Ipsos MORI
Social Research Institute

Investigating the performance of operational PFI contracts

A research study conducted for Partnerships UK on behalf of HM Treasury

Foreword from the Steering Committee of the 2008 Survey of Operational PFI projects

This report by Ipsos MORI, undertaken on behalf of HM Treasury in 2008, is a comprehensive review of the performance of PFI projects in their operational phase. It follows a similar survey conducted in 2005.

The conclusions expressed in this report are Ipsos MORI's and do not necessarily reflect the views of the members of the Steering Committee or the organisations they represent.

Value for money achieved by the public sector is of paramount importance, not just during the procurement phase but also during the operation and delivery of services.

The findings of the report show that 96% of contract managers believe that the overall performance of PFI projects is either satisfactory, good or very good, and that, where user satisfaction assessments have been carried out, almost all indicate that services are being delivered to an acceptable standard.

The Steering Committee would like to thank both Ipsos MORI for their work on this report and the one hundred and fifty-one project managers who responded.

Gordon McKechnie	James Robertson	Craig Anderson	David Locke
Head of PFI Policy	Director of PFI	Finance Director	Director of Project Support
HM Treasury	National Audit Office	PUK	4ps

Contents

Executive Summary

Executive Summary

Background and methodology

Investment under the Private Finance Initiative (PFI) now makes up between 10 and 15 per cent of the Government's yearly investment in public services. There are currently around 400 operational projects across England.

In 2005, HM Treasury asked Partnerships UK (PUK) to carry out an online survey of operational PFI projects, with the overall aim of shaping future policy and facilitating projects in developing good practice. In light of the findings from this research, PUK, on behalf of HM Treasury, commissioned Ipsos MORI to conduct a similar survey with contract managers of operational PFI projects during 2008. The overall aims of the survey were to look at the operational performance of projects and to examine any changes since 2005.

Fieldwork ran from 15th October to 19th November 2008. In total, 418 contract managers were invited to take part in the online survey, and 151 surveys were completed (representing a 36% response rate). In 2005 the response rate was 27%, with 105 surveys returned.

Caution should be taken when interpreting trends because of the changes to the sample. For example, IT projects were not included in the 2008 sample in light of the fact that PFI is no longer used for IT projects. PFI is also a devolved matter, and as such projects in Scotland, Wales and Northern Ireland were not included in the 2008 sample. IT projects made up 5% of responses in 2005, whilst the responses from managers in Scotland, Wales and Northern Ireland made up 14%.

Key findings

Overall, there are many positive findings on project performance

- Nearly all contract managers are positive about the overall performance of PFI projects in the last 12 months, with 73% rating this as ***good*** or ***very good***. There has been an increase of seven percentage points since 2005, when 66% of managers rated performance as good or very good, but, while encouraging, this difference is not statistically significant, given the size of the sample. When the responses for those managers who rate the overall performance of the project as ***satisfactory*** are also included, 96% of managers rate performance as ***satisfactory*** or better.

- As in 2005, the majority report that the contract service levels are ***always*** or ***almost always*** achieved (94% in 2008, up five percentage points from 89% in 2005).

- Reported user satisfaction with PFI projects is also good. Of those contract managers who have carried out a user satisfaction assessment, 92% report that the last assessment found services were being delivered to an acceptable standard.

- Three-quarters of contract managers believe they have sufficient resources to manage the delivery of the contract (74%).

There has been marked improvement since 2005 in several respects

- Managers view the relationship between the public and private sector teams favourably, with 83% of contract managers rating this as ***good*** or ***very good***, an increase of 11 percentage points since 2005. Almost all managers view the relationship as ***satisfactory*** or better (98%).

- There has been a rise in the proportion of managers saying that a formal handover took place between the team that procured the contract and the operational contract management team, with 54% of contract managers reporting this in 2008 compared to 41% in 2005. Three-quarters of managers who underwent a formal handover believe the handover was effective in preparing them to manage the contract (77%).

- There has also been a rise in the number of contract managers who say that, in the last 12 months, the public sector has ***never*** chosen to waive its right to impose performance deductions (70% in 2008 compared to 41% in 2005).

Greater clarity and consistency is required in some areas

- More projects now have to carry out value-testing under their contracts, with a significant fall since 2005 in the proportion of managers reporting that value-testing ***never*** has to take place under the project contract (26% state this in 2008, compared with 47% in 2005). However, there has also been a decline since 2005 in the proportion saying that the benchmarking or market-testing processes are clearly explained in the contract (64% compared to 78% in 2005). This may indicate a need for improved clarity and explanation of the contractual drafting and obligations on value testing.

- Whilst managers generally agree that they understand the payment mechanism for the project (92%), two in five report that they find the payment mechanism difficult to use (42%, compared to 26% who find it easy). This may point to a need to simplify the process for the use of the payment mechanism, or for the process to be explained more clearly and effectively for managers and those responsible for operating the mechanism.

▪Just under half of contract managers say there are areas in which they would benefit from further support, advice or guidance (46%). Managers identify improved training, sharing of good practice and specific guidance on contract management, monitoring and knowledge as key development areas.

▪Additional support and guidance could also be offered to managers in areas they identify as major challenges likely to face them over the coming five-year period. Unsurprisingly in the context of an economic downturn, 30% of managers cite financial issues as key challenges for the near future, and 25% see value-testing as a challenge.

Variation is apparent between more recent and longer-running PFI projects

▪There is a clear pattern for managers of projects that have started service delivery most recently (2006-2008) to express different views about the performance of PFI projects to managers of longer-running projects. These more recent projects tend to be higher in value than the longer-running projects. They are also more likely to have a dedicated public sector contract management team in place and to have had a formal handover from the public sector team following the procurement phase. As would be expected, this suggests that more recent projects have greater guidance and protocol embedded in the practice related to the managing of the contract.

▪ However, managers of these more recent projects are less likely to say that any operational problems are always resolved in time and more likely to believe that the contractor does not have sufficient resources to manage and deliver the contract. While these projects are in their early stages and still ‘bedding in’, there may therefore be scope for tailored guidance and support for managers to address common issues, share best practice and support them in resolving problems as they arise.

Introduction

Introduction

Background and objectives

The Private Finance Initiative (PFI) is one of a number of procurement options that the Government can use to invest in public services. Investment under PFI makes up between 10 and 15 per cent of Government's yearly investment in public services and, as of the beginning of this survey, about 400 operational projects have been contracted under PFI in England.

In 2005 Partnerships UK (PUK) carried out a review of operational PFI/PPP projects on behalf of HM Treasury, to gather information about these projects in order to inform future policy and provide guidance to assist projects in the future. The Treasury asked PUK to carry out a similar survey of operational projects in 2008 in order to provide an up-to-date analysis of how these projects are performing and, where possible, to compare the results with the 2005 survey. In particular, the objectives of the research are to examine:

- How well managers perceive operational projects to be performing;
- The extent to which operational performance appears to vary according to a number of factors:
  - Governance and management arrangements;
  - The completion of a formal handover process;
  - Changing personnel/sub-contractors during the operational phase;
  - Communication between public and private sector teams;
- Perceptions of value-testing;
- Views on the adequacy of external support or guidance within the public sector; and
- Perceptions of contract deductions and how effectively the payment mechanism supports contract delivery.

Methodology

Ipsos MORI conducted an online survey of PFI contract managers across England, between 15th October and 19th November 2008.

In total 151 surveys were completed, representing a 36% response rate from the census of all 418 PFI projects across England....

The previous study, conducted in 2005, also used an online methodology. In the 2005 survey, 390 surveys were issued and 105 were completed, representing a response rate of 27%.

Caution should be taken when interpreting trends because of the changes to the sample. For example, IT projects were not included in the 2008 sample in light of the fact that PFI is no longer used for IT projects. PFI is also a devolved matter, and as such projects in Scotland, Wales and Northern Ireland were not included in the 2008 sample. IT projects made up 5% of responses in 2005, whilst the responses from managers in Scotland, Wales and Northern Ireland made up 14%.

The questionnaire covered the following topics:

- General information;
- Governance and contract management;
- The public sector contract management team;
- Working with subcontractors and shareholders;
- Working with the private sector contract management team;
- Value-testing;
- Guidance and support;
- Contract deductions; and
- Future challenges.

Presentation and interpretation of the data

In tables where percentages do not add up to 100% this is due to multiple answers, to rounding of decimal points up or down, or to the exclusion of 'Don't know' or 'No response' categories.

Please note that this report only comments on significant and statistically reliable differences in the data, unless stated otherwise in the text.

Publication of the data

As part of Ipsos MORI's standard terms and conditions of contract with Partnerships UK, the publication of the findings of these results are subject to the advance approval of Ipsos MORI. Such approval would only be refused on the grounds of inaccuracy or misrepresentation.

Acknowledgements

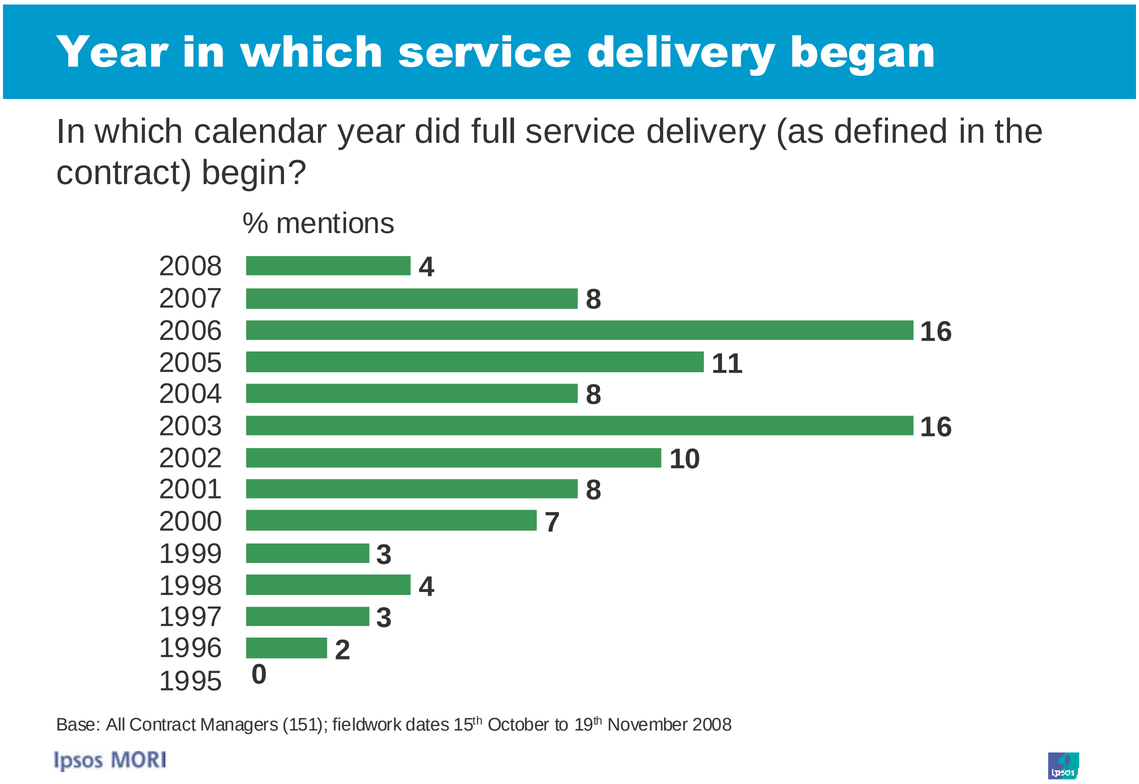
Ipsos MORI would like to thank the members of the Steering Committee for this survey for their assistance in the development of the framework for the research and helpful comments on this report: Gordon McKechnie of HM Treasury, James Robertson of the National Audit Office, Craig Anderson of Partnerships UK and David Locke of the 4ps. Ipsos MORI is grateful to Stuart Broom and James Dunstan at HMTreasury, and David Kent and his colleagues at Partnerships UK, for their help and assistance in the development of the project. Ipsos MORI would also like to thank the contract managers who participated in the online survey.

Checked & Approved:	***Emily Gray***
	Rachel Worsley
	Peter Cornick

Profile of operational projects

The views discussed in this report are drawn from a wide range of operational PFI projects. Most contract managers taking part in the survey are from fairly well-established projects. The majority of projects commenced operation between 2002 and 2006. Fewer contract managers responded from projects that began full service in the past two years, with eight per cent beginning service in 2007 and four per cent in 2008.

Figure 1.1



Projects are most commonly drawn from four main sponsoring departments: the Department of Health (DH), the Department for Transport (DfT), the Department for Children, Schools and Families (DCSF[1]) and the Ministry of Defence (MoD). Seven in ten projects surveyed are sponsored by one of these four departments (70%, compared with 65% in 2005). This is consistent with the fact that these four departments have the greatest involvement in PFI projects.

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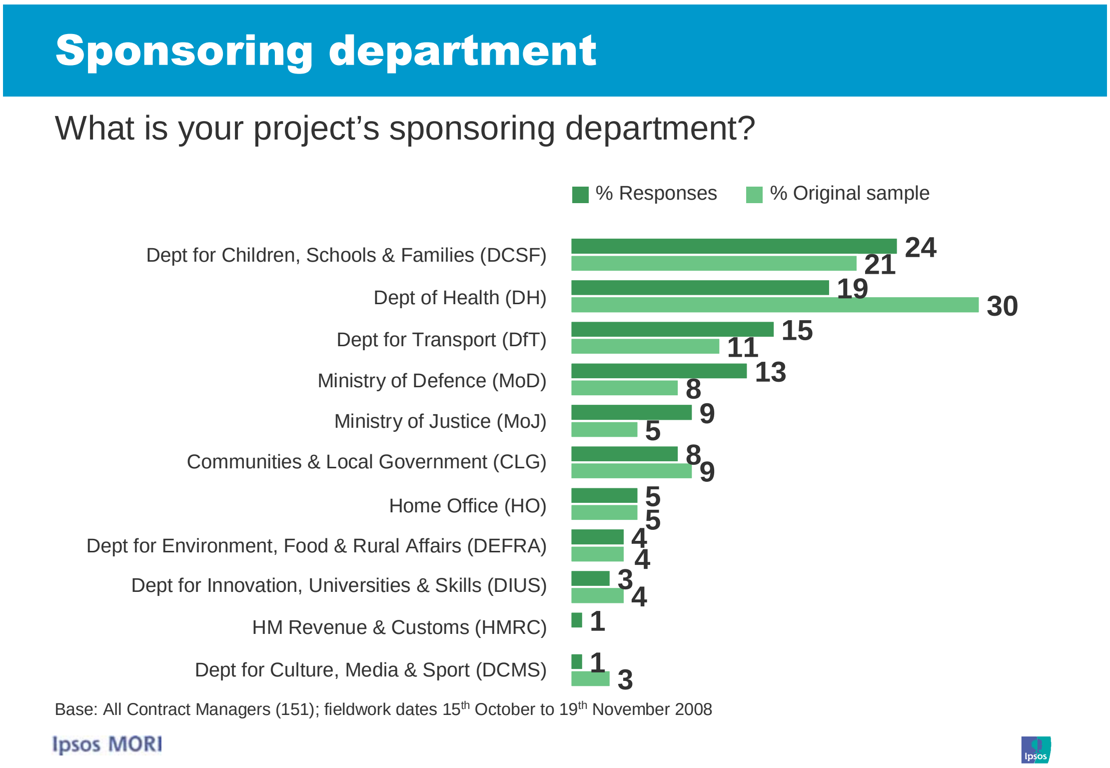
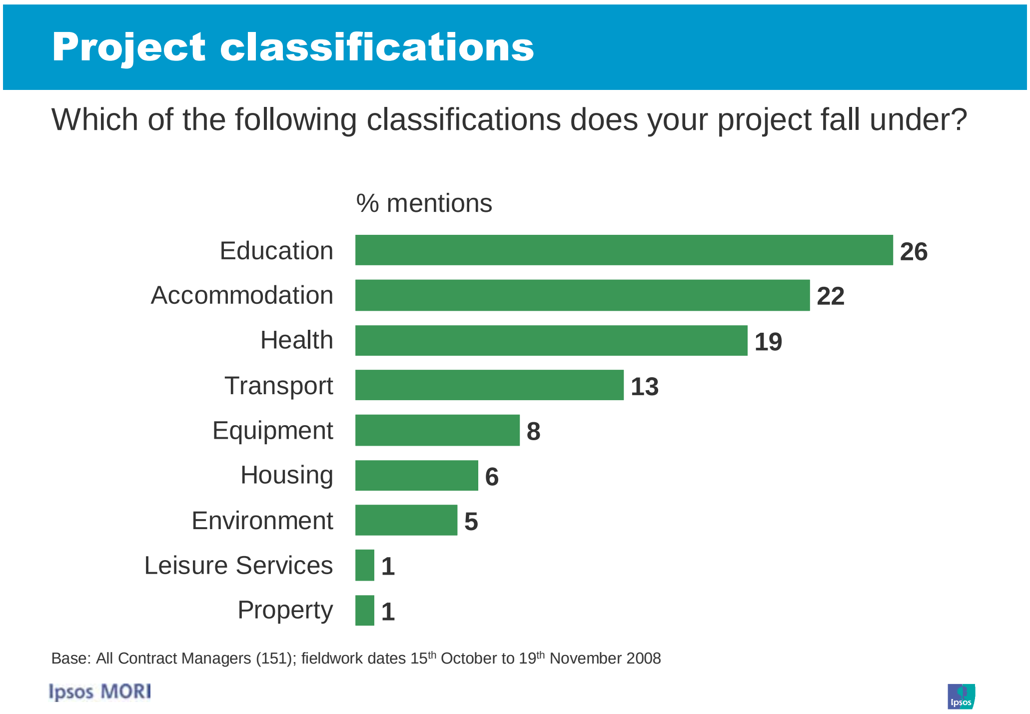
[1] The DCSF was created in 2007 as one of two Ministries that replaced the Department for Education and Skills (DfES), the second being the Department of Innovation, Universities and Skills (DIUS).

Figure 1.2



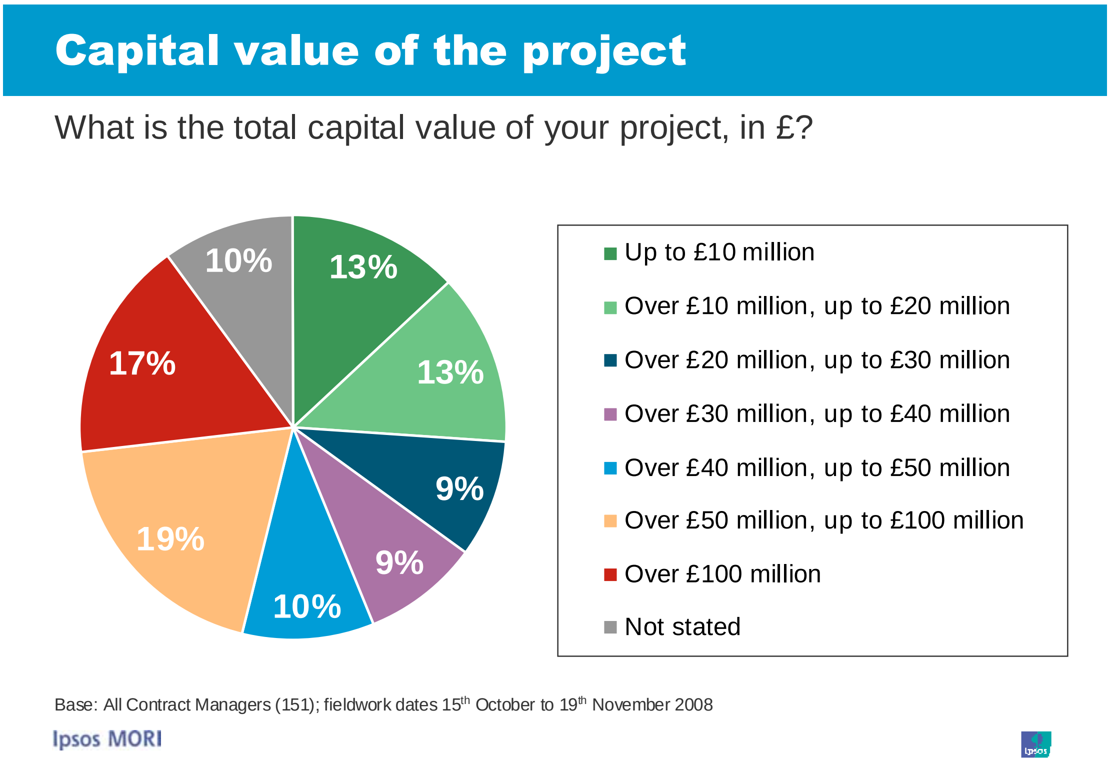
Projects fall under a range of classifications. The most common is education (26%), followed by accommodation (22%), health (19%) and transport (13%). Relatively less common are responses from equipment, housing, environment, leisure services and property projects, all of which represent less than one in ten responses. This report analyses differences between education and accommodation projects where they exist, but subgroup sizes for the remaining classifications are not large enough for statistically robust judgements to be made on any differences between them.

Figure 1.3



In terms of capital value, projects cover a fairly even spread. The mean value of all projects covered is £73,750,000.

Figure 1.4

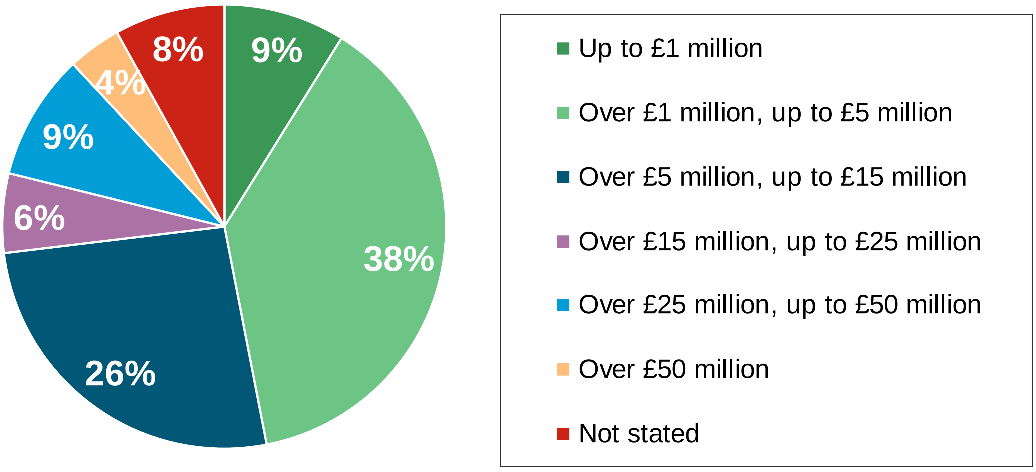


The nominal annual value of the unitary charge before deductions in 2008/2009, for those projects included in the survey, is most commonly between £1 million and £5 million (38%) and £5 million to £15 million (26%).

Figure 1.5

Annual value of the unitary charge before deductions

What is the (nominal) value of the unitary charge before deductions in 2008/09, in £?



Base: All Contract Managers (151); fieldwork dates 15th October to 19th November 2008

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Section 1 – The performance of operational projects

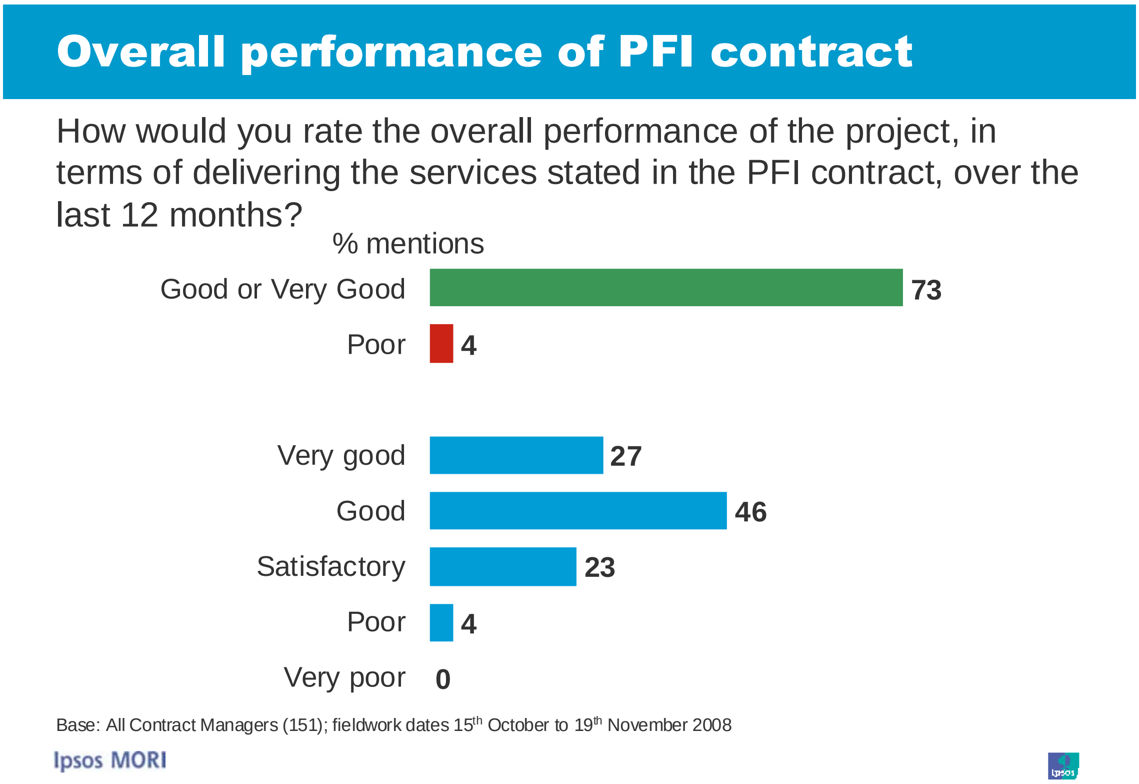
The performance of operational projects

Overall perceptions

Contract managers provide a positive assessment of the performance of PFI projects over the last 12 months. Nearly three quarters rate the overall performance of the project as good or very good over this period of time (73%), with over a quarter saying it is ***very good*** (27%). This indicates a rise since 2005 when 66% rated the overall performance as good or very good, although small base sizes mean that the change is not statistically significant and the finding can therefore only be treated as indicative.

When the responses for those managers who rate the overall performance of the project as satisfactory are also included, 96% of managers rate performance as satisfactory or better. In addition, just four per cent of contract managers rate overall performance over the last 12 months as poor, with none rating it as very poor.

Figure 2.1

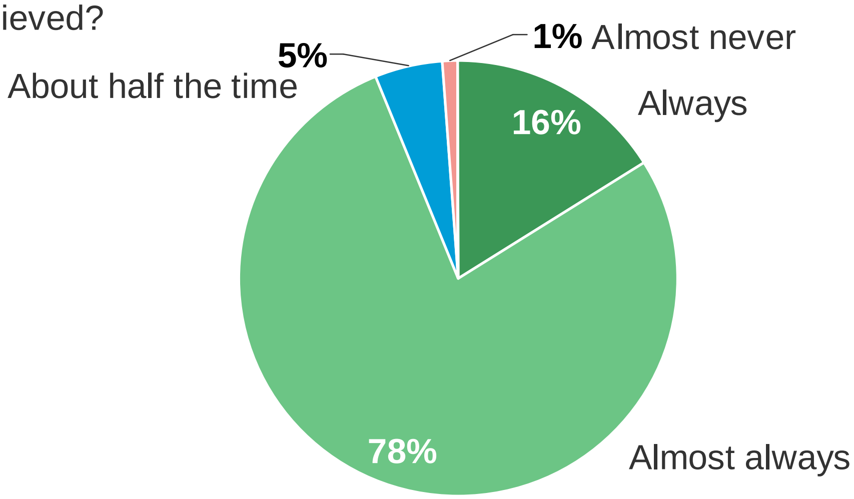


This generally positive assessment of PFI project performance is supported by contract managers' views on whether performance management shows that contract service levels are being achieved. An overwhelming majority of contract managers (94%) say that performance measurement shows service levels are being achieved either ***always*** or ***almost always*** over the last 12 months. These findings are consistent with those in 2005 (showing a slight, but not statistically significant, rise from 89% to 94%).

Figure 2.2

Achievement of performance measurement

Over the last 12 months, would you say that performance measurement shows that the contract service levels are being achieved?



Base: All Contract Managers (151); fieldwork dates 15th October to 19th November 2008

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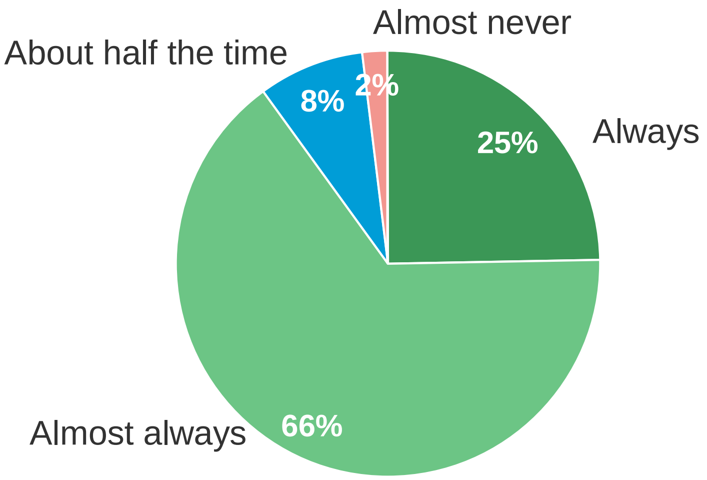
Contract managers generally say that any reported operational problems over the last 12 months have been resolved within the time allowed under the contract. Nine in ten contract managers say that problems are either ***always*** or ***almost always*** resolved in time (90%), while less than one in ten say this is the case about half the time (eight per cent) and just two per cent say problems are almost never resolved within the time allowed. This suggests that action by contract managers, using either informal or formal methods, has the appropriate effect on service providers.

Encouragingly there has been an increase since 2005 in the proportion of contract managers who say that operational problems are ***always*** resolved in accordance with contract deadlines, from 13% in 2005 to 25% in 2008.

Figure 2.3

Operational problems resolved

Over the last 12 months, have reported operational problems been resolved within the time allowed under the contract?



Base: All Contract Managers (151); fieldwork dates 15th October to 19th November 2008

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Throughout this research a clear pattern emerges whereby managers of projects that have begun full operational service most recently (2006-2008) tend to express different views about the performance of PFI projects than managers of longer-running projects. These more recent projects tend to be higher in value than the longer-running projects. They are also more likely to have formal governance structures such as a dedicated public sector contract management team in place and to have had a formal handover from the public sector team following the procurement phase. Since they are more recently established projects, they are also less likely to have gone through value-testing than longer-running projects.

Differences in views between these groups are apparent in regard to whether problems are always resolved within contractually determined deadlines. While more than a third of managers of projects that began full service between 2000 and 2002 say that problems are always resolved, this falls to just over one in ten for projects that began between 2006 and 2008 (35% compared to 12%).

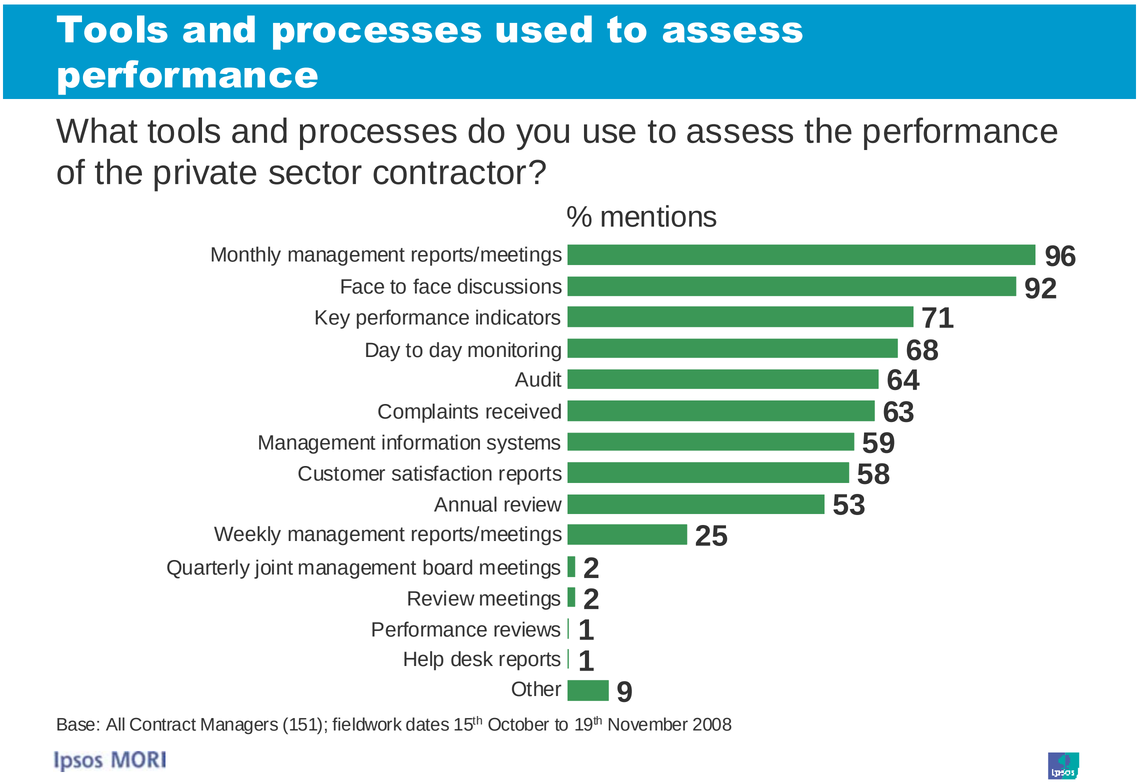
These more recently commenced projects tend to be higher value projects, and the results show that managers of higher value projects are less likely to say that problems are always resolved within the set deadlines. While 33% of projects with a value of below £20 million say that problems are always resolved within contractually determined deadlines, this falls to just 15% for projects with a value of over £50 million. This may be because higher value projects are typically more complex. It may also relate to more recent projects still being in the early stages of service delivery and experiencing a bedding-in period.

Managers of accommodation projects are more likely than those managing education projects to say that problems are always resolved within contractually determined deadlines (36% compared to 13% of education projects).

Assessing performance

Contract managers report that project performance is monitored and assessed in a variety of formal and informal ways. Virtually all managers say they assess the performance of the private sector contractor using monthly management reports and meetings (96%), and the majority also say they use face to face discussions (92%). Formal performance monitoring methods used by around two thirds of managers include key performance indicators and audit, with 71% and 64% of managers respectively using these to assess performance. Other popular methods of assessing performance include day to day monitoring (68%), and complaints received (63%).

Figure 2.4



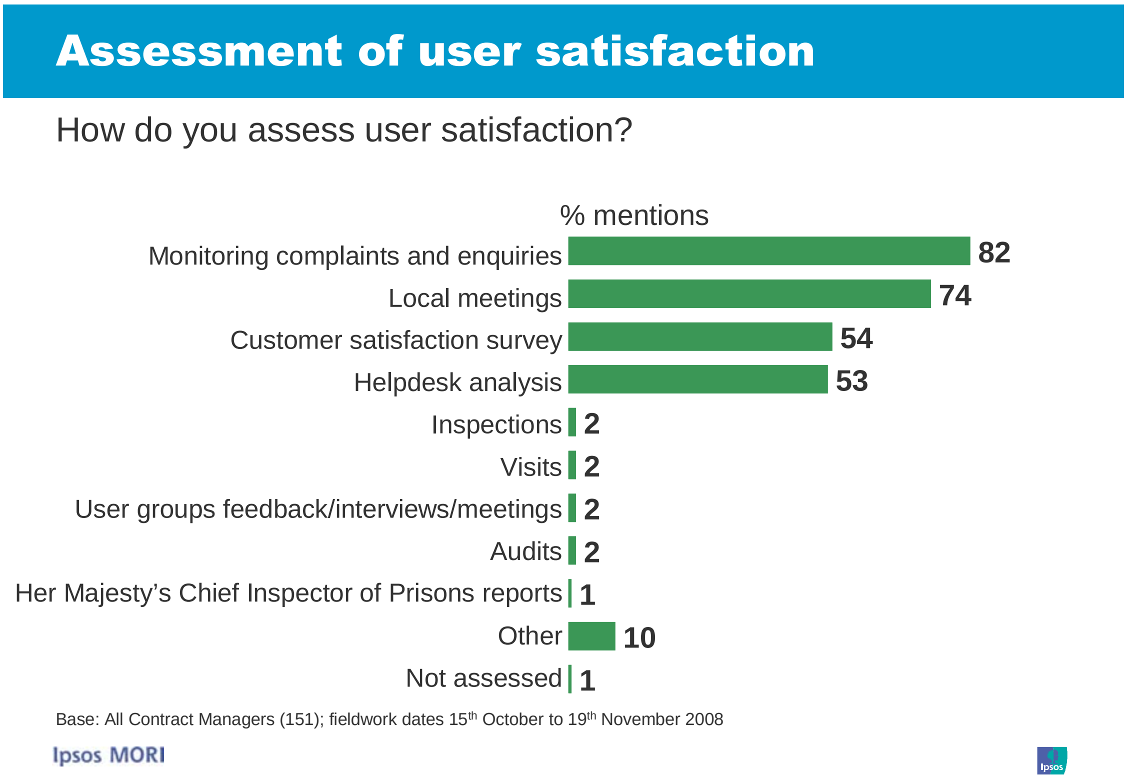
Certain methods of assessing performance are more likely to be used by managers of accommodation or education projects. Accommodation projects are more likely than education projects to assess the performance of private sector contractors using key performance indicators (82% compared to 48%). However, education projects are significantly more likely to act on complaints received and to use annual reviews than their accommodation counterparts (68% compared to 42%, and 63% compared to 36%).

Projects with formal governance structures in place, such as a dedicated public sector contract management team, are significantly more likely than those without to use audit (71% compared to 48%), management information systems (65% compared to 43%) and customer satisfaction reports (63% compared to 43%). This finding indicates that projects with a dedicated contract management team are using some formal measures of performance management more commonly than those without, offering some support for central government's recommendation that a contract management team should be in place[2].

User satisfaction

An important factor in measuring the performance of operational projects is how satisfied users are with the service. Contract managers use a variety of methods to assess user satisfaction. The most common method is by monitoring complaints and enquiries (82%), followed by local meetings (74%).

Figure 2.5



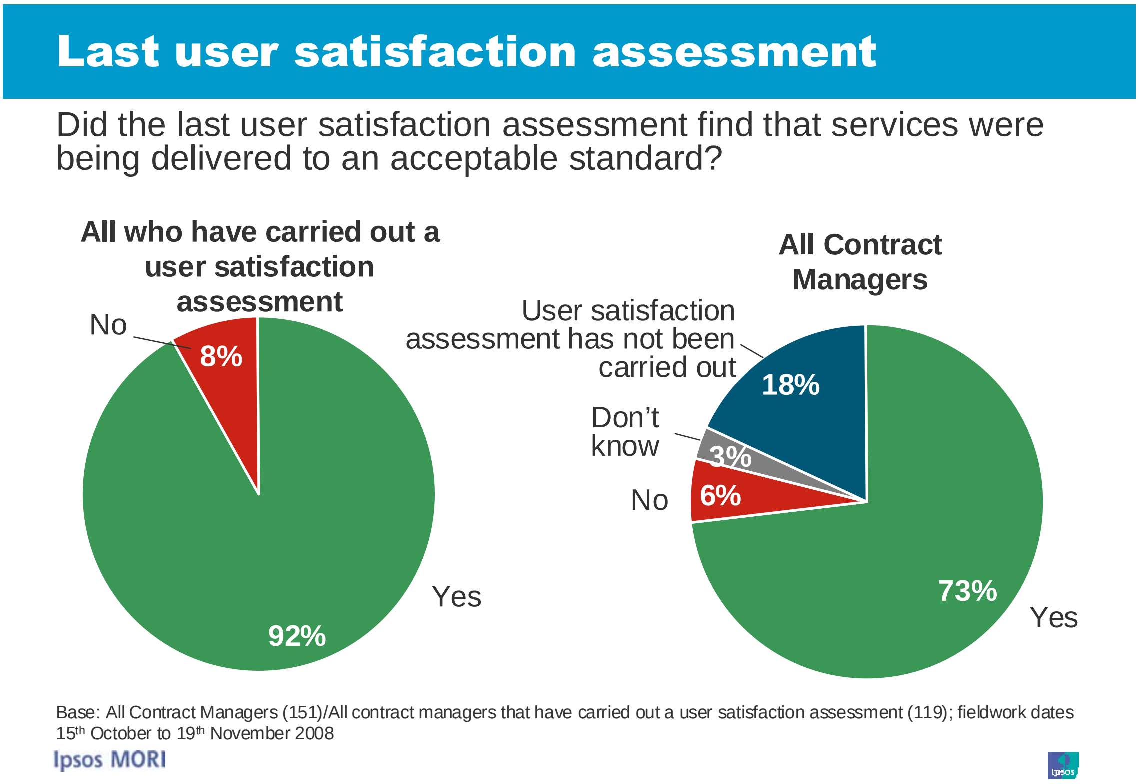
Just over half say they use formal customer satisfaction surveys (54%), a significant rise on the 40% who did so in 2005. Projects which began full service between 2006 and 2008, and thus tend to be higher value, are more likely to assess customer satisfaction using formal surveys than projects which began between 2000 and 2002, which tend to be lower value (71% compared to 57%). Over half of contract managers

2 For reference to this recommendation, see the following documents: Operational Taskforce Note 2: Project Transition Guidance (http://www.hm-treasury.gov.uk/d/pfi_projecttransition_210307.pdf); PFI: strengthening long-term partnerships (http://www.hm-treasury.gov.uk/d/bud06_pfi_618.pdf); and the NAO's January 2008 report, Managing Change in Operational PFI Projects (http://www.nao.org.uk/publications/0708/making_changes_operational_pfi.aspx).

(53%) assess user satisfaction using helpdesk analysis, a significant increase on the 12% who reported this in 2005.

Overall, reported user satisfaction is high. Three quarters of contract managers say their last user satisfaction assessment found that services were being delivered to an acceptable standard (73%). However, as figure 2.6 indicates, this rises to 92% of contract managers who have carried out a user satisfaction assessment. Six per cent of all contract managers say their last user satisfaction assessment showed that services were not being delivered to an acceptable standard, and eight per cent of those who have carried out a user satisfaction assessment. However, nearly one in five managers say that a user satisfaction assessment has not been carried out (18%).

Figure 2.6



Again a difference in service performance is clear between accommodation and education projects, with one in five managers of education projects saying that their last user satisfaction assessment found that the services being delivered were not to an acceptable standard (20%, rising to 26% of education projects that have carried out such an assessment). In contrast, just three per cent of those managing accommodation projects say that the services were not found to be acceptable (rising to seven per cent of accommodation projects who carried out assessments).

Among those projects that have had a user satisfaction assessment, a number of positive and negative issues were raised. The most frequently highlighted **positive comment** is that users are satisfied with the overall quality of services provided. This was relayed by 18% of contract managers, followed by good catering (14%) and a good maintenance service (10%).

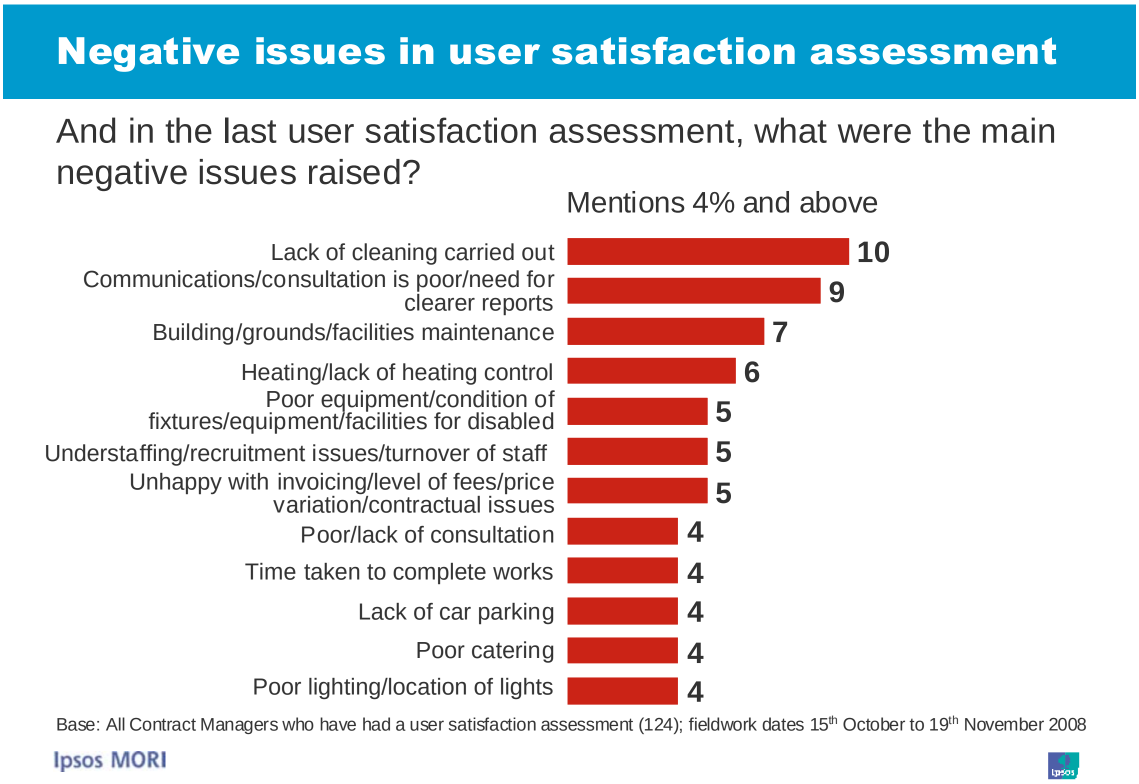
Figure 2.7

While a positive and responsive contractor was singled out by seven per cent of users overall, this rises to 19% for longer-running projects that began service delivery between 2000 and 2002.

There is less consensus over the **negative comments**, which mainly concern issues of upkeep. For example, one in ten say that lack of cleaning was a concern for users (10%), making this the most commonly suggested negative issue. Other negative issues raised include grounds maintenance (7%) and heating and lack of heating control (6%).

Poor communication or lack of clarity in reports is also cited by some managers (9%). This is particularly the case for those projects where service delivery began between 2006 and 2008, compared with longer-running projects that began between 2000 and 2002 (17% compared to 0% respectively). This may support the idea that more recent projects will be going through a 'bedding-in' period and are still in the process of establishing good working relationships and practices, and are therefore more likely to attract negative comments.

Figure 2.8



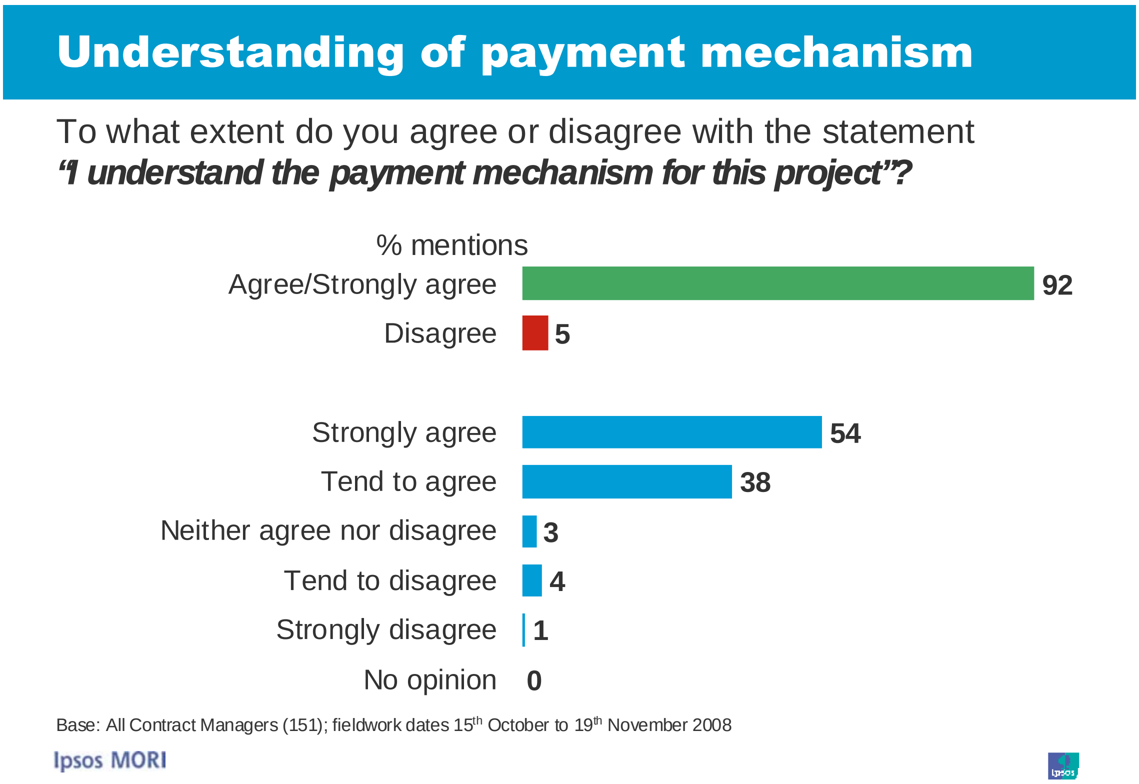
Contract deductions

The payment mechanism

This section aims 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 difficult or too complex. The findings indicate that the payment mechanism is an area that could benefit from simplification, greater clarity and explanation for managers and users of the mechanism. It may also be that developing greater consistency in the mechanism across sectors and between projects would be beneficial.

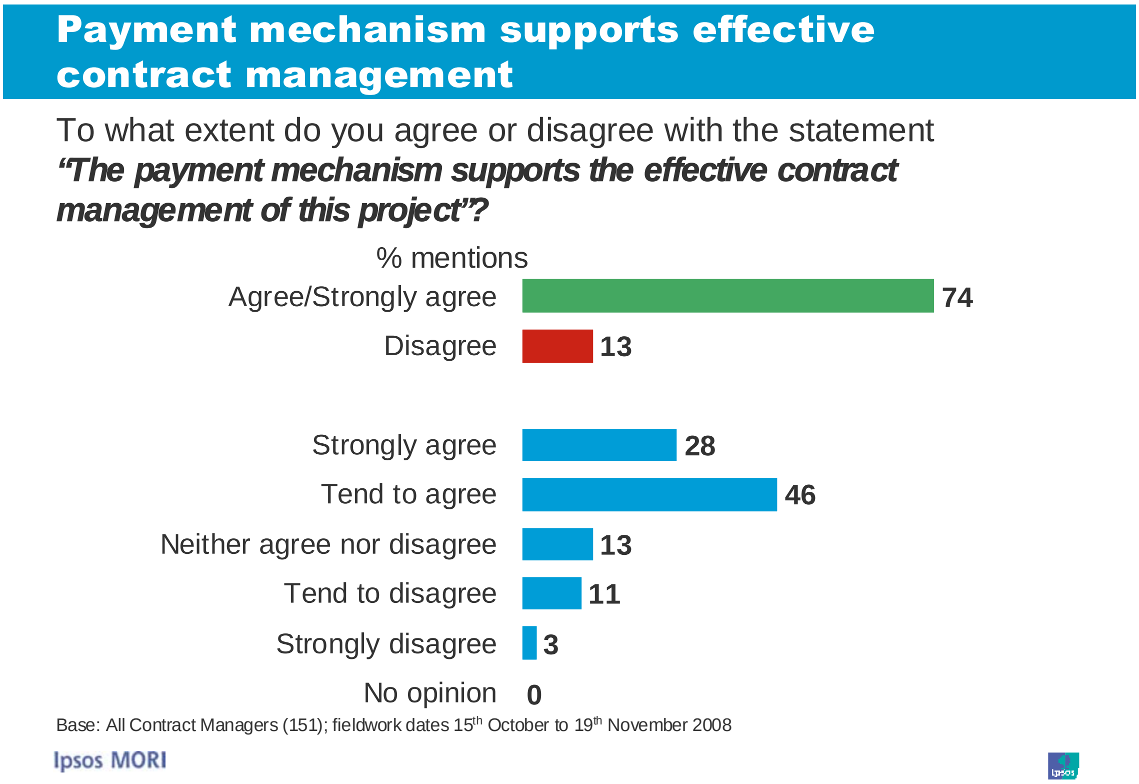
There has been a slight fall since 2005, but not a significant one, in the number of contract managers who believe they understand the payment mechanism. Over nine in ten agree with the statement 'I understand the payment mechanism of this project' (92%; in 2005 the figure was 97%). Over half ***strongly agree*** with the statement (54% compared to 63% in 2005). Managers of high value projects of more than £50 million are more likely to strongly agree that they understand the payment mechanism than are managers of lower value projects of below £20 million (67% compared to 45%).

Figure 2.9



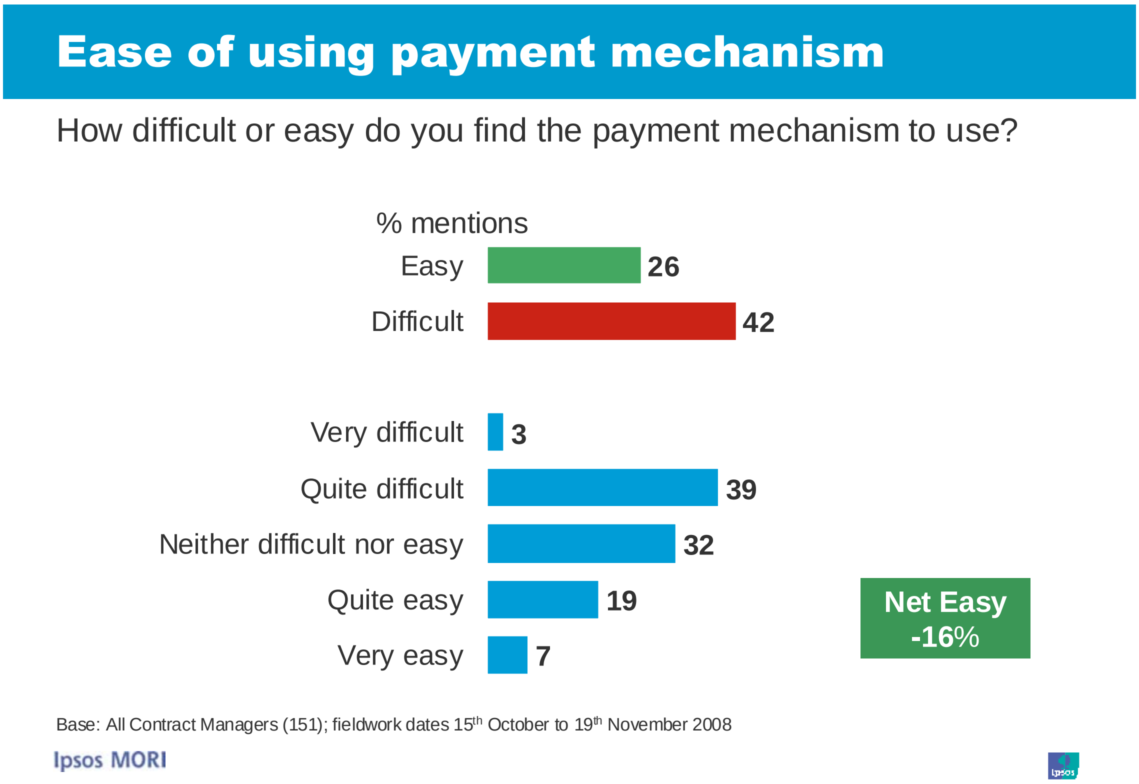
Nearly three quarters of contract managers agree that the payment mechanism supports the effective management of the project (74%). This finding is consistent with 2005.

Figure 2.10



However, two in five managers say that they find the payment mechanism difficult to use (42%), compared to a quarter who find it easy (26%). These findings are consistent with 2005. The report on the 2005 findings stated that 45% of managers saying they find the payment mechanism difficult to use 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'. The fact that managers perceive no improvement in the ease of use of the payment mechanism since 2005 suggests that it remains an area in need of greater simplification, clarity and explanation.

Figure 2.11



Managers of projects with a dedicated public sector contract management team are more likely to find the payment mechanism easy to use than those without (30% compared to 14%)[3].

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[3] The findings indicate that managers of projects with a higher capital value are more likely to find the payment mechanism difficult to use (48% of projects over £50 million compared to 33% of projects worth up to £20 million), perhaps reflecting the greater complexity of higher value projects. However, these differences are not statistically significant and should therefore be treated as indicative only.

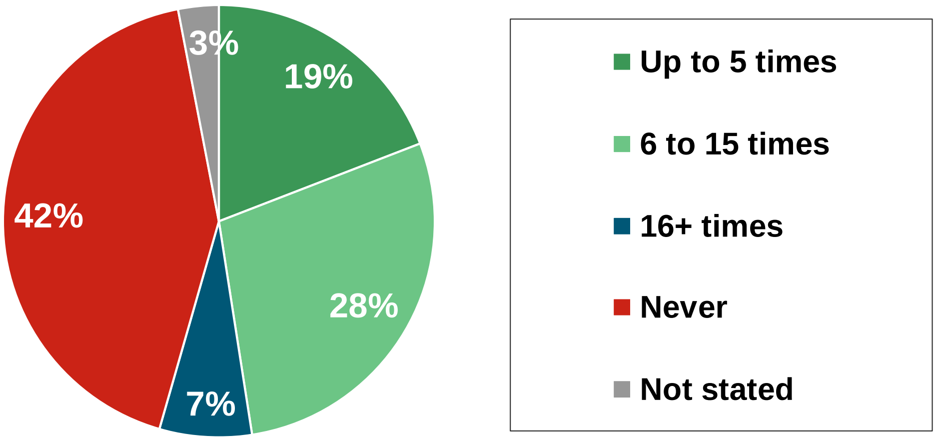
The impact of contract deductions on performance

Just over two in five projects have not been subjected to any performance or availability deductions over the last 12 months (42%). Of those that have, this is most commonly between six and 15 times (28%). The average total value of these deductions is £56,000, although this rises to £80,000 among projects that became operational between 2006 and 2008.

Figure 2.12

Number of performance or availability deductions

Approximately how often, if at all, has the private sector contractor been subjected to any performance or availability deductions over the last 12 months?



Base: All Contract Managers (151); fieldwork dates 15th October to 19th November 2008

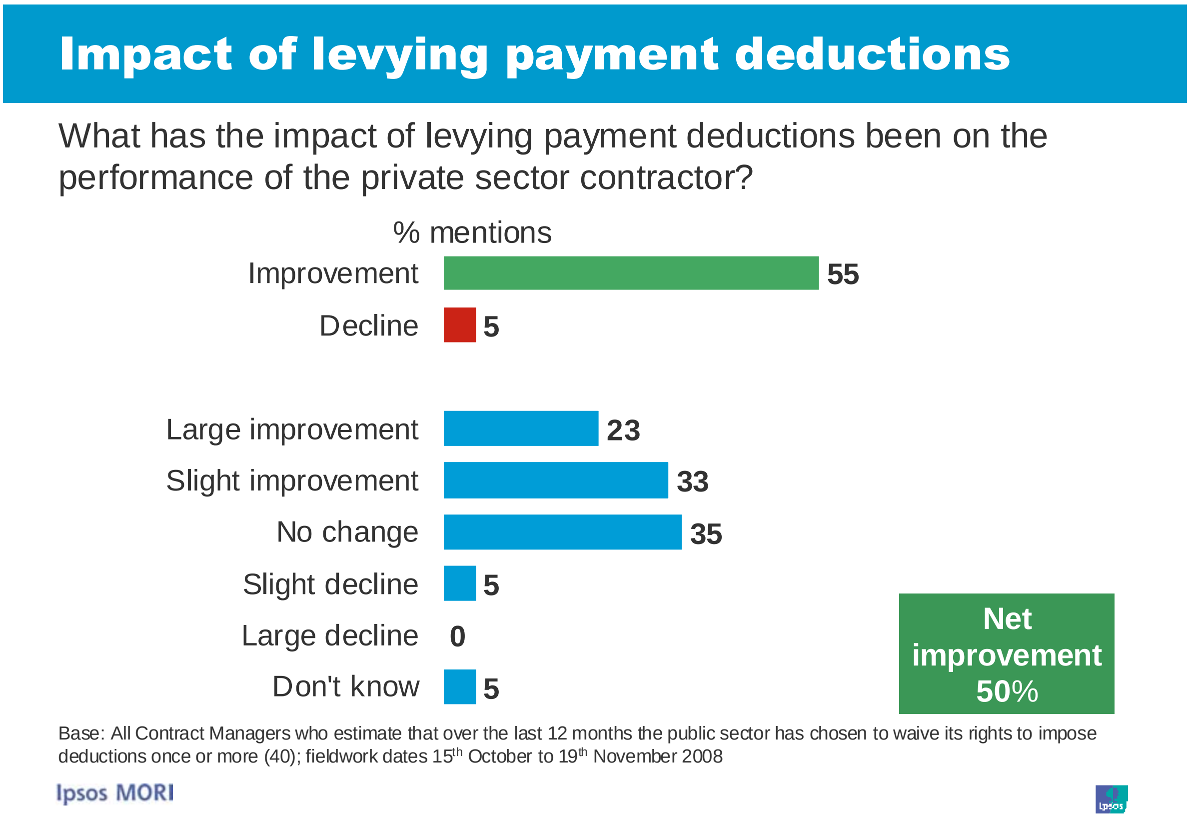
As for many aspects of operational project performance, differences regarding contract deductions are apparent between more recent and longer-standing projects. Managers of more recent projects (2006-2008) are more likely to say the private sector contractor has been subject to contract deductions. While just 21% of more recent projects have not been subject to contract deductions over the past 12 months, this rises to 59% of longer-running projects (2000-2002). Similarly, projects that began full service between 2006 and 2008 are significantly more likely to have had multiple contract deductions (19% have had 16 or more deductions compared to none between 2000 and 2002).

These differences are likely to reflect the fact that projects that have started service delivery more recently are frequently larger and more complex than more established projects, and are still 'bedding in' in regard to working relationships and practices. The differences could also reflect that these projects may be operating under improved or reinforced guidance that gives managers more confidence in imposing deductions. In the experiences of the Operational Task Force, 4ps and Departmental private finance units, many longer-running projects have performance management systems that are less likely to lead to deductions.

According to the report on the 2005 findings, 'waiving the right to impose performance deductions in certain circumstances is often seen as demonstrating a partnership approach'. However there has been a significant rise in the number of contract managers who say that the public sector has ***never*** chosen to waive its right to impose deductions over the last 12 months, from 41% in 2005 to 70% in 2008.

Among those that estimate that over the last 12 months the public sector has chosen to waive its right to impose deductions at least once, there is a general but not overwhelming sense that levying deductions typically leads to an improvement in operational performance. Fifty-five per cent say that levying payment deductions has led to an improvement in the private sector contractor's performance with nearly a quarter saying it has led to a ***large improvement*** (23%). Just one in twenty say it has resulted in a decline in performance (5%).

Figure 2.13


Impact of levying payment deductions
What has the impact of levying payment deductions been on the performance of the private sector contractor?
% mentions
Improvement
55
Decline
5
Large improvement
23
Slight improvement
33
No change
35
Slight decline
5
Large decline
0
Don't know
5
Net improvement 50%
Base: All Contract Managers who estimate that over the last 12 months the public sector has chosen to waive its rights to impose deductions once or more (40); fieldwork dates 15th October to 19th November 2008
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Section 2 – Governance and team relationships

Governance and team relationships

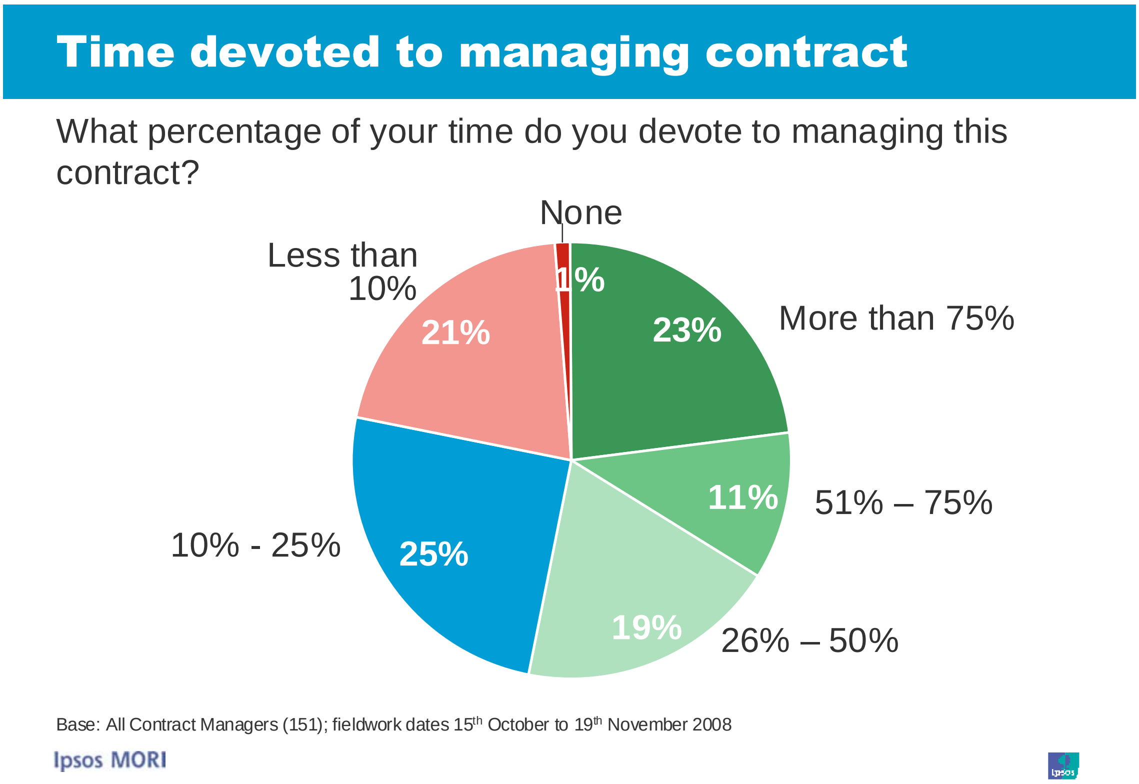
This section examines contract managers' views on management and resources in relation to the operational performance of the PFI projects for which they are responsible.

Managing the public sector team

Just over seven in ten projects have a dedicated public sector management team that monitors and manages the performance of the contract (72%), similar to the situation in 2005 (73%). As might be expected, the highest value projects, i.e. those with a capital value over £50 million, are most likely to have a dedicated management team (91%, compared to 55% of projects with a capital value of up to £20 million). Almost all projects have a designated Project Owner or Senior Responsible Officer (95%).

The majority of contract managers devote less than half their time to managing the contract (66%). However, a quarter say that they spend at least three quarters of their time managing the contract (23%).

Figure 3.1



As would be expected given the greater project size, managers of high value projects tend to have more of their time devoted to the project than managers of lower value projects. Half of managers of projects worth more than £50 million spend more than 50% of their time on managing the contract compared to just one in ten managers of lower value projects (52% and 10% respectively).

Figure 3.2

Training and experience

Around a third of managers have taken no contract management training (32%). The most common form of training is the PriceWaterhouseCoopers/ Operational Task Force contract management training course, which a quarter have taken (25%). One in ten managers have been on training courses run by 4ps and the Chartered Institute of Purchasing and Supply (CIPS) (11% and 10% respectively).

Figure 3.3

Managers of projects with a dedicated public sector contract management team are more likely to have been on a training course than those without (72% compared to 55%).

CIPS training courses are more likely to have been taken by managers of accommodation projects (33% compared to five per cent of education projects). However, managers of education projects are significantly more likely to have been on management training delivered by the 4ps than managers of accommodation projects (20% compared to three per cent). This is likely to relate to the fact that a large proportion of accommodation contracts are for central government projects and therefore outside the ambit of the 4ps.

This relative paucity of specific training may well relate to a high proportion of managers already having contract management experience. Seven in ten contract managers have managed at least one previous project (71%), with half having experience of three or more projects (50%)

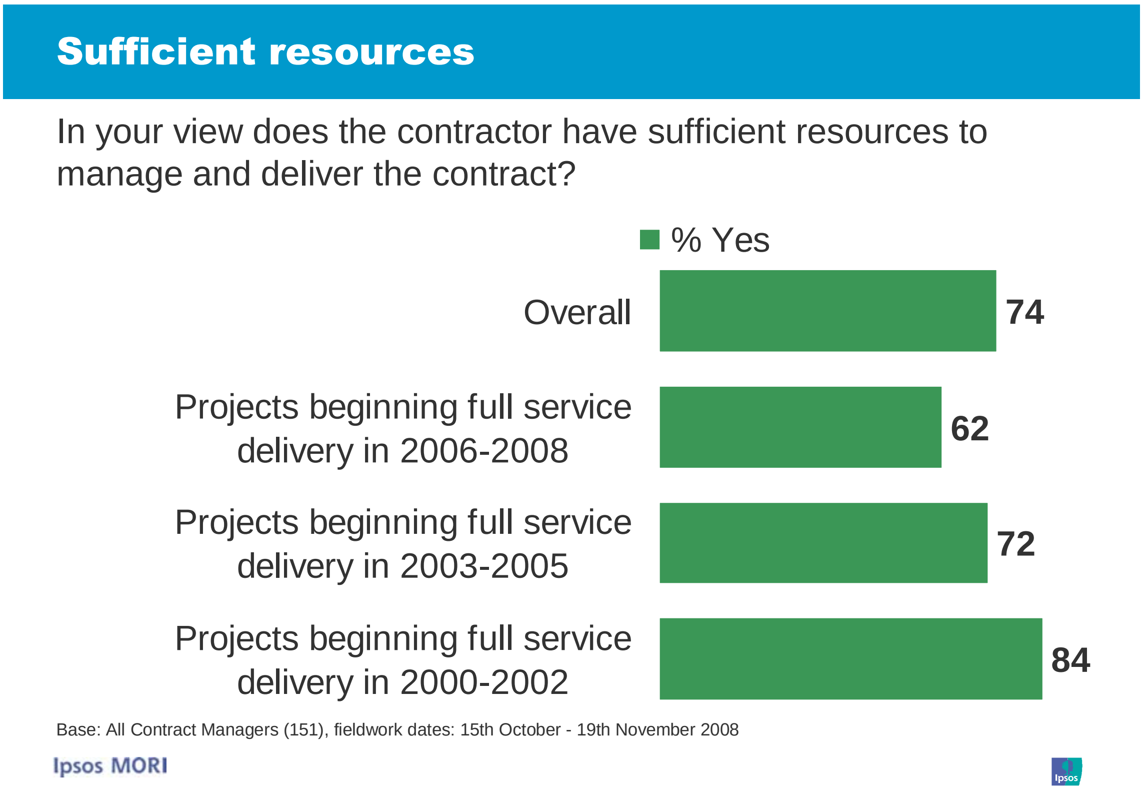
Figure 3.4

As would be expected, managers of the highest value projects are more likely to have gained experience by managing one or more projects previously (83% of managers of projects worth over £50 million compared to 55% of managers of projects worth less than £20 million).

Resourcing the project

Managers tend to be confident that they have sufficient resources to manage and deliver their contract, with nearly three quarters saying that they have sufficient resources (74%).

Figure 3.5

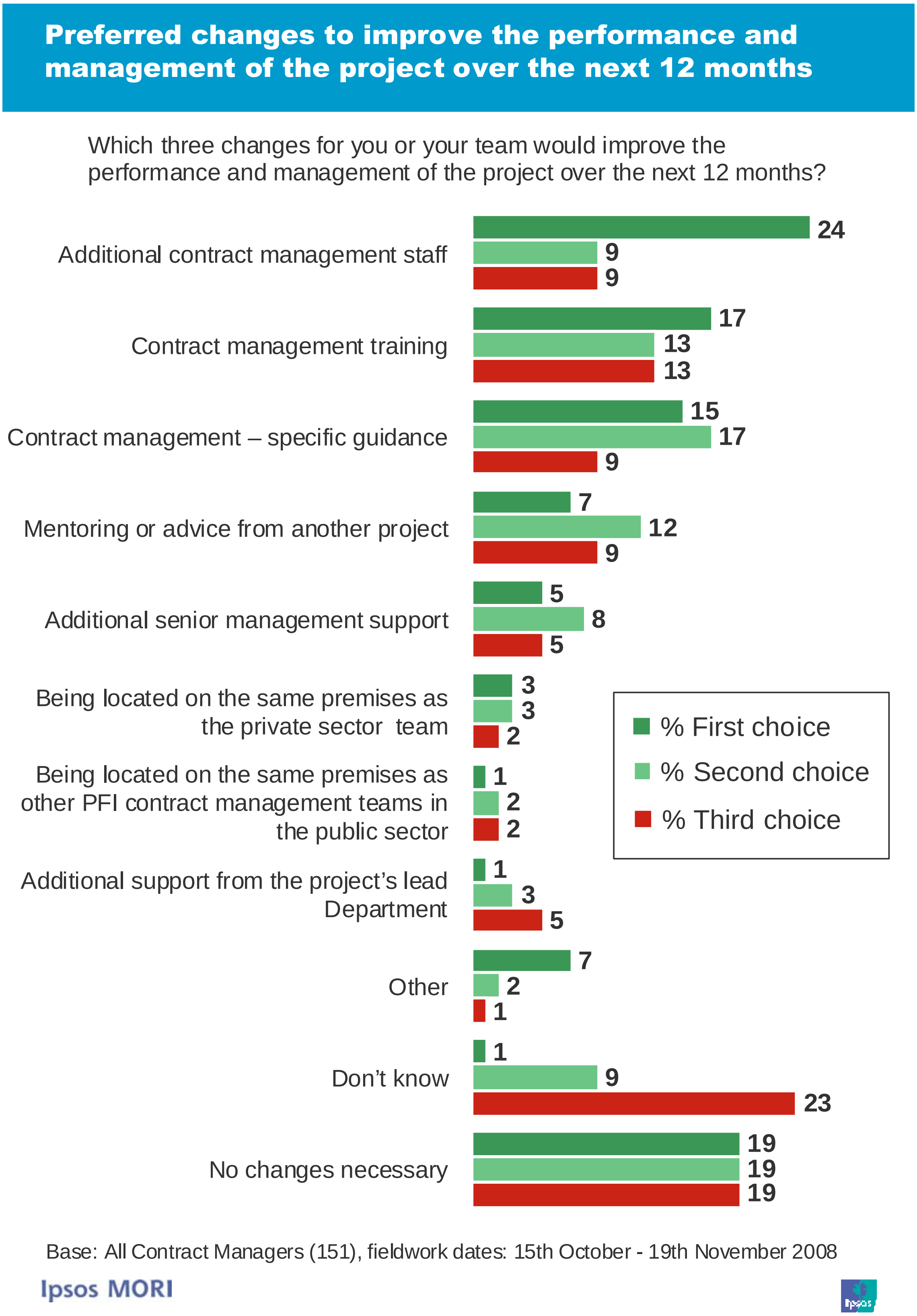


However, managers of projects that have started service delivery recently are more likely to say that the contractor does not have sufficient resources. While just over a quarter of all contract managers say the contractor does not have sufficient resources, this rises to 38 per cent of those whose project began full service between 2006 and 2008. Managers of projects that began between 2000 and 2002 are the most satisfied, with 84% saying the contractor has sufficient resources. This difference may in part relate to the higher overall value of projects that have started service delivery between 2006 and 2008, meaning that greater resources are required to deliver the contract, and to longer-running projects having had more time for resources to 'bed down' and become established.

Improving the performance of the project

Nearly one in five managers say that no change is necessary to improve the performance and management of their project over the next 12 months (19%). However, a quarter of managers see additional contract management staff as a key change that would improve the performance and management of their project over the next 12 months (24%). Contract management training (17%) and contract management-specific guidance (15%) are also seen as important changes that would improve project delivery and management.

Figure 3.6

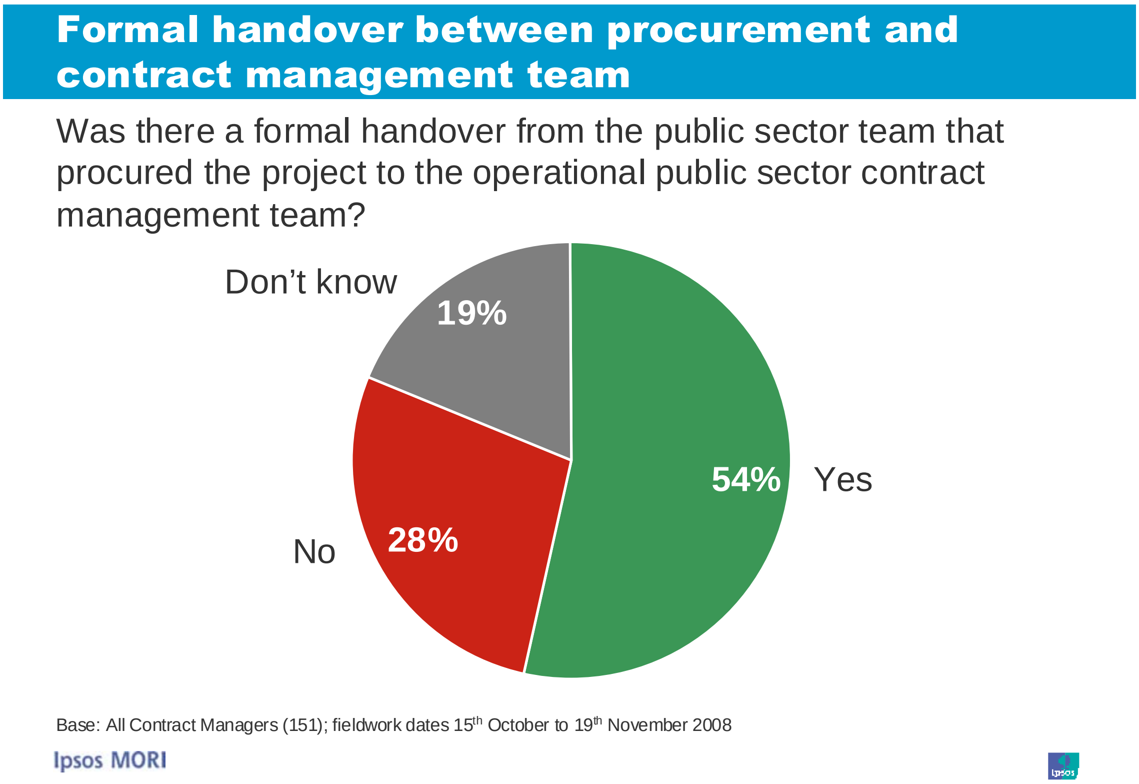


Public sector contract management

The formal handover

More projects report having had a formal handover from the public sector team that procured the project to the contract management team than was the case in 2005. Just over half of projects have had a formal handover from the public sector procurement team (54%) – a significant rise since 2005 when 41% of managers said their projects had gone through a formal handover process. However, one in five managers do not know whether their project went through a handover process (19%).

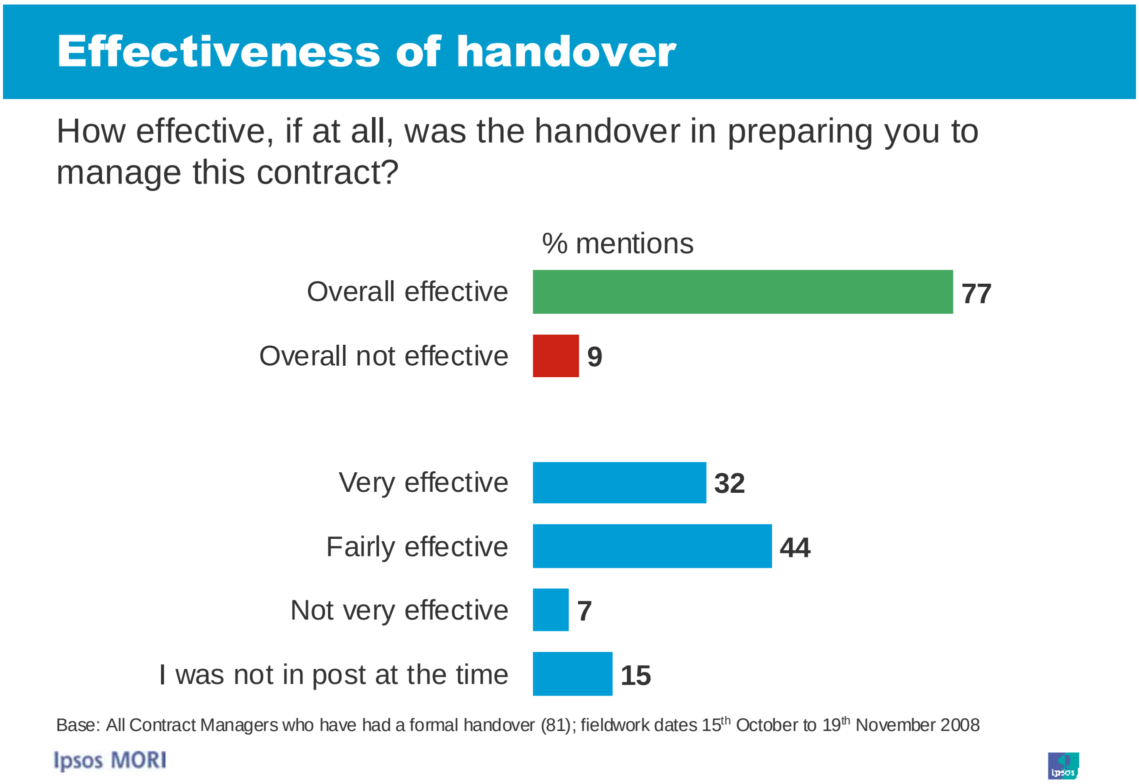
Figure 3.7



Managers of education projects are more likely to say that they have not had a formal handover (40% compared to 18% of accommodation projects). Higher value projects are significantly more likely to have had a formal handover (74% of projects worth over £50 million compared to 35% of projects worth less than £20 million).

Of those who have been through the handover process the majority think that it has helped to prepare them to manage the project. Over three quarters say that the handover was effective or very effective in preparing them to manage the contract (77%); a third say it was very effective (32%). Less than one in ten say it was ineffective (9%) and a further 15% were not in the post at the time.

Figure 3.8



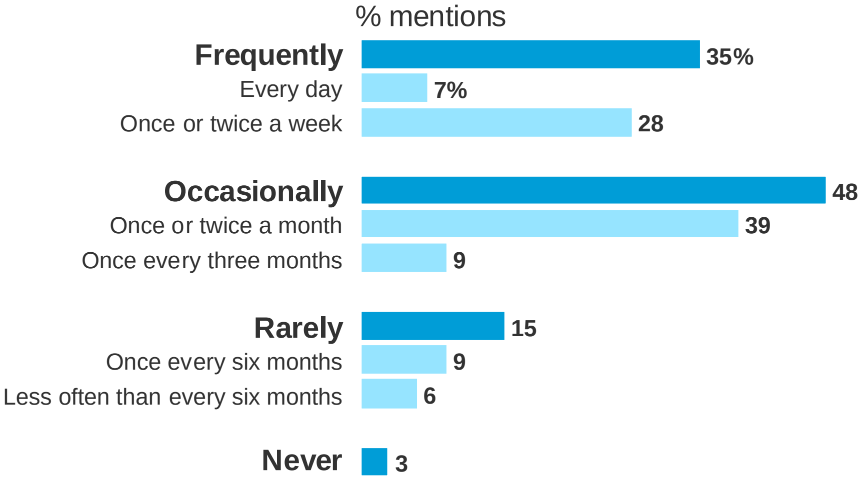
Reference to the contract and manual

Just over a third of contract managers say they or their colleagues have referred to the PFI contract frequently in the last 12 months – that is, at least once or twice a week (35%). Around half have referred to it occasionally (up to every three months – 48%) and a further 15% say they have rarely referred to the contract (up to once every six months). Three per cent say they have ***never*** looked at the contract.

Figure 3.9

Frequency of referral to PFI contract

Over the last twelve months, on average, how often have you and your colleagues referred to the PFI contract?



Base: All Contract Managers (151); fieldwork dates 15th October to 19th November 2008

Ipsos MORI

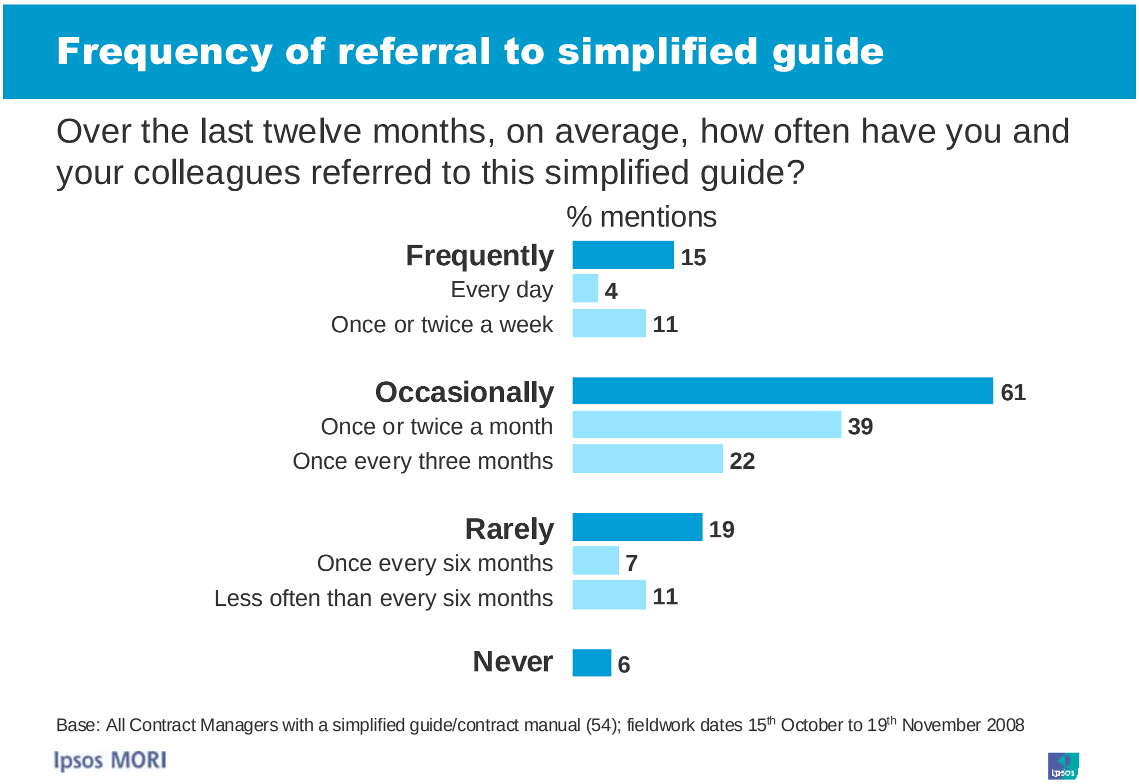
Managers of higher value projects are more likely to refer to the contract frequently. For example, 57% of managers of projects worth over £50 million say they refer to the contract frequently compared to 15% of managers of projects with a value below £20 million. There are a number of reasons for why this may be the case. For example, it could relate to the fact that higher value projects also tend to have commenced service delivery more recently. Similarly, higher value projects tend to be more complex and therefore may require more frequent referral to the contract. It may also relate to the fact that the contract manager is more experienced and therefore understands the importance of referring to the contract frequently.

Just under half of managers of projects that began full service between 2006 and 2008 say they have frequently referred to the contract compared to a fifth of managers whose project began full service between 2000 and 2002 (48% and 19% respectively). This further supports the finding that managers of higher value projects refer to their contract more frequently, since newer projects tend to be of a higher value and have more experienced contract managers.

An alternative or addition to a formal handover process is to draw up a simplified guide or contract manual to contract working. Just over a third of managers have a simplified guide (36%), similar to the finding in 2005 that 35% had this type of guide. Accommodation projects are significantly more likely to have a guide than education projects (48% compared to 23%)[4].

Of those who do have a simplified guide, the majority have referred to it occasionally (once or twice a month or once or twice every three months) in the last 12 months (61%), with 19% rarely referring to it (once or twice a year) and 15% saying they refer to it frequently.

Figure 3.10

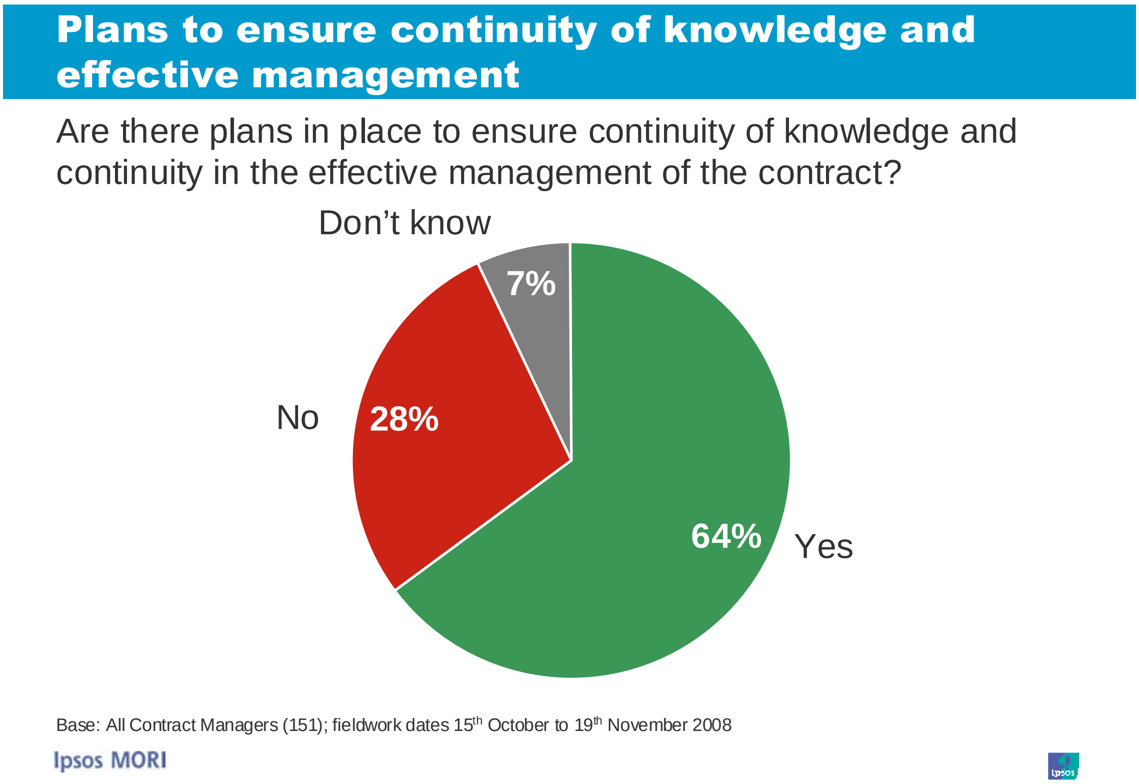


[4] Projects with a higher capital value appear to be more likely to have a simplified guide than those with a lower capital value. 41% of projects worth over £50 million have a guide compared to 30% of projects with a value below £20 million. However, this difference is not statistically significant and therefore should be treated as indicative only.

Planning for continuity of knowledge

Nearly two thirds of contract managers say that they have plans in place to ensure continuity of knowledge and continuity of the effective management of the contract (64%). Whether plans are in place does not appear to have had any impact on the performance of the projects thus far - for both those projects with plans to ensure continuity of management in place and those without, 72% of managers say that the overall performance of the project has been ***good*** or ***very good***. This remains consistent when those who say that the overall performance of the project has been satisfactory are also included, with 97% of those who say plans are in place rating performance as satisfactory or better, compared with 93% of those without plans in place.

Figure 3.11

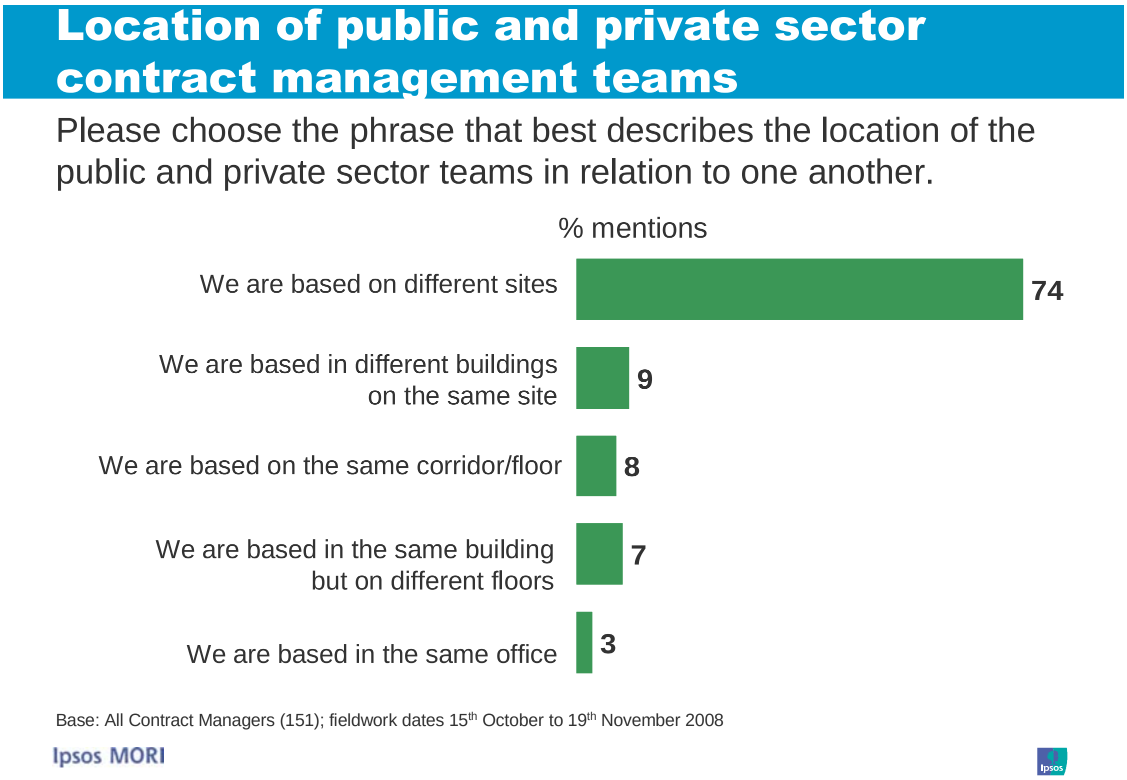


Relationships between the public and private sector teams

Location of the teams

For the majority of projects the public and private sector contract management teams are based on different sites (74%). Analysis indicates that this does not appear to have an impact on how managers perceive the overall performance of the project, with managers where the teams are based on different sites no more likely to rate performance as ***satisfactory***, ***good*** or ***very good*** than those where they are based on the same site.

Figure 3.12

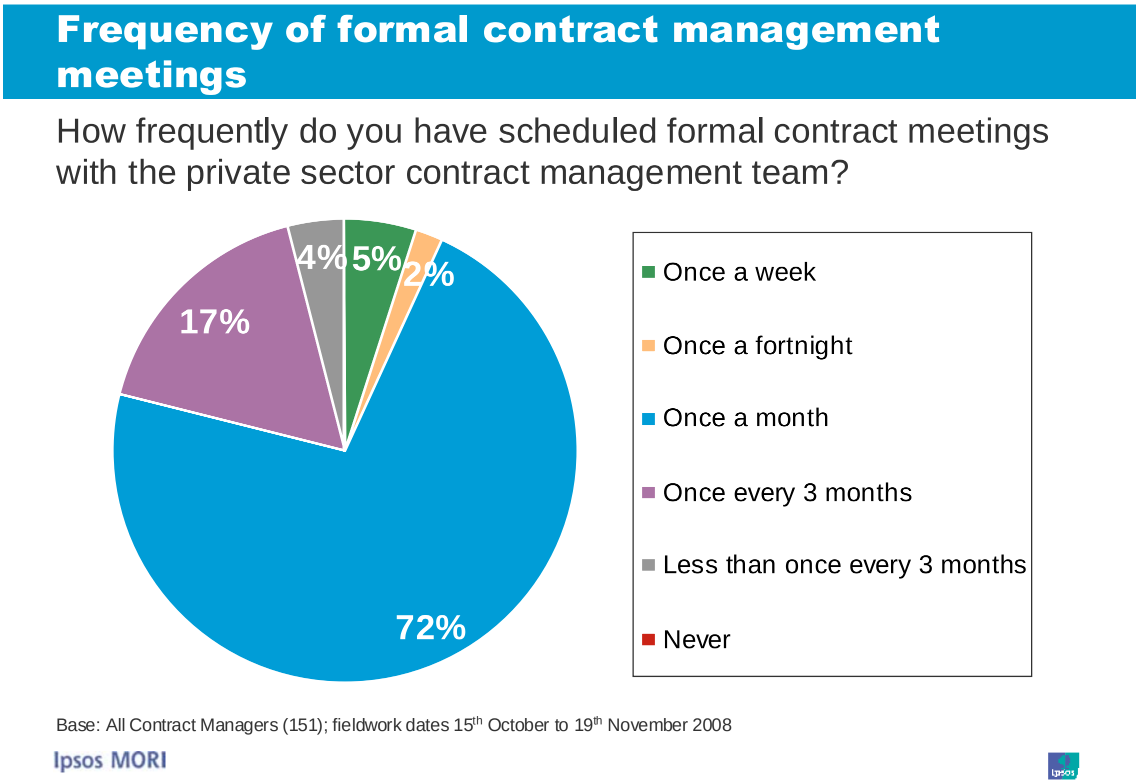


Although high across all sectors, the public and private sector contract management teams for education projects are more likely to be based on different sites compared to those for accommodation projects (88%, compared to 64% of accommodation projects).

Management meetings

A majority of projects hold contract management meetings between the private sector contract management team once a month (72%). Others tend to have longer time periods between meetings, with 17% saying they hold meetings every three months compared to just two per cent who have meetings once a fortnight and five per cent once a week. Encouragingly, no respondents say they have never met their private sector counterparts. However, the frequency of meetings managers have with their private sector counterparts does not appear to have an effect on their perceptions of the overall performance of the contract.

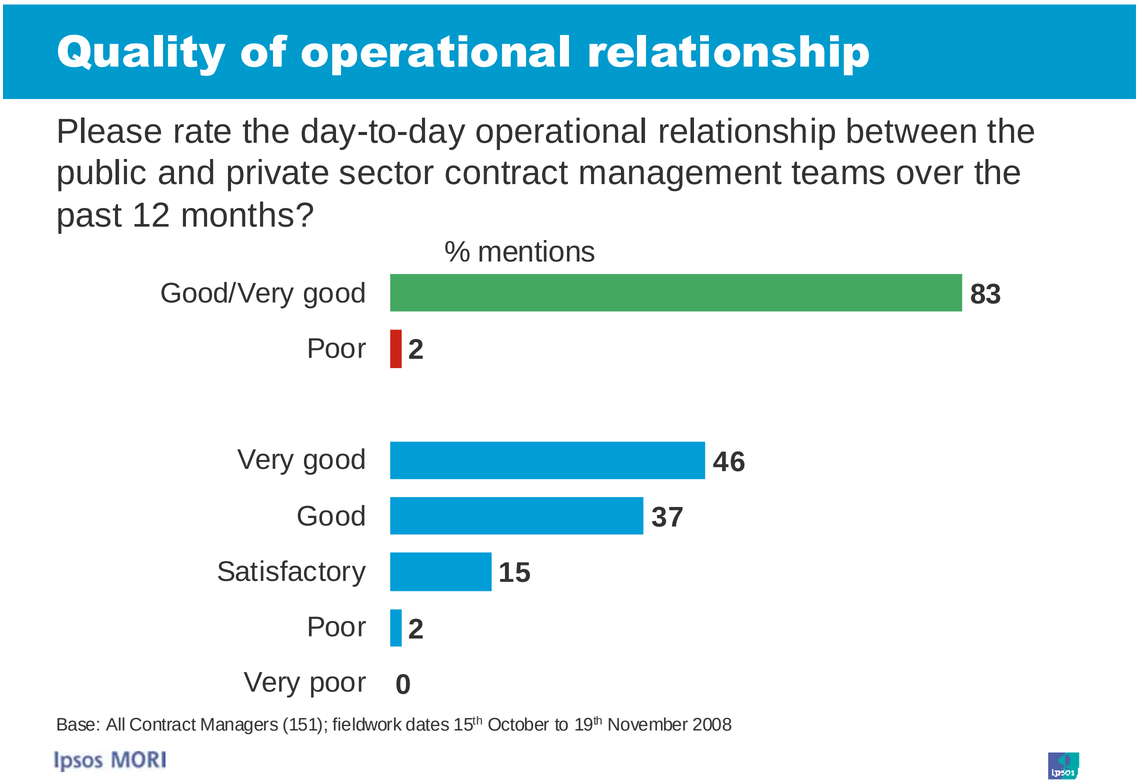
Figure 3.13



Overall perceptions of the relationship

Relationships between public and private sector contract management teams are generally strong and appear to be getting stronger. In 2005 72% of contract managers rated the relationship as good or very good, and this has risen to 83% in 2008. Indeed, nearly half of contract managers say their relationship is very good (46%) and just two per cent say their relationship is poor.

Figure 3.14



Managers of projects that have begun full service more recently appear to be the most positive about the relationship between the public and private sector teams. More than half the managers of projects that began between 2006 and 2008 and between 2003 and 2005 say their relationship is very good (both 55%), compared to just 30% of managers from projects that began between 2000 and 2002.

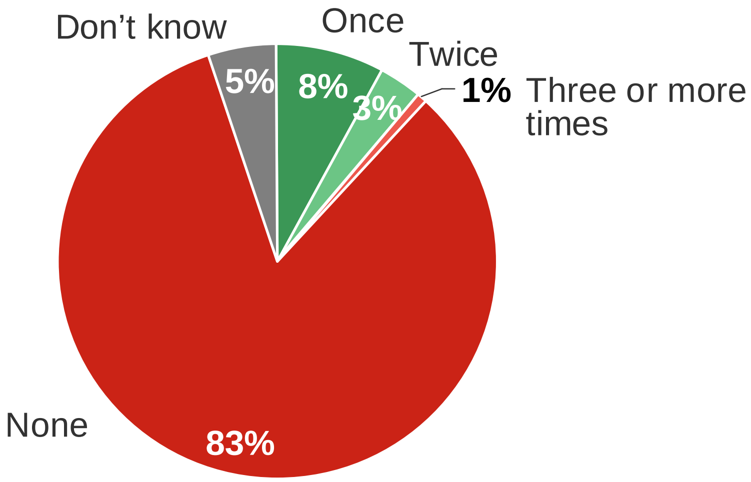
Use of the formal dispute mechanism

As in 2005, just over four in five managers say that the formal dispute mechanism has never been used since the PFI project became operational (83%).

Figure 3.15

Number of times formal dispute mechanism has been used

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



Base: All Contract Managers (151); fieldwork dates 15th October to 19th November 2008

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As might be expected given their smaller size, lower value projects worth less than £20 million are more likely than high value projects worth over £50 million ***never*** to have used the formal dispute mechanism (93% compared to 76%).

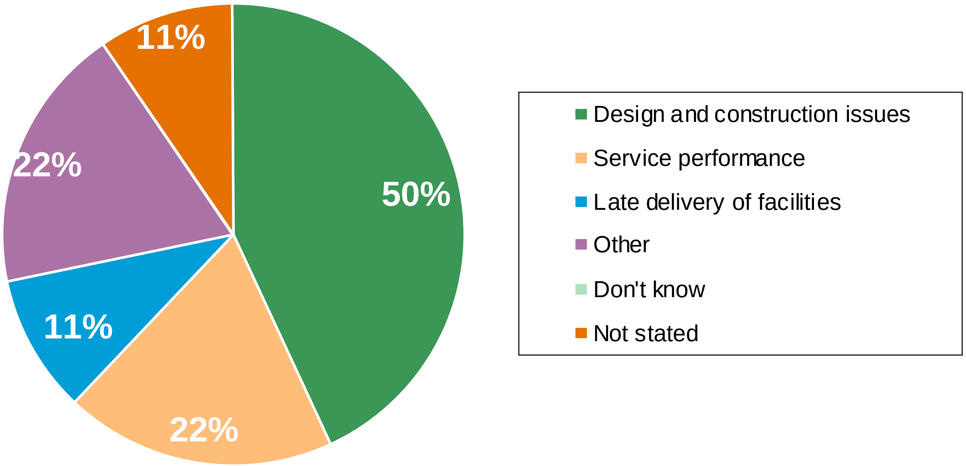
Of those that have used the formal dispute mechanism[5] , half say that it was used as a result of design and construction issues (50%) and a fifth say it was because of service performance (22%). This possibly reflects the fact that the design and construction phase is the earliest and most complex phase of the project.

[5] The small base size (18) for this question should be noted here.

Figure 3.16

Types of disputes requiring formal dispute mechanism

What types of disputes have resulted in the use of the contract's formal dispute mechanism?



Base: All whose contract's formal dispute mechanism has been used since the PFI project became operational (18); fieldwork dates 15th October to 19th November 2008

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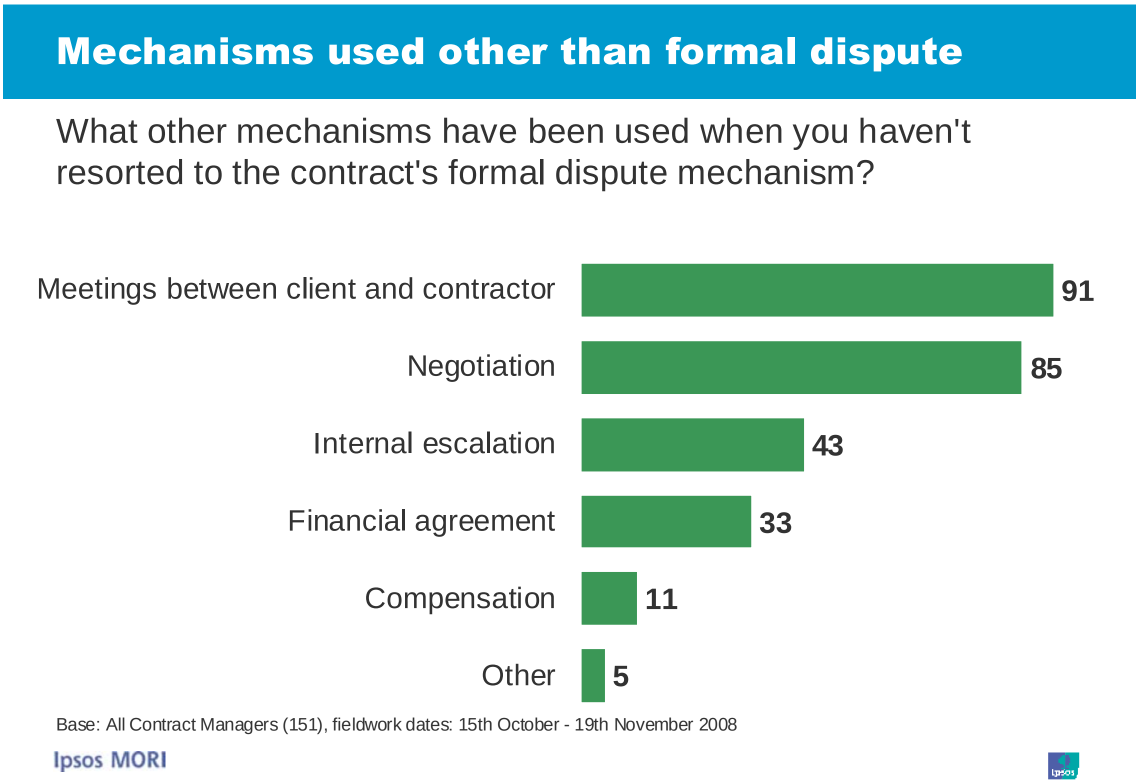
Instead of resorting to the formal dispute mechanism, managers have also used a number of alternative mechanisms. Nine in ten say they have resolved disputes by holding meetings between the client and contractor (91%), and a similarly high proportion use negotiation (85%). Other mechanisms used include internal escalation (43%), financial agreement (33%) and compensation (11%).

Figure 3.17


Mechanisms used other than formal dispute
What other mechanisms have been used when you haven't resorted to the contract's formal dispute mechanism?
Meetings between client and contractor
91
Negotiation
85
Internal escalation
43
Financial agreement
33
Compensation
11
Other
5
Base: All Contract Managers (151), fieldwork dates: 15th October - 19th November 2008
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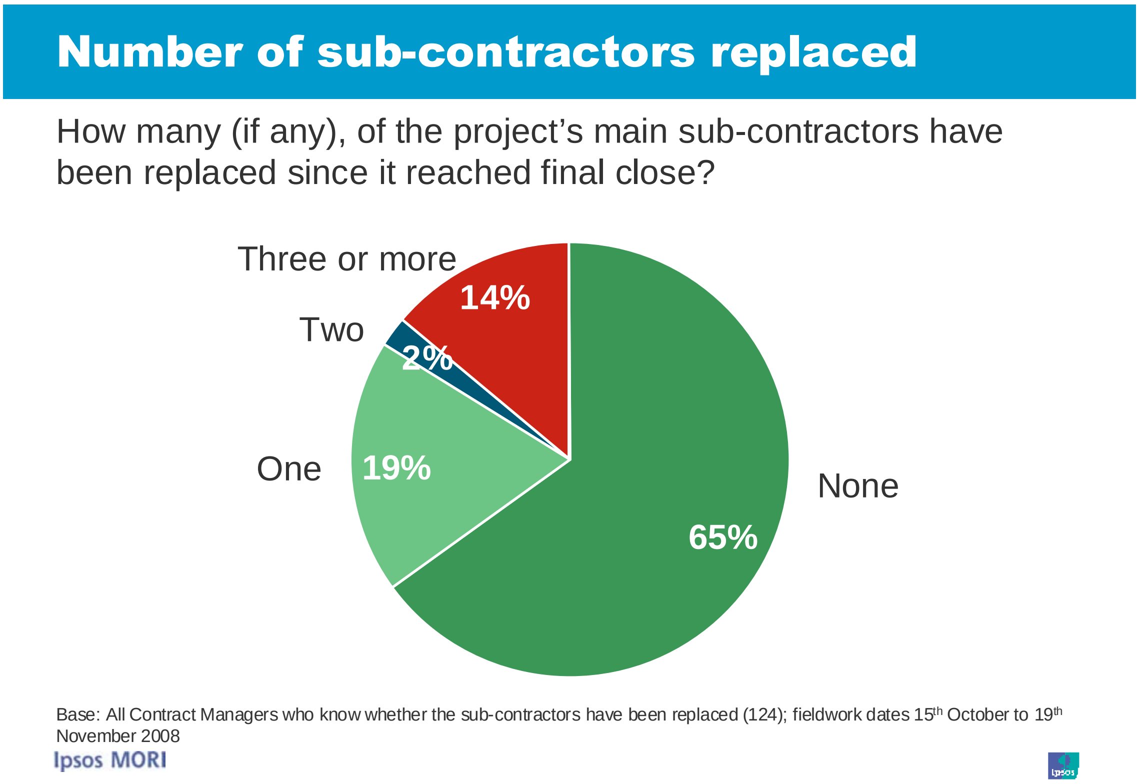
Changes in sub-contractors and shareholders

The replacement of sub-contractors

This section examines what impact managers believe changing sub-contractors and shareholders has had on operational performance.

Just under one in five contract managers do not know whether any of the main sub-contractors have been replaced (18%). Among those that do know, a majority say that none of the main sub-contractors have been replaced since the project reached financial close (65%). Just over a third of projects have seen a change in at least one sub-contractor (35%). This remains consistent with the 2005 findings.

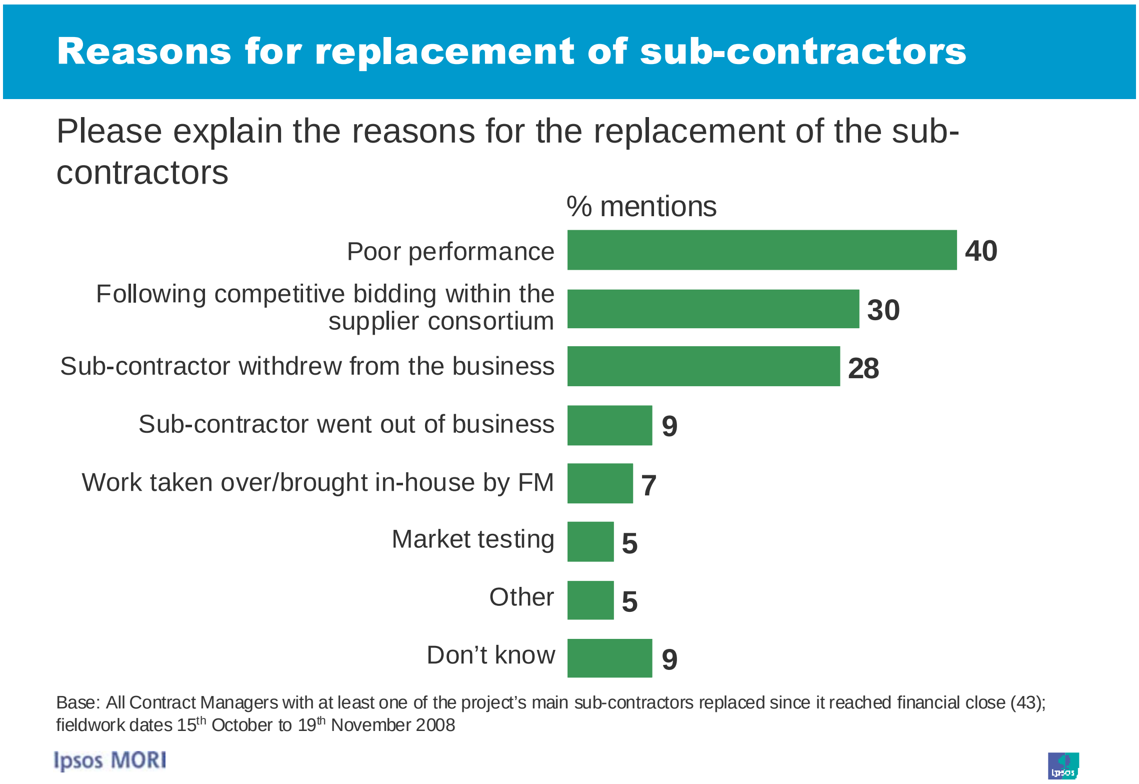
Figure 3.18



Education projects are the most likely to have replaced their main sub-contractors. Among those that know, more than half of education projects have replaced at least one sub-contractor (56%) compared to just 18% of accommodation projects, while more than a quarter of education projects have replaced ***three or more*** (28%).

Among those who have replaced at least one of the project's main sub-contractors the most common reason for doing so is poor performance, with two in five giving this as the main reason (40%). Other common reasons for replacing sub-contractors include competitive bidding within the supplier consortium (30%) and the sub-contractor's withdrawal from the business (28%). These figures are consistent with the 2005 findings.

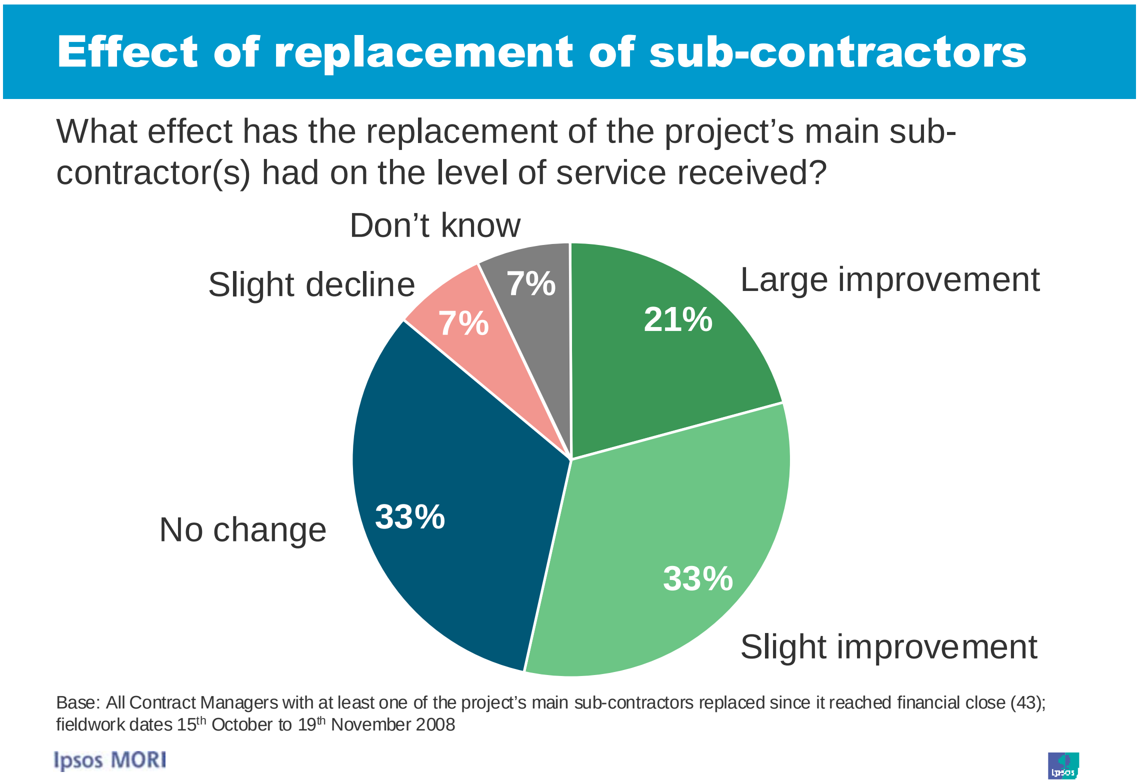
Figure 3.19



Impact of changing sub-contractors and shareholders

Among projects that have changed sub-contractors at least once, a slight majority feel that it has had a positive effect on the level of service received. Just over half of contract managers say that the replacement has improved the level of service received (53%); one in five say there has been a ***large improvement*** (21%). A further third say that changing the sub-contractor had no impact (33%) and just seven per cent think it has led to a decline in the level of service received.

Figure 3.20



However, when considering overall performance, the survey evidence does not suggest that changing sub-contractors has an impact on managers' views of operational performance. The proportion of those who rate the overall performance as ***good*** or ***very good*** does not vary significantly between projects that have replaced contractors and those that have not (70% and 74% respectively).

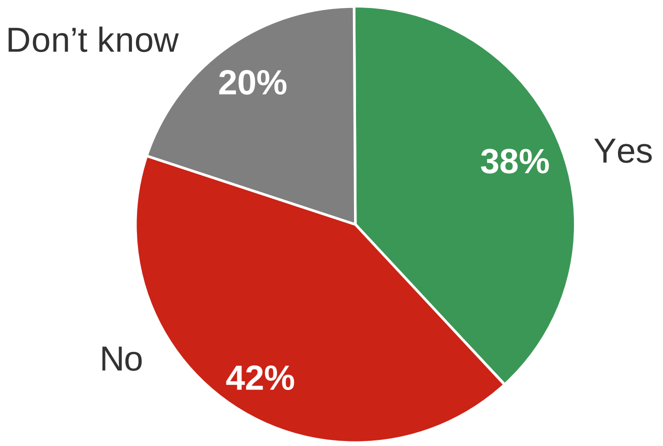
There is also no evidence to suggest that changing Special Purpose Vehicle (SPV) shareholders has an impact on managers' views of operational performance. Three quarters of projects that have changed SPV shareholders rate the overall project performance as ***good*** or ***very good***, compared to seven in ten of those that have not changed (75% and 69% respectively). Although a difference of six percentage points, this is not statistically significant.

Just under two in five projects have changed SPV shareholders since the PFI project became operational (38%), roughly the same proportion as in 2005. One in five do not know whether they have changed or not (20%). Among those that do know, nearly half say their project has changed shareholder (47%).

Figure 3.21

Change in shareholders

Have any of the shareholders of the Special Purpose Vehicle changed since the PFI project became operational? Please exclude transfers of ownership within the same company group.



Base: All Contract Managers (151); fieldwork dates 15th October to 19th November 2008

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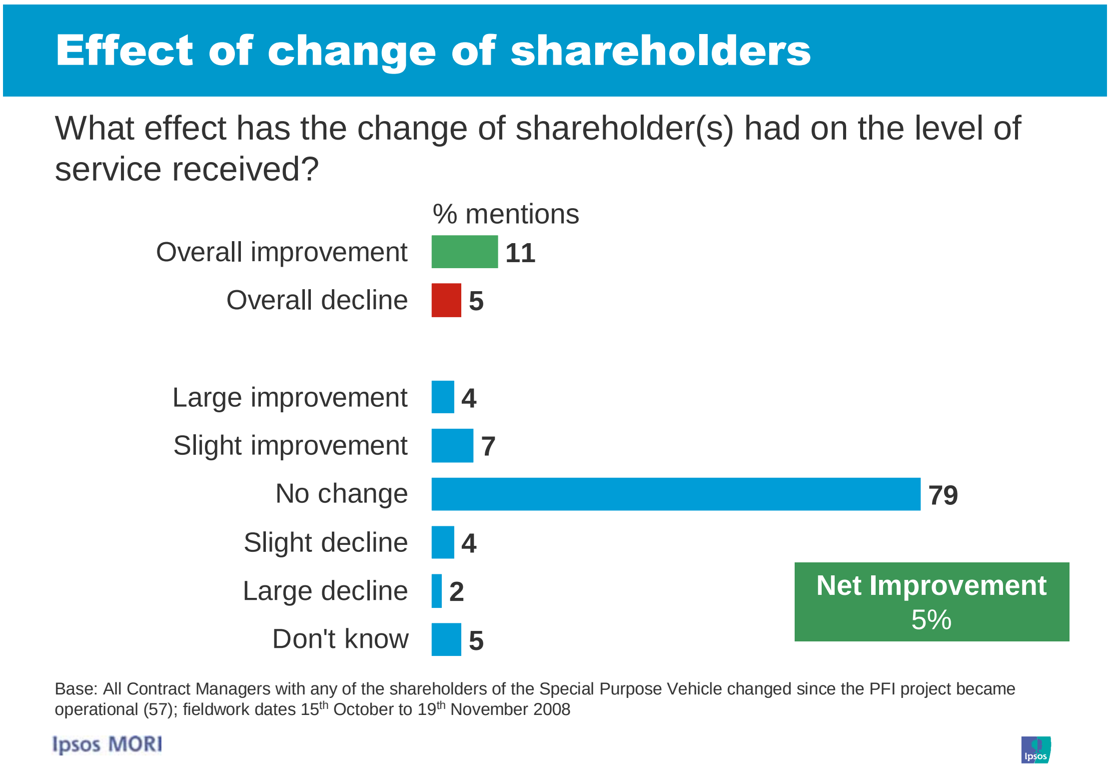
Contract managers consider the change of shareholders to have much less impact than changing the main sub-contractors. While 53% say that changing sub-contractors has led to an improvement, just 11% say that changing shareholders has led to an improvement in the level of service received. A large majority (79%) say that changing shareholders has led to no change, suggesting they have little impact on the level of service. The figures suggest a fall since 2005 in the proportion of managers saying a change of SPV has improved the level of service received (a fall from 29% to 11%), but small base sizes mean that this finding must be treated with care.

Figure 3.22


Effect of change of shareholders
What effect has the change of shareholder(s) had on the level of service received?
% mentions
Overall improvement
11
Overall decline
5
Large improvement
4
Slight improvement
7
No change
79
Slight decline
4
Large decline
2
Don't know
5
Net Improvement
5%
Base: All Contract Managers with any of the shareholders of the Special Purpose Vehicle changed since the PFI project became operational (57); fieldwork dates 15th October to 19th November 2008
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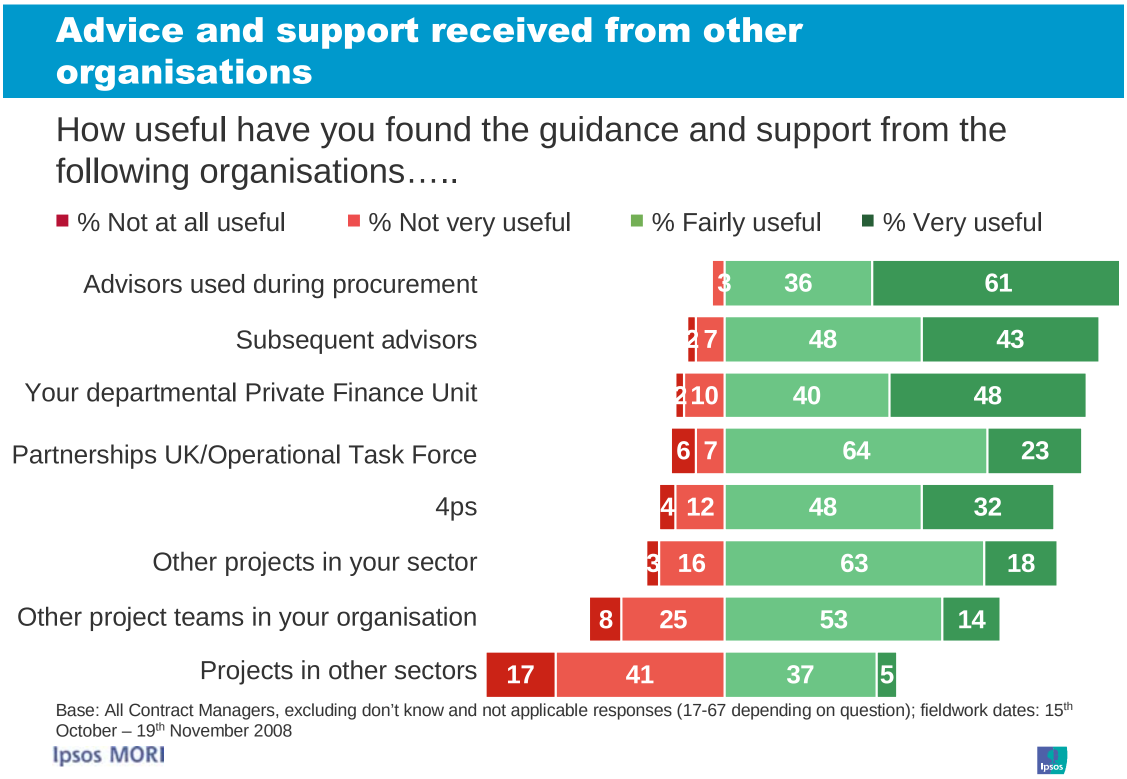
Section 3 – Support, advice and guidance

Support, advice and guidance

Current support and advice

Managers have varying views on the usefulness of the advice and support they have received from different organisations. Among those who know of or use the service the most useful source of support and guidance is seen to be advisors used during procurement, with 96% saying this was useful. Further sources rated as useful by the majority of managers who use them are subsequent advisors (91%), their departmental Private Finance Unit (88%) and Partnerships UK and the Treasury-sponsored Operational Task Force (87%).

Figure 4.1

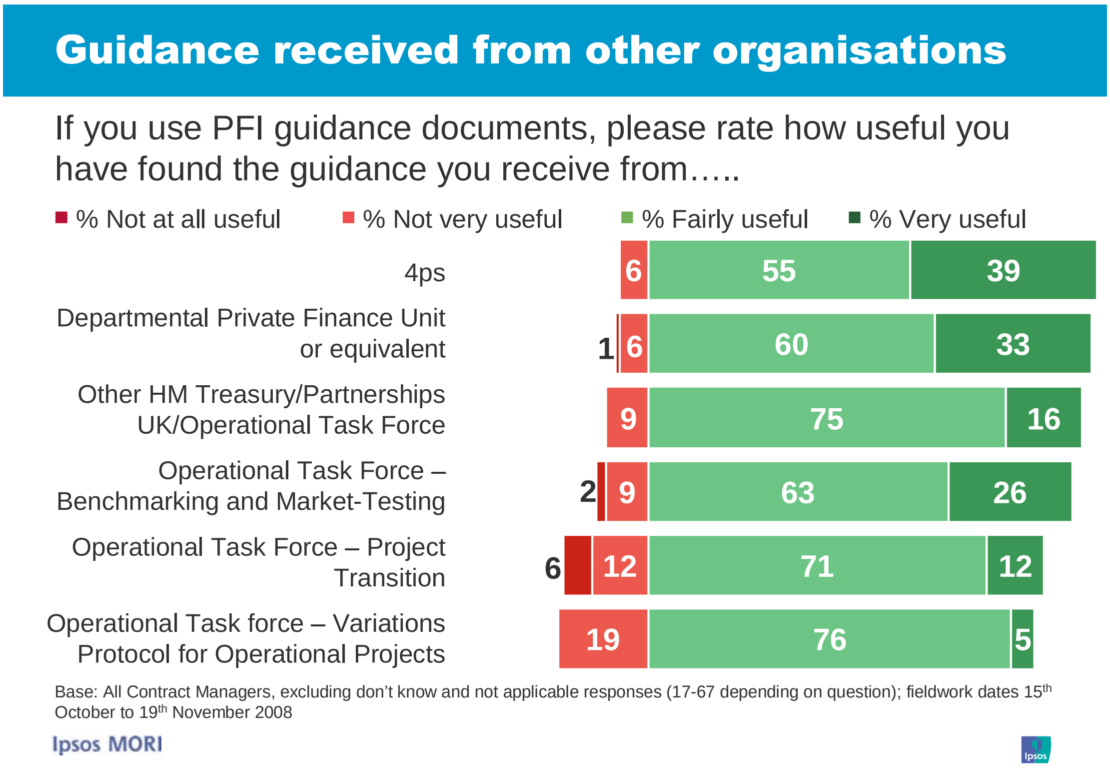


Relatively, the least useful form of advice and support comes from **projects in other sectors**. Indeed, this is the only option where more managers rate it as 'not useful' than 'useful' (58% compared to 42%).

Current guidance

Closely related to advice and support is guidance. The highest rated form of guidance among users of these services comes from the **4ps**, with 94% of managers who use this saying they have found this useful.

Figure 4.2



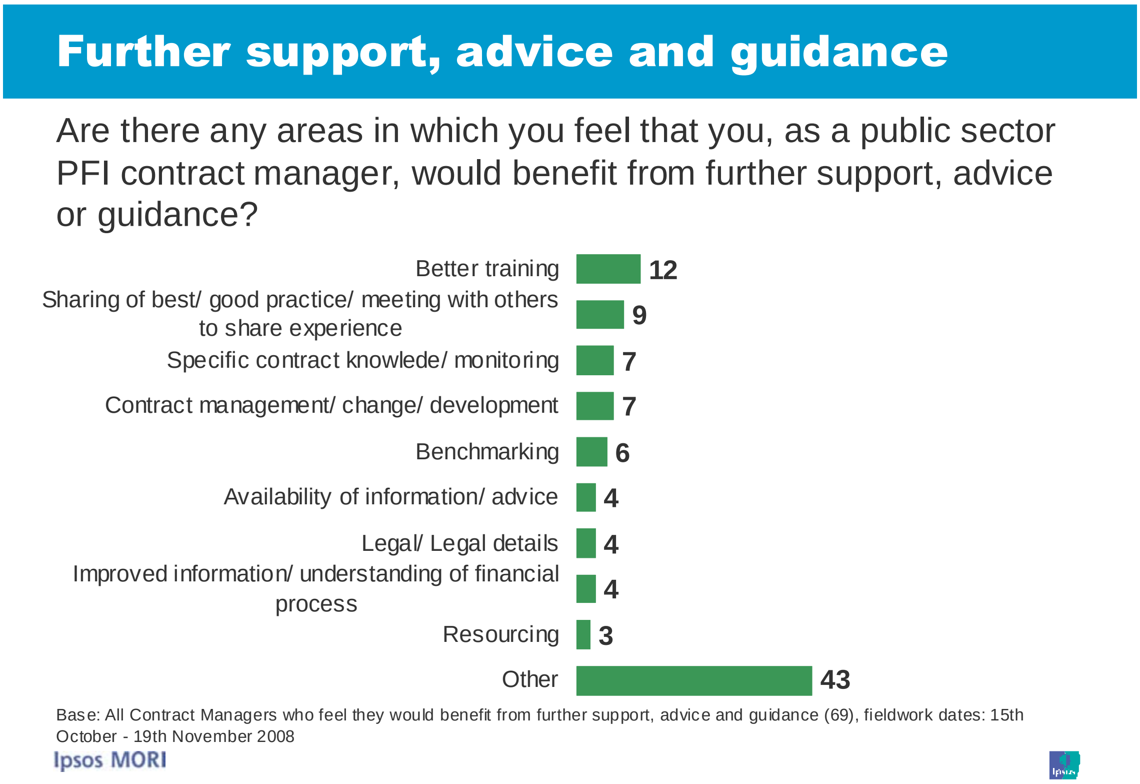
Guidance documents from **HMT, PUK and/or OTF** used during procurement are perceived as useful by nine in ten managers that use them (91%).

The least useful form of guidance, relatively speaking, is **Variations Protocol for Operational Projects from the Operational Task Force**. However, among managers that use this form of guidance a majority still say that they find it useful (81%).

Further support, advice and guidance

Contract managers are fairly evenly split on whether they would benefit from further support, advice and guidance, although a slight majority say there are no areas in which they would benefit (54%).

Figure 4.3



Improved training is a key area highlighted by managers (12%) for further support, advice and guidance, followed by sharing of best practice (9%), specific contractual knowledge or monitoring (7%) and guidance on contract management, changes or developments (7%).

Section 4 – Value-testing

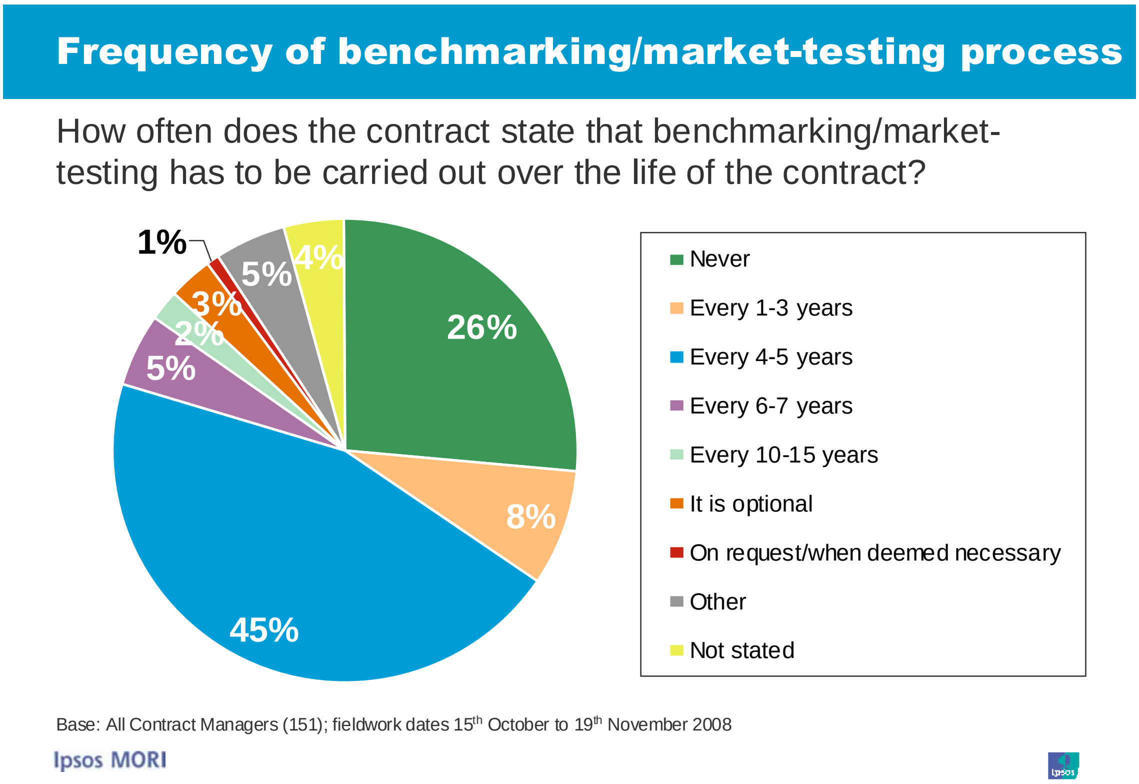
Value-testing

Value for money

Benchmarking and market-testing processes are central to ensuring that the public sector gets value for money from PFI project services. In light of this, this section looks at managers' reported experience of value-testing.

The National Audit Office found in a 2007 report that at least half of PFI projects have provisions in their contracts that 'require the value of certain services, such as catering or cleaning, to be tested at intervals, typically every five to seven years'[6]. In line with this, the 2008 survey findings highlight that 60% of managers say their contracts specify that benchmarking/market-testing should be carried out over a specified interval. Most commonly, contracts state that this is every four to five years (45%).

Figure 5.1



[6] National Audit Office, 2007, ***Benchmarking and market testing the ongoing services component of PFI projects***
http://www.nao.org.uk/publications/0607/benchmarking_and_market_testin.aspx

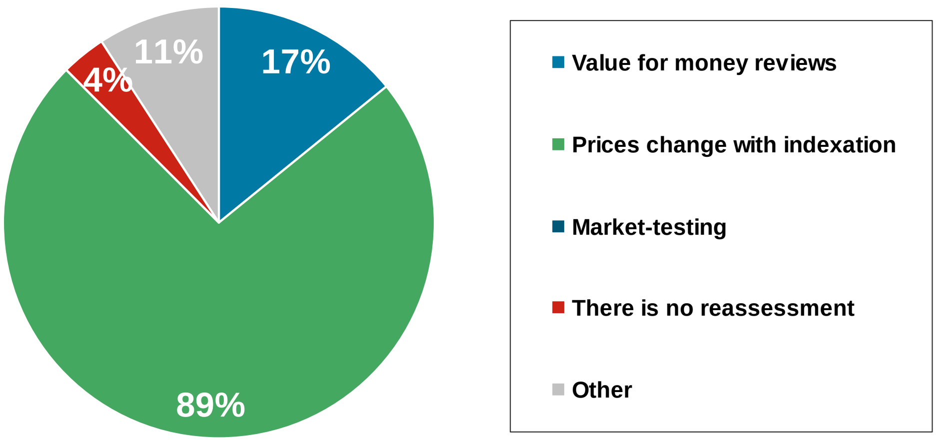
There has been a significant fall since 2005 in the proportion of contract managers saying that value-testing does not have to be carried out under the project contract, from 47% in 2005 to 26% in 2008. More recently instigated contracts are more likely to specify requirements for benchmarking and market-testing. Just seven per cent of contracts for projects beginning full service between 2006 and 2008 say that benchmarking and market-testing never needs to take place, compared to 30% of contracts for projects beginning between 2000 and 2002.

For those projects where contracts do not state that benchmarking or market-testing have to be carried out, this raises the question of how price levels are assessed throughout the project life. Among this group, the majority say that prices change with indexation (89%). Seventeen per cent say that price levels are assessed through value for money reviews while four per cent say there is no reassessment.

Figure 5.2

How price levels are reassessed for those projects that do not require benchmarking or market-testing

How are price levels reassessed throughout the project life?



Base: All whose contract does not state that benchmarking/market-testing has to be carried out over the life of the contract (54); fieldwork dates 15th October to 19th November 2008

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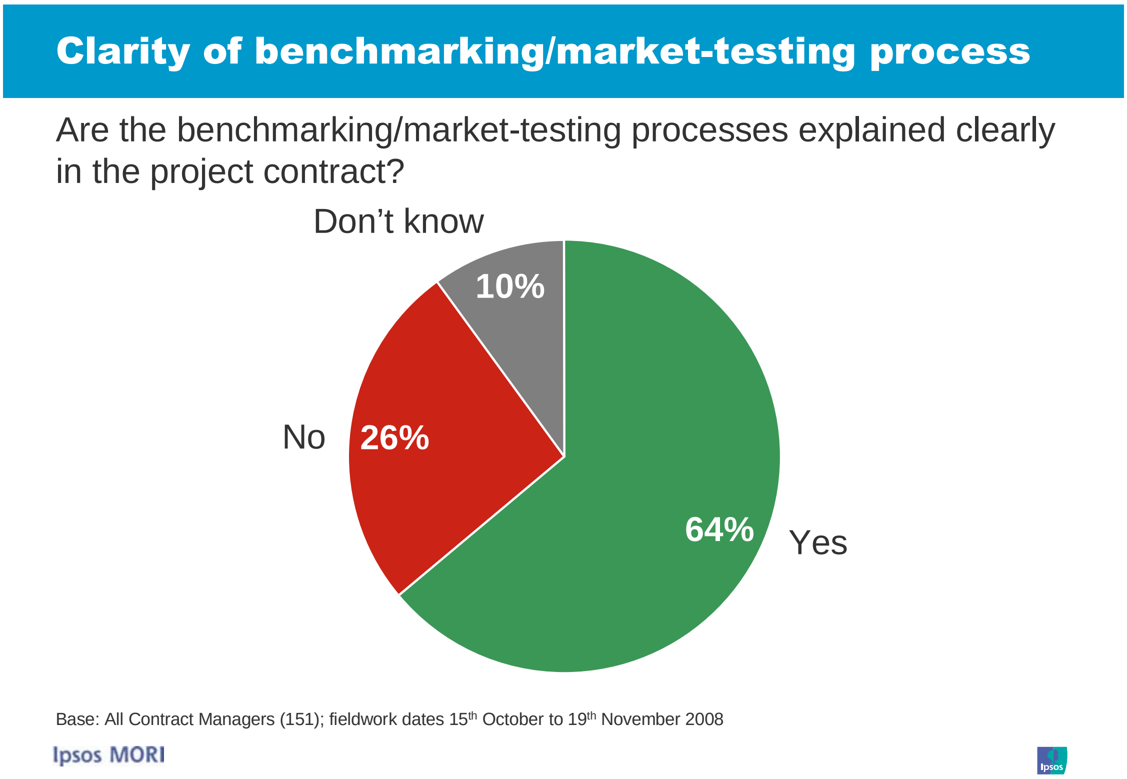
However, the findings also indicate a decline since 2005 in the clarity with which the benchmarking and market-testing processes are explained in the contract. Around two thirds of contract managers say that the benchmarking or market-testing process is clearly explained in the project contract (64%), a significant fall since 2005 when 78% said it was explained clearly.

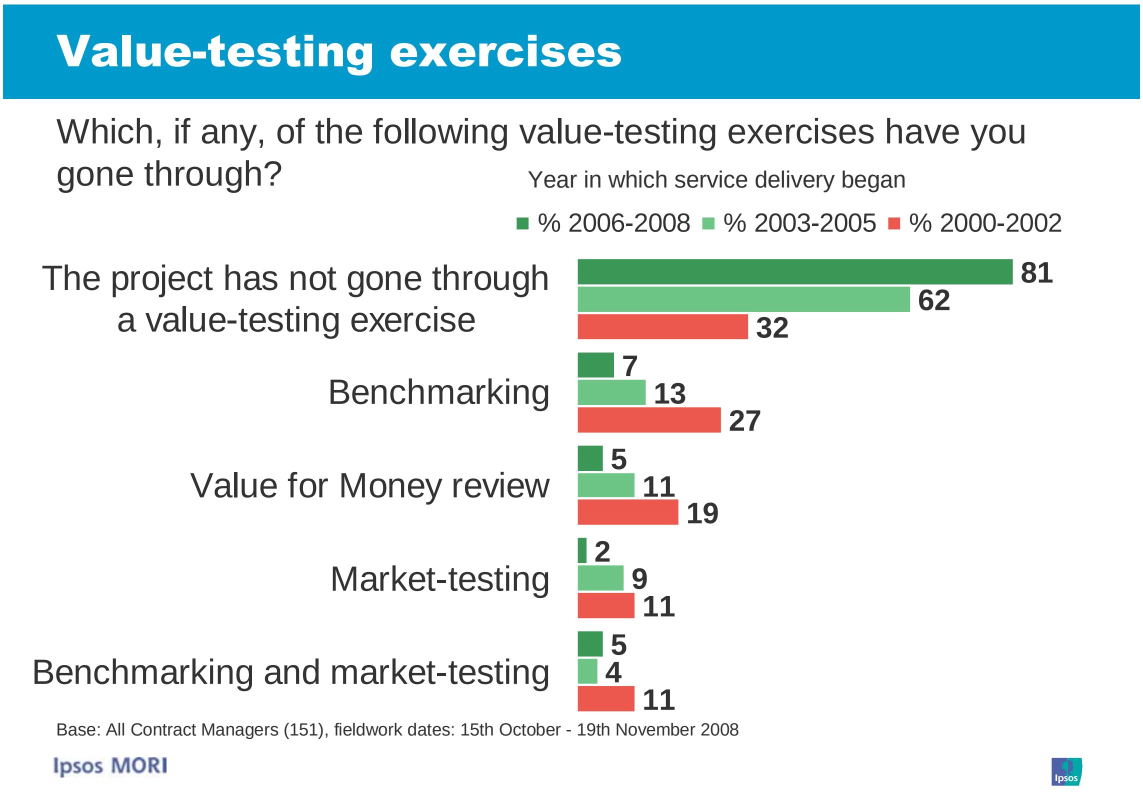
Figure 5.3



However, managers who actually have experience of the project they currently manage having gone through a value-testing exercise are more likely than those who have not to say that the benchmarking and market-testing processes in the contract are clearly explained (74% compared to 57%). Indeed, the majority of managers – over three in five – say their project has not gone through a value-testing exercise (62%).

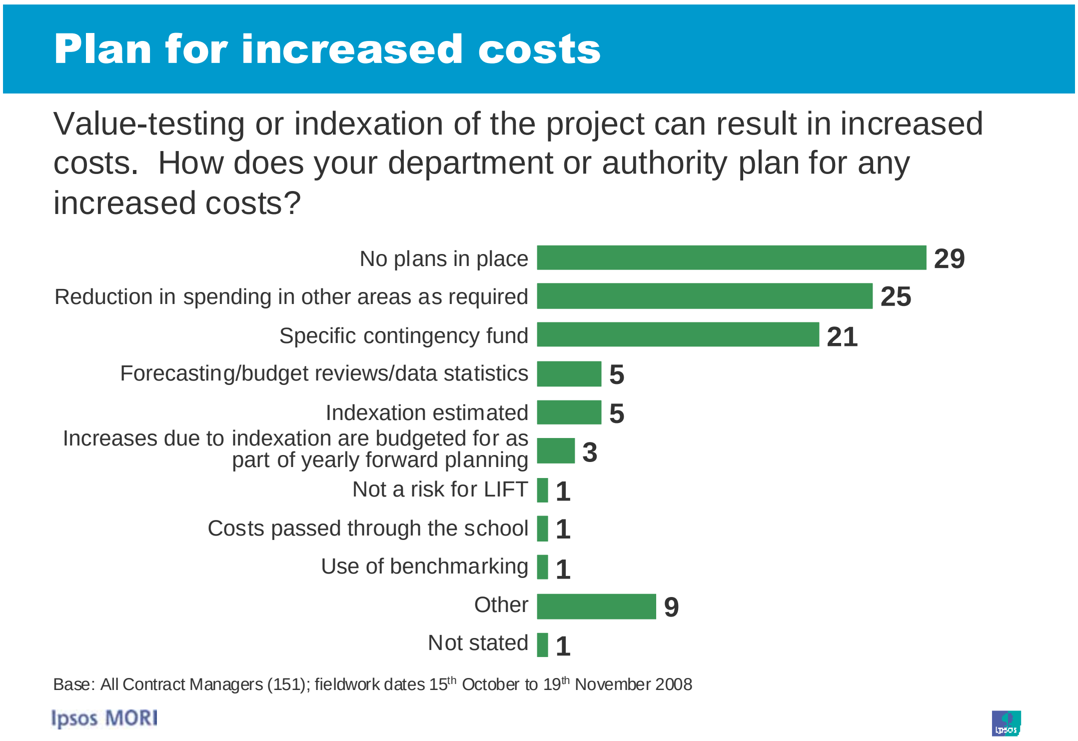
The most common form of value-testing that projects have been through is benchmarking (14%), followed by value for money review (11%), market-testing (7%) and both benchmarking and market-testing (5%).

Figure 5.4



When projects do go through a value-testing exercise, this can result in increased costs. Different departments and authorities plan for these increased costs in different ways. Just under three in ten say that they have no plans in place (29%). A quarter say that they would resolve the issue by reducing spending in other areas (25%) and one in five have a specific contingency fund (21%).

Figure 5.5



Of those that have already been through a value-testing exercise, 30% say they have a specific contingency fund in place to plan for increased costs, compared to 15% that have not been through a value-testing exercise.

Section 5 – Future challenges

Future challenges

Managers point to a range of areas that are likely to pose particular challenges for managing PFI contracts over the next five years. As would be expected in an economic downturn, financial and economic issues are seen as key concerns, with three in ten contract managers highlighting financial issues as major challenges going forward (30%). These include areas such as cost variations (9%) and coping with the current economic climate (5%).

A quarter says that value-testing will be a major issue (25%), with 17 per cent singling out benchmarking. As was the case in 2005, this indicates that value-testing is the single largest challenge for managers looking forward. Potentially, more could be done to support managers in these key areas.

Staff retention and training are seen by a quarter of managers as challenges over the next five years (24%). Building maintenance is also a common topic (17%), in particular managing disputes over the definition of 'wear and tear' (4%) and the cost of utilities (4%). Further priority challenges for the future include contract management (16%) and building team relationships and morale (14%)

Figure 6.1

Managers of projects that commenced more recently, over the period 2006-2008, are particularly likely to say that market-testing and managing variations in cost will be major challenges (17% and 14% respectively, compared to two per cent of projects that began between 2003 and 2005). This may reflect the fact that more recent contracts are much more likely to have provisions that require market-testing or take a more robust attitude to variations.

In addition, staff training and maintaining the level of staff knowledge are more likely to be seen as challenging by those managing higher value projects. One in ten managers of projects valued at over £50 million identifies issues relating to staff training and expertise as a challenge (11%, compared with 0% of those managing projects valued between £20 million and £50 million).

Differences in views on future challenges are also apparent between managers of accommodation and education projects. Those managing accommodation projects are more likely to see managing contract variations and new contracts as main future challenges than are those managing education projects (30% compared to 10%). Furthermore, managers of education projects are more likely than managers of accommodation projects to say that managing costs and meeting financial limitations will be a challenge (13% compared to 0%).

Appendices

Appendix A: Statistical reliability

The respondents to the questionnaire are only samples of the total "population" of contract managers, so we cannot be certain that the figures obtained are exactly those we would have if everybody had responded (the "true" values). We can, however, predict the variation between the sample results and the "true" values from knowledge of the size of the samples on which the results are based and the number of times that a particular answer is given. The confidence with which we can make this prediction is usually chosen to be 95% - that is, the chances are 95 in 100 that the "true" value will fall within a specified range. The table below illustrates the predicted ranges for different sample sizes and percentage results at the "95% confidence interval"[7].

Size of sample on which survey results is based	Approximate sampling tolerances applicable to percentages at or near these levels		
	10% or 90%	30% or 70%	50%
	±	±	±
100 responses	6	9	10
500 responses	3	4	4
151 responses (this survey)	4	6	6

Source: Ipsos MORI

For example, with a sample of 151 where 30% give a particular answer, the chances are 19 in 20 that the "true" value (which would have been obtained if the whole population had been interviewed) will fall within the range of plus or minus 3 percentage points from the sample result.

When results are compared between separate groups within a sample, different results may be obtained. The difference may be "real", or it may occur by chance (because not everyone in the population has been interviewed). To test if the difference is a real one

[7] It should be noted that these figures assume a single random sample with no design effect.

- i.e. if it is "statistically significant", we again have to know the size of the samples, the percentage giving a certain answer and the degree of confidence chosen. If we assume "95% confidence interval", the differences between the two sample results must be greater than the values given in the table below:

Size of sample compared	Differences required for significance at or near these percentage levels		
	10% or 90%	30% or 70%	50%
	±	±	±
10 and 10	27	42	46
20 and 20	19	29	31
30 and 30	15	23	25
40 and 40	13	19	21
50 and 50	11	17	19
100 and 100	7	11	12

Source: Ipsos MORI