairs	6	2	33.3
HM Treasury	1	1	100.0
Home Office	31	10	32.3
The Northern Ireland Executive	24	8	33.3
Department for Education and Skills	75	20	26.7
Department for Transport	37	15	40.5
Ministry of Defence	40	17	42.5
Total	**454**	**105**	**23.1**

5.1 Introduction

This Appendix contains a description of the detailed methodology used for the analysis of the results from the survey carried out in May and June 2005. It also contains a summary of the responses received. The analysis of these responses, and the conclusions that can be drawn from them, are contained in Section Five of the report.

5.2 Response Profiles

A total of 105 surveys were completed. This represents a response rate of 23.1% for the total population of 454 projects in the operational phase as at 1 April 2005. Accounting for the fact that not all Contract Managers could be identified however, the response rate is higher (26.9%) of the 390 surveys that could be sent out.

With the exception of 2005, the profile of responses covered projects that had achieved financial close in every year over the past 10 years (see figure 5.1).
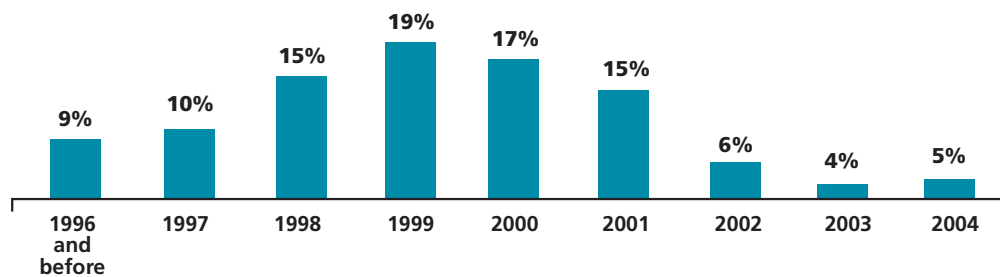

Figure 5.1   Response rate for year financial close achieved

The bulk of responses received (66%) were from projects that became operational between 1998 and 2001. Projects becoming operational since 2001 only make up 15% of the responses received suggesting that responses tended to be more from established projects. In terms of response rates for a given year however, projects that had become operational since 2003 were more likely to respond (see figure 5.2). The reason for the lower proportion of responses in recent years would therefore appear to be down to there simply being fewer projects in the last 2 years that have entered into operations.
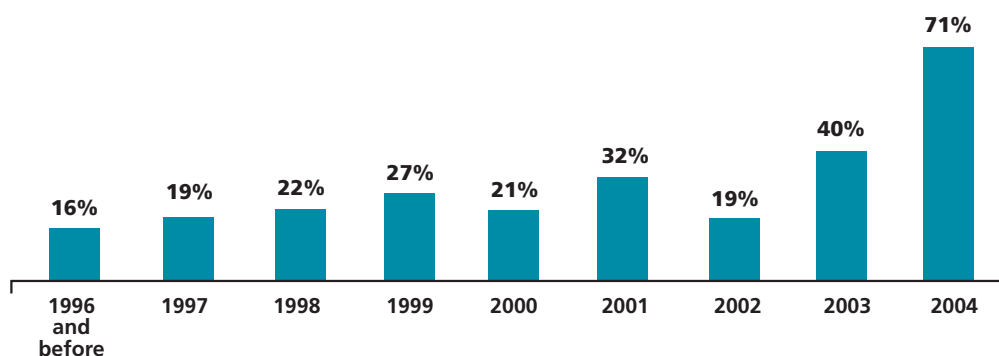

Figure 5.2   Response rate as a proportion of the number of projects that became operational in a given year

Response rates varied across departments and could be as low as 0% for departments with very low numbers of PFI projects. Response rates were typically higher for the departments with significant numbers of projects (e.g. 42.5% for MoD, 40.5% for DfT). A full breakdown of response rates by government departments is at Appendix Four.

In terms of geographical coverage, responses were received from all UK regions (see figure 5.3). Whilst some regions appear to have a low proportion of the total responses (e.g. East of England), account must be taken of the number of operational projects in a given region.
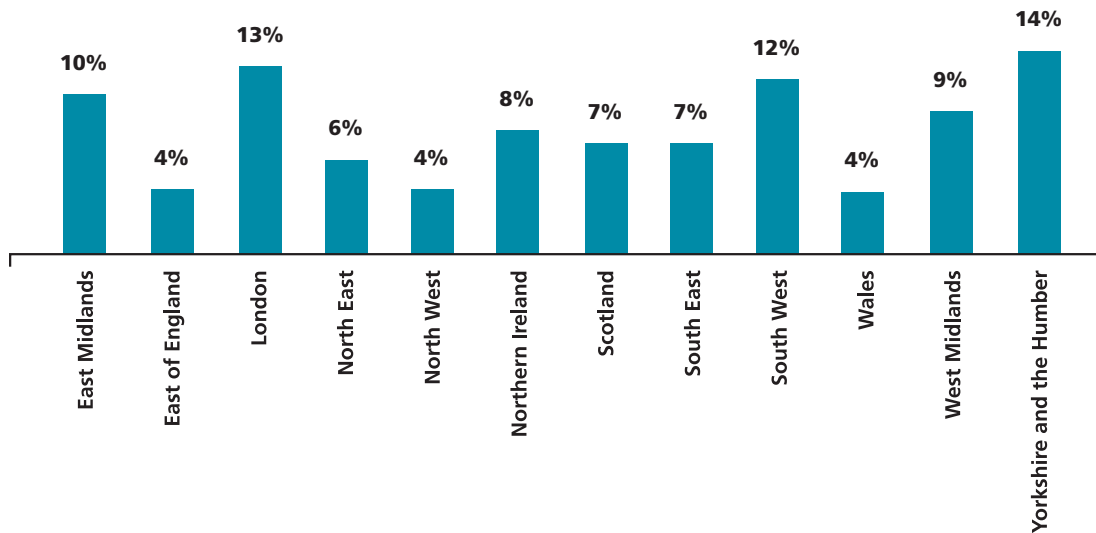

Figure 5.3   Breakdown of the survey responses by region

In a similar vein, whilst Figure 5.4 shows that Scotland has a 7% share of responses received, in terms of the proportion of the total number of operational projects in the region, the response rate from the Scottish projects was the lowest at 11%. Informal feedback on this matter would suggest that "survey fatigue" had a significant effect on this relatively low response rate (see section 2.4.3 of Appendix Two).
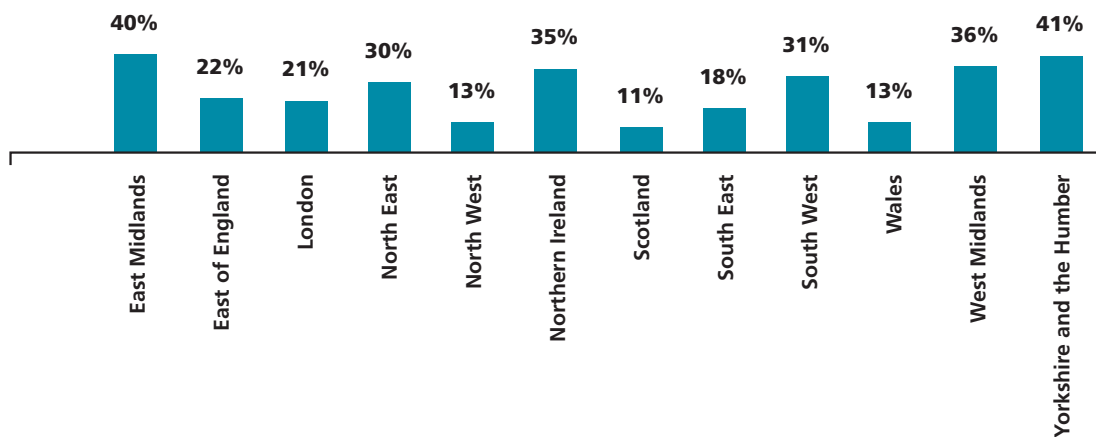

Figure 5.4   Response rate as the proportion of a number of given projects in a region

Whilst not a flat distribution, the electronic survey has captured a broad coverage of operational projects in terms of region, government department and year in which the project became operational. This forms the basis for the quantitative and qualitative analysis of questions and hypothesis testing of survey questions.

The following paragraphs of this section describe the questions developed to test each hypothesis, under the headings used throughout the report. The numbers of the questions (A1, A2 etc) refer to the questions which are listed in full in Appendix One.

5.3   Measuring Performance

Supporting the hypothesis testing quantitative analysis requires a measure for operational performance. This measure has been achieved on the basis of the survey respondents' answers to 5 of the questions (B4, C1, C4, C5 and C7). The rationale behind this methodology is discussed in section 2.3 of Appendix Two, but the outcome of each question is a score ranging from 1 (low performing) through to 5 (high performing). As individual questions, however, these questions also measure performance (in the case of questions B4, C1, C4 and C5), and user satisfaction (in the case of question C7).

There was a low level of negative responses to questions about performance and, in retrospect, it may have been more appropriate to provide further resolution within the positive responses to gain a greater depth of understanding of the grading of operational performance.

In addition to the 4 performance based quantitative questions, one qualitative question (C3) was asked to understand some of the softer issues around how performance was assessed. The response rate to this question was high for a qualitative question (appoximatey 90%), with respondents typically looking at the frequency and method of assessment.

5.4   Measuring User Satisfaction

Of the 5 questions that make up the Performance Index (PI) score, 4 relate to operational performance and one quantitative question, C7, relates to user satisfaction.

In addition to question C7, two further qualitative questions (C6 and C8) were included in the survey to understand the methods of assessing user satisfaction as well as the main issues raised by users in these assessments.

Methods for assessing user satisfaction were shown to vary quite widely and, while the reported feedback was generally positive in tone, the individual reasons varied quite widely. This could in part reflect the wording of the question that asks for both positive and negative issues to be included in the response. The response rate to this question was also lower (approximately 70%), although there was no evidence to suggest those that did not respond had particular high/low performance scores.

5.5   Building a Performance Index (PI)

Combining the 5 quantitative questions together gives a potential range of Operational Performance from 5 through to 25 (for details of the methodology, see section 2.3 of Appendix Two). Given the overwhelmingly positive response from the people completing the survey, the actual range seen from the surveys received ranges from 14 through to 25. The profile of Performance Index (PI) scores is presented in figure 5.5.
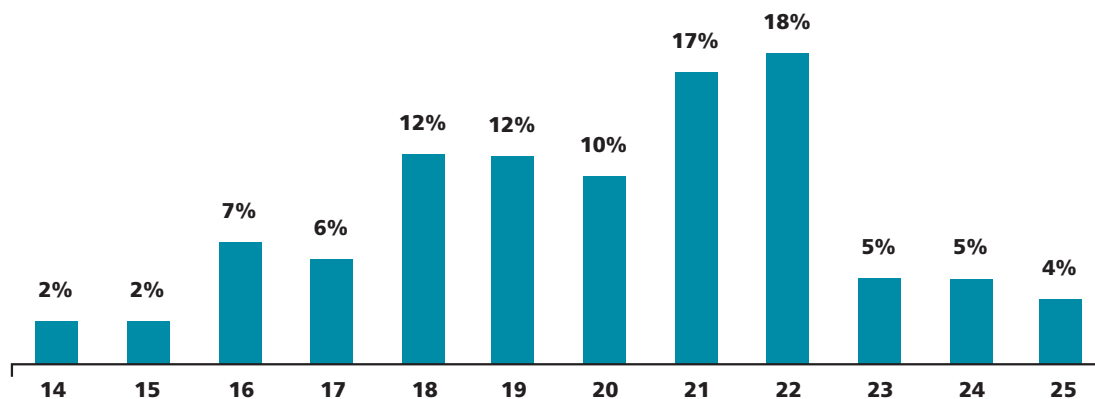

Figure 5.5   Performance Index (PI) profile

The additional granularity provided by this approach is valuable in the testing of the hypotheses. At an aggregate level however, it is worth noting that were a project to score the mid option for all of the 5 questions, the PI score would be 15. On this basis therefore, only 2% of operational PFI projects can be considered to be less than satisfactory, and 60% have scored "Good" or better on every single response.

A. QUESTIONS TO PUBLIC SECTOR CONTRACT MANGERS

1. Service Delivery
- Is the performance of the provider as specified in the contract?
- Please provide more information on availability performance
- Is the quality of services being delivered as specified in the contract?
- Is there a service which is performing well / badly and why?
- Are hard fm and soft fm services being delivered to your satisfaction?
- Is the lifecycle and general maintenance working? – is it better than if you had procured the asset conventionally?
- Is the helpdesk service as per your expectations?
- Is the asset as per your expectations (if applicable)?
- Has this project released resources away from managing and maintaining the asset and into frontline service delivery?

2. User Satisfaction
- Are the arrangements for service delivery continuing to be satisfactory for both customer and service provider?
- How do you collect information on user satisfaction: do you use methods other than customer satisfaction surveys?
- Do you think that current arrangements are adequate?
- Do you think that the contract delivers to the expectation of your users?

3. Monitoring Teams
- Have the levels of resource required for contract monitoring been in line with original expectations (i.e. at financial close)?
- If the level of contract monitoring has been greater/less than anticipated please explain
- Do you feel that the performance indicators used to carry out performance monitoring are satisfactory? How could they be improved?
- Has contract monitoring / management shown that the risks of the project have been allocated to the party best placed to manage them? If not, where?
- What on-going risk assessment is carried out during the operational life of the PFI project?

4 The PFI Contract
- Does the contract help?
- Does it cover all the areas adequately?
    - The payment mechanism
    - Refinancing
    - Market testing
    - Benchmarking

5. Benchmarking and Market Testing
- Are the benchmarking provisions working; are the market testing provisions working?
- If too early to carry these out, what provisions have you made to do this?

6. The Payment Mechanism
- Does the payment mechanism incentivise the contractor?
- Is it workable in practice?

7. Change
- Is the change mechanism working and is it adequate?
- Impact of any change in shareholding?

8. The Dispute Mechanism (where applicable)

- Does it work?
- If your survey response shows that you have been through the dispute mechanism, what were your experiences of it?
- How long did it take?
- Did it impact the relationship or the service delivered?
- Did both parties feel the outcome was an equitable one?
- What was the monetary value of the disputed issue?
- Having been through the dispute mechanism would you now be more or less inclined to invoke it again?

9. Relationship with Public/Private Sector

- Are both parties responsive and co operative under the contract?

10. Training and Support

- Is there adequate internal support?
- Is there adequate external support?

11. Concluding Remarks

- Is the deal working?
- Is there anything that you would do differently if you were to do it again?
- What advice would you give to authorities / public sector bodies starting the operational phase of a PFI contract?

B. QUESTIONS FOR PRIVATE SECTOR

1. Service Delivery
- Which services are being delivered well and how do you account for the success?
- What are the areas where there is dissatisfaction with service delivery and how do you think these can be improved?
- Is the helpdesk working effectively?
- Are you happy with the design and build quality of the asset?
- Were your FM contractors involved with the design?

2. User Satisfaction
- Are the arrangements for service delivery continuing to be satisfactory for both customer and service provider)?
- Apart from customer surveys, how do you liaise with your users?
- How often does this take place? Are the results analysed, and implemented?

3. Monitoring Teams
- Have the levels of resource required for contract monitoring been in line with original expectations (i.e. at financial close)?
- If the level of contract monitoring has been greater/less than anticipated please explain
- Do you feel that the performance indicators used to carry out performance monitoring are satisfactory? How could they be improved?
- Has contract monitoring / management shown that the risks of the project have been allocated to the party best placed to manage them? If not, where?
- What on-going risk assessment is carried out during the operational life of the PFI project?

4. The PFI Contract
- Does the contract help?
- Does it cover all the areas adequately?
    - The payment mechanism
    - Refinancing
    - Market testing
    - Benchmarking

5. Benchmarking and Market Testing
- Are the benchmarking provisions working?
- Are the market testing provisions working?
- What, if any, steps do you intend to take to prepare for this benchmarking/market testing exercise? (if not undertaken yet)

6. The Payment Mechanism
- Does the payment mechanism incentivise the contractor?
- Is it workable in practice?

7. Change
- Is the change mechanism working?
- Is it adequate?

8. The Dispute Mechanism (where applicable)
- If your survey response shows that you have been through the dispute mechanism, what were your experiences of it?
- How long did it take?
- Did it impact the relationship or the service delivered?
- Did both parties feel the outcome was an equitable one?
- What was the monetary value of the disputed issue?
- Having been through the dispute mechanism would you now be more or less inclined to invoke it again?

9. Relationship with Public Sector
- How do you rate your relationship with the public sector?
- Are both parties responsive and co-operative under the contract?

10. Training and Support
- What do you consider the key skills/experience needed for successful contract management?
- Do you feel that the public sector team is adequately resourced (in terms of number of people, sufficient experience, and the right mix of skills? If not, in what areas do you feel that they are lacking?
- What methods do you use to record lessons learnt or to pass on knowledge between staff?
- Do you think that the handover between the procurement / construction and operational phases of the project were sufficient?
- Is there adequate external support?

1i. Concluding Remarks
- What are the main objectives for the project? Are you getting these?
- Are the project / contractor returns the same, better or worse than forecast at financial close? If worse, please give reasons.
- Is there anything that you would do differently if you were to do it again?
- What advice would you give to private sector bodies starting the operational phase of a PFI contract?

Hard FM Providers

1 Alfred McAlpine Construction
2 AMEC
3 Amey Infrastructure Services
4 Aviation Training International
5 Barr
6 Bombardier
7 Bovis Lendlease
8 Bowmer & Kirkland
9 Cambridge Recycling Services
10 Carillion
11 City Greenwich Lewisham Rail Link
12 Clugstons
13 Colas
14 Connect Road Operations
15 Dalkia
16 Dome UK
17 Dragados
18 Ecovert FM
19 EDS Defence
20 FB Heliservices
21 Gleesons
22 Global Solutions
23 Graham FM
24 Grosvenor
25 HBG
26 Home Housing Association
27 I & H Brown
28 Initial Integrated Services
29 Jarvis
30 Jarvis Accommodation Services
31 Johnson Workplace Management
32 Karl Northern
33 KBR
34 LandSecurities Trillium
35 Lend Lease FM
36 M & W Zander
37 Mitie
38 Morrison Facilities Services
39 Mowlem Aqumen
40 Nord Anglia
41 Pell Frischmann
42 PFF Lancashire
43 Premier Prison Services
44 Road Management Group
45 Robertson Facilities Management
46 ROK Build
47 Securicor Justice Services
48 Serco
49 Shanks
50 Skanska Rashleigh Weatherfoil
51 Sodexho
52 Teesland Property
53 The Sewell Group
54 Viglen
55 Wates Construction
56 West Engineering Darlington
57 Western Challenge Housing Association
58 WS Atkins

Soft FM Providers

1 Agyillisys
2 Aviation Training International
3 Babtie
4 Bowmer & Kirkland
5 Carillion
6 Carillion Services
7 Chestertons
8 Chubb
9 City Greenwich Lewisham Rail Link
10 Connect Road Operators
11 Ecovert FM
12 EDS Defence
13 Eurest Support Services (ESS)
14 FB Heliservices
15 Global Solutions
16 Grace Landscapes
17 Graham FM
18 Grosvenor
19 Harvest Housing Group
20 HBG
21 Initial
22 ISS
23 Jarvis
24 Johnson Workplace Management
25 McKesson
26 Mitie
27 Morrison Facilities Services
28 Mowlem Aqumen
29 Nottingham Tram Consortium
30 Pell Frischmann
31 PFF Lancashire
32 Premier Prison Services
33 Rentokil
34 Road Management Group
35 Robertson Facilities Management
36 Scholarest
37 Securicor Justice Services
38 Serco
39 Shanks Waste Services
40 Sodexho
41 Standby Pest Control
42 Steria UK
43 Sunlight
44 SX3
45 Teesland Property
46 The Sewell Group
47 Vosper Thornycroft
48 Western Challenge Housing Association
49 WS Atkins

During the course of this review, over 100 contract managers of PFI projects took the time to complete the on-line survey. We are grateful to all of them for helping us to develop this report and to be able to produce a comprehensive review of operational projects.

We are particularly grateful to the managers from both the public and private sectors who agreed to be interviewed so that we could gain their perceptions of how projects were performing and what factors contribute to, or inhibit, good performance. The insight they provided, and the sharing with us of their experiences, were invaluable in putting together the report.

We are also grateful to the authors of the comprehensive amount of literature that has been produced on this subject. Their findings were invaluable in providing as full a picture as possible across a range of projects of how performance of PFI contracts is perceived and how it is measured. The summaries contained in this report are the product of our review, for the purposes of this report, of what we see as the key findings as they relate to Operational PFI Projects.