Lessons Learned from PPP Project Preparation and Implementation

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From whose perspective?

- Policy – was it value for money?
- Operational – did I get the bridge I wanted?
- Financial – will I get my money back?
- Development impact
- Project or process?
Content

• Background: Example of a PPP programme - UK
• Evaluation Tools and Processes
• Evidence and Lessons learned
Background
UK PPP policy & implementation bodies

OGC

Other key support bodies
e.g. 4ps
PPP support to Local Authorities

Department
Private Finance Units

HM Treasury

PPP Policy

Auditing bodies
e.g. National Audit Office

Scottish Govt
Financial Partnerships Unit

Partnerships UK
PPP Implementation

Partnerships for Schools
PDO
• Delivered £50bn + of capital investment in the UK
• 860 projects, 675 operational
• PPPs now a global market
• PPP models evolving over time
UK PPP Sector analysis

Number of Deals Grouped By Sector

- Accommodation: 111
- Education: 213
- Environment: 51
- Equipment: 35
- Health: 269
- Housing: 21
- ICT: 82
- Leisure Services: 13
- Property: 7
- Transport: 63

Number of projects
Evaluation Tools and Processes

Nottingham Trams
Tools and processes

- PPP Units
- Guidance – e.g. VfM
- Contract Standardization

- Project Review Group
- Gateway™ Reviews
- Major Project Reviews

- Value for Money Audits
Outline Business Case

1. Programme, project, procurement level review (scope, term)
2. Clarity of requirements
3. Design Quality
4. Risk Allocation
5. Key Terms and Conditions
6. Indication of commercial interest
7. Affordability
8. Suitability of Proposed Advisers
9. Indicative Timetable
10. Project Team
11. Commitment of Sponsors/Users
12. Statutory Processes

Value for Money Assessment

Commercial Interest Assessment

Affordability Assessment

Project Management Assessment

Can the project be delivered?
Gateway™ process

Gate 0: Strategic Assessment
Gate 1: Business Justification
Gate 2: Procurement Strategy
Gate 3: Investment Decision
Gate 4: Readiness For Service
Gate 5: Benefits Evaluation

Whole Life Expenditure

0% 100%

Time
Evaluation matrix: Key management themes

- Fitting business requirements
- PFI is the appropriate delivery mechanism
- Stakeholder support
- Good quality project management
- Optimal balance between cost, quality and flexibility
- Effective risk allocation and management
Evaluation Matrix: Key project phases

- New methodology based on the 6 key project phases
- Each part of the cycle is assessed on management themes
## The Evaluation Matrix – a shortened version

<table>
<thead>
<tr>
<th>Fit with Business Requirement</th>
<th>Strategic Analysis</th>
<th>Tendering</th>
<th>Contract completion</th>
<th>Implement</th>
<th>Early Operational</th>
<th>Mature Operational</th>
</tr>
</thead>
<tbody>
<tr>
<td>The right project has been selected</td>
<td>The right project has been selected</td>
<td>Right contract reflects the requirements</td>
<td>Asset delivery as specified</td>
<td>Contract met, Asset is fit for purpose</td>
<td>Services meet Core Business Requirements</td>
<td></td>
</tr>
<tr>
<td>Clear case for PFI in OBC</td>
<td>Performance is baselined, Bids innovate</td>
<td>Review that PFI is right</td>
<td>Continue baselining</td>
<td>Consider termination if poor delivery</td>
<td>Assess if deal is delivering</td>
<td></td>
</tr>
<tr>
<td>A Strategy to Communicate</td>
<td>Key parties committed</td>
<td>Support for agreed deal</td>
<td>Kept informed of progress</td>
<td>Review level of satisfaction</td>
<td>Continue to review</td>
<td></td>
</tr>
<tr>
<td>Project structures</td>
<td>Structures are effective</td>
<td>Getting the best deal</td>
<td>Evaluate past Plan future</td>
<td>Governance &amp; Relationships</td>
<td>Right skills &amp; Relationships</td>
<td></td>
</tr>
<tr>
<td>Groundwork for Solution</td>
<td>Good quality bids received</td>
<td>Price quality &amp; finance good</td>
<td>Changes made are VFM</td>
<td>Deal remains affordable</td>
<td>Good Quality but Affordable</td>
<td></td>
</tr>
<tr>
<td>Risks Assessed</td>
<td>Optimum transfer of risk</td>
<td>Risk Transfer Agreed</td>
<td>Mitigation and Updating</td>
<td>Risk Transfer Sticks</td>
<td>Procedures Updated</td>
<td></td>
</tr>
</tbody>
</table>

Source: NAO [www.nao.org.uk/publications/nao_reports/05-06/Framework_PFI_Projects_i.pdf](http://www.nao.org.uk/publications/nao_reports/05-06/Framework_PFI_Projects_i.pdf)
Evidence and Lessons Learned
Evidence of delivery - construction

PPP can deliver projects effectively (right time and right cost)

<table>
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<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Exceeds price agreed in the contract</td>
<td>22%</td>
<td>73%</td>
<td>45%</td>
</tr>
<tr>
<td>Late to public sector</td>
<td>24%</td>
<td>70%</td>
<td>37%</td>
</tr>
<tr>
<td>Over 2 months late</td>
<td>8%</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: National Audit Office
Operational performance has been good

- Public sector managers report 96% of projects performing at least satisfactorily, with 66% at a very good/good standard.

- Users believe service standards being delivered always or almost always in 80% of projects.

- 97% of managers rated the relation with their private sector counterpart as satisfactory or better with 72% rating it very good/good.

Source: PUK Operational Projects Report 2006
Benefits achieved

- Delivered tangible improvement in public services
- Introduced a more strategic approach to infrastructure investment
- Made people think about whole life cost
- Developed greater capacity and competition in the supply markets
- Developed efficient capital markets
- Improved the public sector client capability
- Improved the quality of procurements
Common problems

- Allocation of risk and reward
- Public sector not clear what it wants
- Project complexity exceeds public and private sector capacity
- Poor market assessment and management
- Appointing/managing advisers
- Poor project governance
- Affordability issues
Conclusion - General Lessons

- PPPs do not suit every type of infrastructure investment
- Public Sector skills are very difficult to retain – central support is needed
- Programs of investment are better than one off deals
- Standardisation needs enforcement
- Plan for contract management – change is the norm
- Quality control processes