



Office of the
Deputy Prime Minister

Creating sustainable communities

Report for Fire and Rescue Services Directorate

Review of PFI Contracts

Report 2 of 2: Recommendations for the Future Use of
PFI Contracts



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Issue 1.1

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Amendment History

Issue	Date	Amendments
0.1	31/3/04	Draft for review
0.2	5/4/04	Incorporating feedback from ODPM
1.0	14/4/04	Approved for formal delivery to client by P Scales, Capgemini
1.1	15/4/04	Updated to incorporate new Capgemini logo and minor amendments

Executive Summary

While the Fire & Rescue Service (F&RS) PFI programme has been broadly successful, there are several key areas where improvements could be made.

The PFI procurement process needs to be streamlined to reduce costs and attract bidders. Planning permission has been a recurrent issue, as has the time taken to prepare business cases and contracts. The ODPM can help by encouraging the sharing of best practice between Fire Authorities and standardisation through the issuing of a guidance pack. We also recommend that ODPM introduce the Gateway process for F&RS PFI schemes.

Improving communication between the many stakeholders is a major driver for improving the performance of the F&RS PFI programme. ODPM can assist by clarifying its role, as regards on-going project advice and monitoring, and facilitating relationships with multiple government departments.

There needs to be a lot more clarity over whether the ODPM intends to enforce the Treasury £20m minimum capital threshold for PFI projects. There is a common belief amongst the fire authorities that this figure is too high and even with bundling of fire stations is unlikely to be achievable. There is concern over how to fund replacement of individual run-down fire stations.

We recommend that ODPM be more proactive in improving awareness of PFI around the country. ODPM should also consider taking the lead in organising national and regionally bundled schemes.

1. Introduction

Over the past five years more than £200m has been invested in the Fire and Rescue Service (F&RS) under the Private Finance Initiative (PFI) programme. This has been used primarily to build new fire stations and headquarters, but also to build and operate training centres and (in London) to manage vehicles and specialist equipment.

The Office of the Deputy Prime Minister (ODPM) commissioned Capgemini to review the 16 F&RS PFI schemes and to provide recommendations as to how PFI schemes should be approached and used in the future as part of the modernisation agenda.

This is the second of two reports. The first report (PFI Programme Review, ref 1) assessed the existing 16 PFI schemes in rounds 1-3. This report builds on this review and incorporates views of other stakeholders. It includes advice to ODPM on how to overcome specific problems associated with the current Fire PFI programme. It also includes advice to Fire Authorities on how to improve performance of PFI schemes, based on lessons learnt from existing schemes. Finally there are suggested next steps for ODPM.

2. Approach

These recommendations are based primarily on information collected during the review of the F&RS PFI programme carried out by Capgemini for ODPM in March 2004. In particular it reflects lessons learnt as stated by Fire Authorities with signed contracts.

This has been supplemented with views from a selection of contractors and advisers, involved with existing F&RS schemes, contacted during the last two weeks of March 2004. All the interviewees wanted to be involved in any follow up session held to validate and provide more depth to the proposed improvements to the procurement process.

A list of the sources of information on which this report is based is given in Appendix 3.

3. Challenges Facing ODPM and Fire Authorities

Our research indicates the F&RS PFI programme has been broadly successful in that all signed contracts are meeting or surpassing client expectations, the construction of buildings has been to time and the quality of the buildings and fittings has been high.

However (see Appendix 1) the F&RS programme has some weaknesses. In particular, this is an expensive and time-consuming way of procuring assets. A key reason for this is the protracted procurement process. Also three of the sixteen schemes given permission to proceed have folded prior to a contract being signed.

Since the first F&RS PFI bidding round in December 1997, there have been a number of changes impacting the F&RS PFI programme (see Appendix 2). The PFI market has matured. There has been a reduction in the number of players in the bidder market and the Government has focused on methods of obtaining better value for money for PFI schemes. The key guideline recently issued by the Treasury is that PFI should only be used for schemes with a capital value greater than £20m. In addition the Fire Service priorities, as part of the modernisation agenda, now include a focus on providing community safety and collaboration between brigades.

The challenges now facing the ODPM are how they should expand the FR&S PFI programme, given the current PFI climate, and how they can speed up the procurement process.

The challenge facing Fire Authorities is how they can maximise their chances of success when applying for PFI credits and procuring and implementing a PFI scheme.

Specific advice for ODPM and individual Fire Authorities, based on research carried out by Capgemini, is given in the following sections.

4. Advice to ODPM

4.1 Speeding up the Procurement Process

PROBLEM: The procurement process is often unnecessarily protracted.

A common complaint from Fire Authorities and contractors alike was the length of time taken during the procurement process, particularly in comparison with traditional procurement. Contractors complained that both the length of time, and the uncertainty around it due to poor forecasting by authorities, caused them to “lose heart” and discouraged them from bidding for future schemes. Also increased procurement time leads to increased costs, and hence reduced value for money.

PFI procurement for signed F&RS schemes takes an average of 2 years 8 months from the submission of the OBC to commercial close. However, the variation in time taken for F&RS schemes has been from 18 months (Manchester) to over 6 years (South Wales). Partnerships UK were commissioned by the government to undertake a review of PFI projects with new capital assets of less than £20m (see section 4.34 of ref 2). The research showed that ‘procurement times ranged from 14 months to 5 years, with an average duration of two and a half years’. This is in line with the procurement time taken for F&RS schemes.

The key reasons for the protracted procurement within the F&RS PFI programme have been:

- Delays in arranging planning permission
- Inadequacies within fire authorities’ procurement processes, including poor preparation of business cases
- Time taken to draw up complex contracts
- Time taken for banks to carry out due diligence
- Delays due to slow decision making centrally or poor communication between government departments.

TARGET: To have an average procurement time of less than 2 years.

There are three ways by which the ODPM can help speed up procurement:

- Providing a guidance pack to all schemes outlining best practice and including standard documentation
- Ensuring that there is a source of consistent on-going advice to procurement schemes
- Clearing communication lines between fire authorities and central government

These are discussed in more detail below.

ADVICE: Consider the development of a guidance pack, but look at the example of 4Ps procurement pack rather than constructing one from scratch.

A guidance pack could help those schemes allocated credits to reduce the effect of above – although it will not remove the need for commercial acumen within the project team. Procurement packs are already produced by the 4Ps for specific sectors such as housing, including best practice on the various stages of the PFI process from bid submission to the operational stage and a model project agreement.

It is suggested that, rather than reinventing the wheel, the ODPM should use an existing pack as a basis for a new fire guidance pack including fire sector specific advice on topics such as output specification, payment mechanisms, evaluation criteria, risk sharing and derogations from the OGC standard contract. Suggested best practice advice for inclusion, based on lessons learnt from existing F&RS schemes, is given in section 5.

ADVICE: Introduce the Gateway process for F&RS PFI schemes, without introducing additional delays.

The government is encouraging the use of the Gateway process for PFI schemes (see section 5.8 in ref 2). Although use of the Gateway process is not currently mandatory for F&RS schemes (and there was very little awareness of it within fire authorities that we spoke to), the 4Ps has told us that new ODPM schemes will need to follow it.

The current hurdles in the F&RS PFI programme correspond to Gateway reviews 0,1 and 3 (see Appendix 2). There is no check equivalent to Gateway review 2, following development of procurement strategy and prior to issue of ITN. A formal review at this point could pinpoint potential problems early in the process and before contractors have spent significant resources on bidding. For example such a review might have prevented the cancellation of the West Midlands scheme within one month of ITN submission. Less dramatically, it may prevent potential issues (such as an increase in credits required) that did not stand out in business cases, delaying the schemes further down the line, as has happened in the past.

Similarly there is no check corresponding to Gateway review 4, “readiness for service”. This is probably less important as to date there have been no problems with delays in construction or construction of poor quality assets. However it could be an opportunity to capture lessons learnt through the procurement and subsequent construction phase.

More importantly, there is no check corresponding to Gateway review 5, Benefits Evaluation once the scheme is in operation. This will become increasingly important in the future as more schemes enter the operational stage. Problems and lessons learnt picked up at this stage may feed back into improved contracts or output specifications.

It is suggested that the ODPM implement the Gateway process, but in such a manner as to minimize the additional bureaucracy and time involved. For operational schemes there could be annual reviews covering lessons learnt as well as quantitative data such as unitary and penalty payments.

ADVICE: ODPM needs to clarify its role (and that of PUK and 4Ps) as regards on going project advice and monitoring.

Currently there are a host of different parties involved in monitoring or providing advice for PFI schemes including the ODPM, Partnerships UK and the 4Ps. For Welsh projects there is the added complication of the Welsh Assembly Government. Vosper Thorneycroft mentioned visibility of the roles of everyone involved as their top suggested improvement to the procurement process. Particular problems that they have encountered are confusion over whether PUK is purely advisory (delegating negotiation to fire authorities) or needs to be included within the negotiation process, contradictory advice on the version of OGC guidelines to be followed and lack of clarity as to who has the authority to approve the final business case. It is crucial that the various parties work together and give consistent messages.

Until March 2003, the ODPM appeared to take a fairly active role in facilitating the approval of business cases for individual Fire Authorities. Since then, ODPM has been more remote from individual F&RS PFI schemes and has had very little involvement once the contract has been signed.

The ODPM needs to be clear on the role it now wishes to take. It should clearly retain responsibility for policy e.g. priorities between vehicles, estates and equipment, managing the PFI credits available to support local Fire and Rescue Authority PFI projects, providing resources to help projects succeed and focusing on the political agenda. It should take a key role in promoting the sharing of best practice (see section 4.4). It may or may not choose to take a strong role in dictating national projects and in regional bundling (see section 4.2). It may decide to administer the Gateway process (see above) or to leave this to the 4Ps.

The space where there is most uncertainty about the role of the ODPM and the overlap with 4Ps and PUK is in the provision of advice to ongoing projects. The more support and advice that PFI schemes have available to them during the procurement process, the more likely that they will be successful. It is crucial however that the various parties work together and give consistent messages e.g. on what version of OGC guidelines should be followed. **ODPM needs to consider the amount and skills of resources available within the Fire Service Improvement Team and whether this part of its role should be out-sourced.** If it is kept in-house, the Fire Service Improvement Team may need to consider the use of secondees or sharing resources with other PFI groups within the ODPM or other PFI groups associated with police or ambulance service in the Home Office.

ADVICE: Facilitate relationships with multiple government departments.

There is evidence of delays within the procurement process due to poor communication with and within Government departments. Both London and Vosper Thorneycroft spoke of business cases disappearing into the system and delays in government decision-making. Another example is evidence of poor communication between the Home Office (for the police service) and ODPM for the cross-service Cornwall safety centre project. The complex relationships between the Welsh Assembly Government, local authorities and the ODPM as regards approvals for PFI schemes and distribution of revenue support grants also contribute to problems with F&RS PFI schemes.

It is important for the ODPM to build strong relationships with PFI groups in other government departments. This will allow them to share expertise and common issues as well as facilitating collaboration.

ADVICE: Provide specific advice on discount rates and business cases.

A specific area that has caused confusion, considerable correspondence between the various parties and associated delays and fees for financial advisors is the discount rate. There has been uncertainty about what it was, how it was calculated and why it needed to be re-calculated. The ODPM could provide a lot more guidance to clarify these issues.

Another key source of frustration has been the business case. There are many examples of significant correspondence and associated wastage of time on bringing submitted business cases up to the standard required by the PRG. The ODPM could provide advice and examples of what is expected in a business case (e.g. as in the guidance developed by 4Ps). Early sight of draft business cases, preferably as part of an interactive session (as set up by Tyne & Wear), prior to submission, would also assist.

4.2 Sharing Best Practice

PROBLEM: ODPM is not maximizing sharing and building of best practice within the F&RS PFI programme.

The most valuable source of information available to a current scheme, particularly one that has specific issues to tackle, is another scheme that has been through a similar problem. The rationale behind the Pathfinder scheme was to spread best practice and initially there was a PFI forum. **Currently there is no formal process for sharing best practice.** We have found some evidence of informal sharing of information, but also examples where best practice has clearly not been shared between similar schemes. **There is also no central database of information derived from the schemes or of contact names.** This project (and in particular report 1) is a start on rectifying this. However it should be an on-going process, with a regularly updated “best practice” document.

ADVICE: Encourage Authorities to share best practices.

Every attempt should be made to encourage authorities to share information from submission of PFI bids onwards. Procurement packs (and even general guidance) should include information about other PFI schemes and who the key contacts are as well as encouragement to contact each other. A ‘user group’ could be set up c.f. the network groups run in education, health and housing. More proactively, the current schemes could be brought together to meet, thus forcing contact between them and providing an opportunity to discuss issues and agree best practice at a greater depth than has been possible in this review.

The Gateway process if implemented will provide a formal mechanism to collect regular information on specific schemes.

Another possible idea is secondment of people with PFI experience to other Authorities.

There is a particular need to encourage participation in national schemes (such as clothing procurement). The ODPM should establish a mechanism whereby everyone benefits from such schemes and which recognises the role played, for example, by the lead Authority. Such a mechanism would need to address issues such as apportionment of PFI credits, advisory costs and resources.

ADVICE: Establish a mechanism to encourage participation in national schemes.

4.3 Small Size of Fire Station PFIs

PROBLEM: Very few individual F&RS PFI schemes are above the Treasury minimum PFI capital threshold of £20m.

The Treasury guideline on minimum size of PFI project has been set at a capital value of £20m (see ref 2, Appendix 3). The reason for this is that procurement costs (for the public sector and for bidders) are disproportionately high for smaller schemes. The Treasury also states that, as small schemes typically face the same level of complex due diligence requirements that lenders require for much larger projects, the costs of private finance are relatively higher for small schemes. Thus small schemes are not expected to attract many bidders or to provide value for money. However qualitative benefits may outweigh value for money considerations.

The majority of F&RS PFI schemes so far have had capital values less than £20m. The only schemes exceeding £20m in rounds 1-3 are vehicle management in London (PFI credit £45m, capital value £48.5m), Tyne & Wear I&II (PFI credit £29.8m, capital value £23.45m), Essex (PFI credit £28.99m, capital value uncertain) and Suffolk (PFI credit £22.06m, capital value uncertain). It is noticeable that, excluding schemes that have folded and Tyne & Wear II, all schemes in round 3 and in the new round 4 have PFI credits greater than £20m.

There is limited confirmation of a minimum PFI threshold being imposed by contractors from our research. Jarvis has confirmed that they do not look at under £20m capital cost for a PFI scheme and maintain that this is the attitude of the majority of the remaining players in the (limited) market of bidders. Vosper Thornycroft, however, are neutral about the £20m guideline, and are more concerned as to whether a particular scheme will fit in with their portfolio. Carden Croft (a small architectural firm, focusing on “blue light” PFIs) believes that smaller PFI schemes can be made to work. They have stated that they are happy to bid for £3-5m schemes. According to Carden Croft, small firms are discouraged from bidding for these small PFIs due to the high cost of bidding, the length of time it takes and the complexity of contracts.

There is also some evidence of a minimum threshold being imposed by banks. North Yorkshire had the impression that their bank would not have minded if they had walked away from their scheme (£6.4m) and that the bank would no longer fund a project of £6m. The Jack Lunn Group confirmed this reducing enthusiasm of funders to be involved in smaller schemes – suggesting that the public sector may need to offer some additional protection to funders to encourage them to offer reasonable terms and conditions. On the other hand Carden Croft have not had problems finding a funder (British Linen Bank and more recently Nationwide) with the banks accepting the security of Carden Croft’s portfolio of small PFI projects.

The higher the minimum level set by the ODPM, the greater the pressure on authorities to increase the amount of PFI credits involved in a scheme to make them more attractive to bidders. Positive effects of this would be to encourage behaviour that is in line with current fire policy such as:

- Co-operation between brigades (e.g. the Avon, Somerset & Gloucester training centre and both the recently approved schemes in round 4).

- Co-operation between services – although a caution is that the examples of collaboration between services (Dorset, Cornwall safety centre, and Cleveland) have suffered delays or folded.
- Incorporating community facilities within the fire estate (e.g. Tyne & Wear)
- Out-sourcing management of an authority's total estate. This has been reasonably successful in the case of Cornwall. Doubts have been expressed by North Yorkshire that bidders would be interested in taking over the management of their outlying rural retained stations.

However it could also encourage more negative behaviour such as artificial combining of vehicle management and fire station (e.g. as was originally proposed in Cornwall), inclusion of fire stations that really do not need replacing, or over specification or exaggeration of the need for credits.

£20m is more than the entire capital build of most fire authorities. The Cornwall scheme required only £12.3m of credits (capital value £12.9m). Even if the 5 forces of the North West bundled all the buildings that needed replacing the capital value would probably be £13-15m and less for following years.

If ODPM imposed a strict £20m limit, there is a danger that the number of potential PFI schemes would soon dry up and that they would be restricted to urban areas.

A capital value of £20m is probably too high for a minimum figure and every scheme should be judged on its own merits. However ODPM does need to monitor the level of bidder interest and take steps to streamline the procurement process.

ADVICE: There should be a minimum size for F&RS PFI schemes; however, a capital value of £20m may be too high.

PROBLEM: Replacement of individual fire stations, particularly in rural areas, is not immediately attractive for PFI – but Authorities see PFI as being the only way to replace run-down fire stations.

If even a £10m minimum capital value were imposed, this would cut out replacement of individual fire stations. The overwhelming evidence from the research was that fire authorities were choosing the PFI route for replacement of individual or pairs of run-down fire stations, primarily not because of the intrinsic benefits of PFI, but because they felt that there was no other route open to them. The ODPM should pro-actively encourage regional batching of PFI schemes. For some of these fire stations, particularly in outlying rural areas, however, there may not be the opportunity to include them within a larger regional scheme.

Possible solutions are:

- Have a policy of supporting these small PFI schemes. We know that Carden Croft is interested in schemes of this size, but there is a danger that there will be few other bidders. It is unlikely that the larger PFI contractors such as Jarvis or John Laing will bid. Thus it is even more important for the ODPM to implement steps to reduce the cost of procurement to generate interest from small local contractors and to monitor bidder interest. There is also a danger that terms imposed by banks on small contractors, may be prohibitive.
- Encourage authorities to seek non-PFI sources of funding. The Treasury document, ‘PFI: Meeting the Investment Challenge’ (Section 7.36), stated that the Government was preparing a consultation document to outline the options for future capital support to Local Authorities, focusing on support for traditional (non-PFI) capital expenditure. The document does not appear to have been published yet but we recommend that the ODPM keep close to this.
- National batching. Initial soundings with contractors have been mixed. Contractors are interested in regional batching, in particular where they can combine the FM with FM being carried out in the region for e.g. schools. However they have not been in favour of batching of disparate fire stations nationally. The scale of the F&RS programme is unlikely to be large enough to support a structure of the national NHS LIFT programme set up to address this problem in the health care sector.

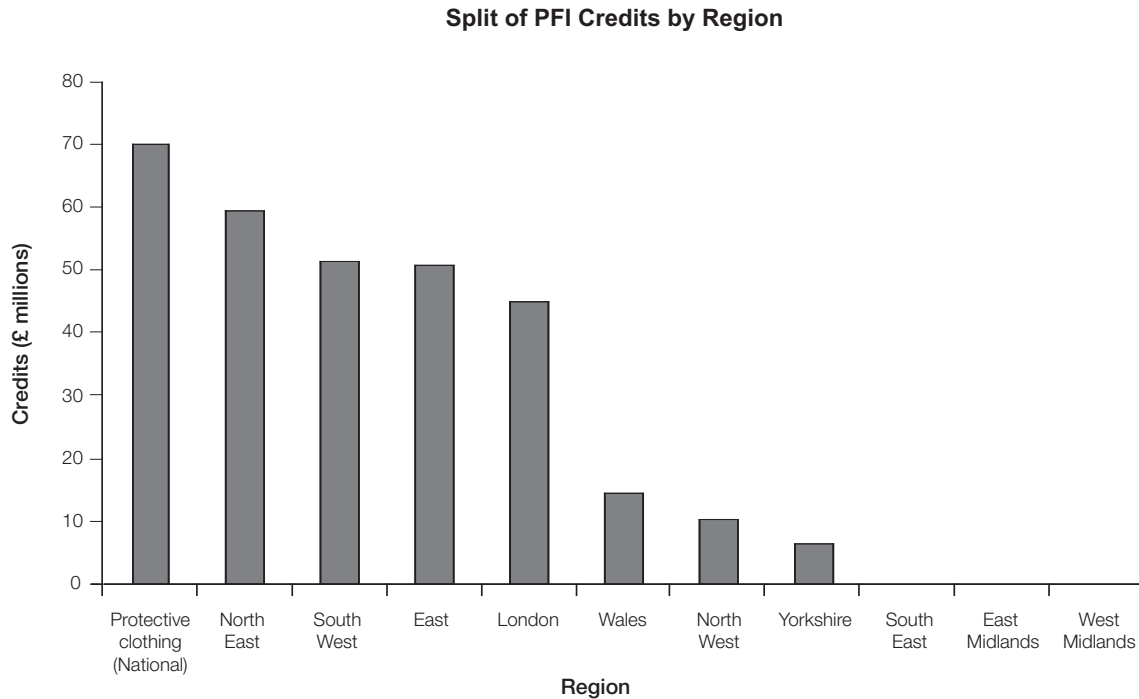
ADVICE: There needs to be a practical mechanism for asset refurbishment, if this cannot be bundled within a regional PFI scheme.

4.4 Geographical spread

PROBLEM: There is a danger that PFI schemes will be concentrated in a few experienced geographical areas.

There have been four rounds of bidding for PFI credits open to F&RS authorities within England and Wales. The chart below highlights how PFI credits have been allocated to date. Note that where there has not been a final allocation of credits the latest figure agreed has been used and folded schemes have been excluded. Also the chart does not reflect submission of unsuccessful bids or the relative needs of the various regions.

Figure 1. Split of PFI Credits Allocated by Region



Key points from the chart are:

- The South East and Midlands areas have not received any PFI credits
- The greatest percentage of credits, excluding the national clothing procurement project, has gone to the North East (19%)
- Including the national clothing procurement project, the allocation is dominated by schemes administered by London (37%)
- Although 17% of PFI allocation has gone to the East region, both of the two schemes involved are proceeding very slowly and have yet to reach contract signature.

The early rounds of the PFI programme have been a learning process for all involved. During our research, authorities with successful schemes all admitted their initial lack of knowledge of the PFI process and their increasing confidence as schemes progressed.

The ODPM may find itself in the position where the majority of PFI credits are allocated to a few regions. Already the North East, the South West and London have much more experience of PFI than other parts of the country and are committed to securing more credits in the future. In the fourth round, the winning schemes were both led by project managers with previous experience of a successful scheme. Project managers and authorities experienced in PFI are more likely to be successful bidders for projects in future rounds as they can demonstrate a successful track record and are likely to provide higher quality submissions. While such schemes are likely to be successful, all areas of the country should be encouraged to submit quality applications for PFI credits. **Otherwise there is a danger of a two-tier fire service – some regions having state of the art fire, community, training and office buildings while others with equal needs having increasingly run-down, and poorly located, stations and inadequate supporting facilities.**

ADVICE: ODPM needs to ensure improved awareness of the PFI programme amongst Fire Authorities.

One way in which the ODPM can encourage PFI submissions from other regions is to carry out an awareness campaign among Fire Authorities in advance of the next round of PFI bidding, including:

- The current policy for fire PFI schemes – size and structure of schemes encouraged and advice on how to replace individual run down fire stations.
- The mechanism of the PFI programme – outline of the process and expected timetable and criteria on which submissions will be judged.
- Learnings to date from the FR&S programme – factors increasing the chance of a successful scheme, details of Pathfinder projects and who to contact for advice on submissions for particular types of schemes.

This awareness campaign could consist of a presentation at a suitable national or regional forum (e.g. Chief Fire Officers annual meeting) backed up by guidance sent to each Fire Authority.

ADVICE: ODPM should consider taking the lead in organising national and regionally bundled schemes.

Another way for the ODPM to improve the coverage of the F&RS PFI programme and improve value for money is to take a more strategic role and take the lead in organising and promoting national schemes within the Fire Service such as the Protective Clothing scheme. The ODPM could also assist with “match-making” between neighbouring authorities to construct regionally bundled schemes, which offer greater value for money and are also more attractive to potential bidders. In order to do this, ODPM would need to view regular updates of Fire Authorities’ capital programmes.

5. Advice to Fire Authorities

This section provides specific recommendations for Authorities to help speed up the procurement process and improve value for money. They could be included within the guidance pack mentioned above. In a number of cases, these recommendations require agreement from the ODPM as well as a commitment that the necessary support will be available to allow effective implementation. The advice is based on discussions with Fire Authorities and contractors for existing schemes and incorporates specific lessons learnt to date.

5.1 Sites and Planning Permission

Arrange site and outline planning permission early (pre ITN)

Selection of sites and obtaining planning permission was one of the most important reasons for the protracted procurement process and affected almost all schemes in some way. Leaving the site selection and arrangement of planning permission to bidders has caused problems:

- Fire Authorities underestimate the time involved for the planning process and the complexity of the application required by the planning authority, leading to an increase in the time post ITN and associated increase in costs, particularly for the contractor.
- Sites are often limited, particularly where locations of fire stations are determined by fire cover considerations. Bidders expressing an interest in them can lead to an artificial increase in the prices, due to market perception that demand has increased.
- Potential bidders (or other parties) can purchase potential sites giving them a strong negotiating position with the Authority or simply an opportunity to sell the land back at a higher price.
- In one case, site negotiations failed and the preferred bidder was selected without a site. This resulted in a site search by both Authority and bidder at a very late stage in the process.
- Fire Authorities fall back on the option of re-building on the same site at a late stage, necessitating the finding of suitable temporary accommodation and adding time and cost to the project.

Dorset said that although they were aware of schemes reaching contractual close before a suitable site had been acquired, they were strongly advised to secure sites and planning consent before starting the procurement stage. However they were disappointed that there was nothing in the PFI process that enabled sites to be acquired expeditiously in the face of commercial competition. Using existing authority owned sites certainly made the acquisition process simpler.

Our recommendation is the Authority should arrange the site, outline planning permission, environmental surveys and initial investigations into service connections pre issuing of the ITN.

However there are consequences of placing the burden of selecting a site and obtaining outline planning permission on the Authority, in that:

- It takes the site risk away from the contractors.
- It is an additional cost to the authority and this is incurred at a point when there is no guarantee that the scheme will go ahead.
- It restricts innovation by private sector, as space is now being defined.

Consider involving planning consultants and planning authorities pre OBC

It may be cost effective to employ planning consultants at an early stage (pre OBC) to look at land issues and present a considered view of site suitability within the OBC. It would also assist authorities if it were possible to subsequently transfer site purchase costs to the unitary charge.

5.2 Stakeholder Management

Stakeholder management is crucial

One theme that came through strongly was the need to manage all the various stakeholders. These include the ODPM and other central government bodies, local authorities, the contractors, the workforce and unions, local population and advisors. The most successful schemes have been characterised by a heavy investment in communication and consultation. This is resource intensive but prevents misunderstandings and associated delays.

Schemes should provide regular updates to the ODPM, particularly during the procurement process. This will assist ODPM in identifying potential problems at an early stage. Implementation of the government's Gateway process will provide additional formal checkpoints.

Build relationship with contractor

A common theme amongst successful projects is that there is a strong relationship between the contractor and Authority. This allows problems during the procurement and construction phases, inevitable in a large scheme, to be overcome swiftly. A supportive, collaborative relationship will also increase the chances of the project being successful through the next 25 years, thus increasing the chance of value for money. Criteria for preferred bidder selection should place more emphasis on ability to understand client needs rather than being based primarily on finished building design and lowest cost. For schemes where procurement is managed by the local authority, the three-way relationship between project manager, contractor and the fire service is also important to establish, because projects will need the ongoing support of Chief Fire Officers.

The Authority and contractor should begin working together as soon as possible, perhaps taking an office together or as a minimum arranging regular meetings and contact.

5.3 Documentation

Improve quality of the words behind the numbers in business cases

There are many examples of significant correspondence and associated wastage of time on bringing submitted business cases up to the standard required by the PRG. According to 4Ps, areas of the business case that have been weak in the past are the scope, costings and the assessment of risk. There needs to be evidence of market testing and how the scheme will fit into the Fire Authority's future delivery strategy. Schemes should also demonstrate that they are in line with the Fire and Rescue Service modernisation agenda.

Where there are key assumptions (particularly on staff reduction) behind affordability calculations, a sensitivity analysis should be provided. Plans also need to put in place to implement any tough decisions.

4Ps have produced a standard business case template and provide the PRG review pro-forma to assist with business case development.

Use standard documentation as much as possible

Legal fees are usually the most significant element of cost for Fire Authorities and for contractors. In order to reduce this cost, standard documentation should be used as much as possible. The majority of PFI schemes are for building of fire stations, for which a standard output specification and risk matrix and the standard OGC PFI contract, with few areas of tailoring, should be appropriate.

A recurring suggestion from our research was that the output specification should be slimmed down, concentrating less on construction design details and more on fire specific requirements.

Use of IT and other tools improves communication

Having soft copies of all documentation and correspondence would save a lot of time. The information available to the ODPM in the future would then be accurate, complete and easy to access and search.

Tyne & Wear suggested that (standardised) room data sheets should be provided to Fire Authorities – on a database rather than a sequence of word documents, to facilitate consolidation.

The structured project management approach provided by Prince 2 may also be helpful.

5.4 Resources

Don't underestimate the scale of the resources required

Key characteristics of a successful PFI scheme are a full time project manager and the availability of sufficient skilled resources. One of the recurring lessons learnt is that the resource required from the Fire Authority to carry out the procurement process had been under-estimated. Early on in the process, the Fire Authority needs to undertake an evaluation of resources required to complete procurement. This can be based on examples of other projects in a similar situation (size of credits required and set up of team – in council or individual project manager etc). If it is a council led project where they are also undertaking other schemes it is important to reflect possible resource constraints within the plan.

Tyne & Wear stressed the need for resources to do configuration management.

Avon Somerset and Gloucester suggested for training centres, that it would be beneficial if the Director of Training and FM Manager were employed immediately post contract close.

Consider selection and use of external consultants to get value for money

The major cost for a Fire Authority during the procurement process will be for external (especially legal) advisers. Using standard documentation can make savings in advisers' costs. It is also worth investigating the information and support available from local councils to reduce consultancy costs. Information can be gathered from past projects as well. 4Ps feel that the need for technical advice (e.g. architectural or land acquisition) has been underplayed.

Other suggestions, made during our research, to improve value for money are:

- Appoint a joint team of financial, legal and technical advisers that have a track record of working together on a PFI scheme.
- Include the authority lawyer within the project team to assist with issues connected with variations in procurement, PFI and local government legislation. This is particularly important for joint regional schemes.
- Appoint an adviser who understands life cycle costs for FM and can critically assess this aspect of bids.

Reducing costs for contractors

It is in the interest of Fire Authorities to reduce procurement costs for contractors as this increases the attractiveness of FR&S schemes to potential bidders and hence improves the competitiveness of the procurement process and by implication, value for money. In addition to their own internal costs, bidders must typically meet the costs of technical, financial, design and legal advisors. These costs do not necessarily fall in proportion to the size of the project. Thus it is particularly important to reduce procurement costs for the smaller PFI schemes (generally for fairly standard fire station construction), which are likely to be of interest only to smaller and more local contractors.

Suggestions (not necessarily all feasible) from the contractors we spoke to included:

- “Do your homework” prior to the ITN stage to minimise the chance that the scheme will fold, pre-contract closure, but after bidders have spent significantly on bidding costs. This is particularly relevant to site and planning permission issues (see 5.1).
- Select the preferred bidder at an earlier stage, based on an outline design. At the moment the 2 or 3 short-listed bidders all have to price up fully the design of the scheme. This is a major cost for failed bidders.
- Reduce complexity and increase consistency. Contracts should be standardised (as is normal practice in the building trade) with few open elements. For small, simple schemes, reverse the current trend to demand more complex modelling from bidders, and hence increased fees for financial consultants. A standard model format should be used.
- Consider whether the extra cost required for the BAFO stage is justified.
- Do not include draft legal documents at the ITN stage. This forces all bidders to incur professional legal fees. The work done at this stage has to be redone later anyway, after the preferred bidder has been chosen.

5.5 Efficiency

Remove dead time in procurement process

Time is wasted in the procurement process when the scheme is slow to move to the next step. For example, while waiting sign off from the PRG for the OBC, the Authority could begin preparing the OJEC so that it can be issued immediately the decision is made.

Take measures to prevent delay between contractual and financial close

A number of schemes mentioned the unexpected demands by funders during their due diligence phase, but only North Yorkshire really suffered from having a significant delay between its contractual and financial close. The 4Ps state that it is best practice that the commercial and financial close should be close together and certainly within the same financial year, to avoid recalculations due to changes in discount rate. It is important to have funders involved early. However while this is likely to reduce the chance of delay, it may not eradicate it completely.

6. Next Steps for ODPM

Our suggested targets for ODPM, based on our findings and comments from those interviewed are as follows:

Within the next month

- **Strongly encourage the use of the Gateway process for existing schemes.** For schemes pre-contract closure, the ODPM should strongly encourage the use of the Gateway process, setting review dates – thus ensuring feedback on the actual procurement process, allowing intervention if necessary.
- **Identify existing examples of good procurement practice and encourage fire authorities currently involved in the procurement process to build on it.** This is a stopgap measure prior to the development of a specific fire guidance pack.
- **Define role of ODPM.** This is particularly in relation to 4Ps and PUK, involvement in national and regional scheme and administration of the Gateway process. Communicate this role to Fire Authorities and resource up if necessary (particularly during the next 12 months to kick-start the process).
- **Begin consultations with PFI units in other government departments.** This will allow for a pooling of experience on PFI.
- **Consider an addendum to the current project.** This would look at things not yet covered in depth including views of banks, risk matrices and contracts.

Within 6 months

- **Review £20m threshold for PFI schemes in F&RS.** Once a decision has been reached on the minimum threshold a clear message needs to be given to all fire authorities on the type of schemes that will be encouraged, and what to do about the single fire stations and other potential projects that do not reach the threshold set.
- **Visit schemes both in the procurement and operational phases.** All schemes expressed interest in meeting members of the ODPM.
- **Feedback.** Implement a formal process for ongoing feedback from operational schemes.
- **Pro-actively encourage communication between schemes & take lead in regional and, where appropriate, national bundling.**
- **Produce a PFI booklet for wide circulation.** To accompany an awareness campaign, prior to PFI round 5.
- **Conduct focused session for stakeholders (including 4Ps and PUK) to validate and provide more depth to proposed solutions.** This could be a Capgemini Accelerated Solutions Environment (ASE). From discussions so far, contractors and the people involved in the project management for schemes are keen to be involved.

Before PFI Round 5

- **Write a fire service guidance pack.** This should build on existing procurement packs.
- **Write annual newsletter.** To update on changes in personnel, schemes approved and news on PFI. These issues could also be discussed each year at an existing forum for Chief Fire Officers.
- **Central fund.** Look at the feasibility of a central fund for national schemes that are to be run by one local authority.
- **Conduct PFI awareness campaign amongst fire authorities.** Present at appropriate national or regional forums.

Appendix 1 – Strengths and Weaknesses of the Current Fire PFI Programme

The information below is based on the review of the existing Fire PFI Programme (see ref 1), in particular comments made during visits to signed contracts.

A1.1 Strengths of the PFI programme

The only route to replace assets

The consistent message given was that the PFI programme, with its PFI credits, was seen as the only practical route to replace worn out assets. A number of Fire Authorities stated that a new fire station, at a cost of around £2m, was equivalent to two years worth of capital budget, and hence barely affordable without assistance. For example Lancashire had been waiting for many years to obtain funding to replace two fire stations that were well beyond their operational lives.

The only route to make a sea change in service delivery

Both Tyne & Wear and London (two of the more ambitious and successful schemes) stated that without the extra funding provided by PFI they would not have had access to the capital to make such a step-change to achieve their visions of strategically located community fire stations (Tyne & Wear) or an order of magnitude improvement in vehicle availability (London).

High quality assets

Another consistent message was the high quality of the assets provided under the PFI scheme. This was thought to be higher than would be obtained through traditional procurement, due to the requirement of the contractor to maintain them for 25 years. All Fire Authorities were proud of the new buildings. Both Tyne & Wear and Cornwall mentioned how these are high profile buildings within the local community. Lancashire talked about a state of the art solution. Manchester praised the good quality durable fittings. Tyne & Wear incorporated features reflecting likely trends over the next 25 years such as IT networks for computer based training for individual firemen. The quality of facilities available at the North Yorkshire training centre made it the location of choice for Fire Authority meetings.

Discipline forces authorities to understand costs

The discipline of the PFI process was mentioned as a strength by a number of Fire Authorities. Both Cornwall and London praised the way it required authorities to understand and price what they do at present. Lancashire and Tyne & Wear mentioned how the disciplined process and the multi-disciplinary team of professionals forced them to cover all areas.

Certainty over 25 years

Another advantage of the PFI procurement route for building fire stations is that the payment mechanism set out in the contract provides certainty over FM cost, and secure funding, over 25 years. Lancashire mentioned that the due diligence work that the contractor's funder undertook provided the Authority with the comfort that the scheme was operationally viable for the whole period of the contract.

No construction overruns

Without exception, construction for signed contracts was completed to time (the longest delay likely to be 2-4 weeks at Tyne & Wear). Of course there is a strong incentive for the contractor to complete on time as payment is based on availability. The impression given from the literature on PFI (e.g. ref 2) is that the record on completion for PFI generally is substantially better than under other procurement routes.

Strong partnership with contractor

Another consistent theme coming through from the FR&S PFI programme was the strong partnerships formed between Fire Authority and contractor. In London TLG now input into the design phase for equipment. "Give and take" was mentioned a lot as the way of dealing with small variations or situations which could formally have resulted in penalty payments. In Avon Somerset & Gloucestershire the partnership has been strengthened by a conscious decision to share an office since the start of the contract.

Knock on benefits

Most schemes report qualitative benefits including application of similar principles to other contracts (London), high profile buildings (Cornwall), improved recruitment (Cornwall) and collaboration between brigades on recruitment (Avon Somerset & Gloucestershire).

A1.2 Weaknesses of the PFI Programme

Protracted procurement process

The average time taken for the PFI procurement process for signed contracts was 2 years 8 months from submission of OBC to commercial close. This compares with around one year to complete from expression of interest for traditional procurement. In many cases the delays could have been avoided, or steps could be taken to reduce them. The worst example has been South Wales, which has taken over 6 years from OBC to commercial close. The longer the process, the higher the costs both for the Fire Authorities (in particular on external advisers) and for the bidders. This is particularly a problem for small schemes where proportionately high procurement costs already call into question the value for money of PFI. Feedback from contractors is that the length (and unpredictability) of the process discourages bidders.

Resource intensive

A common concern expressed by Fire Authorities was the resource intensive nature of the PFI process – and in particular the demands of communications exercises to ensure stakeholder buy-in. Because of the political sensitivity of the PFI concept, particularly with unions, it could be expected that more resources would be required for stakeholder management than for traditional fire station procurement.

Expensive

The cost of the procurement process is substantially higher than for traditional procurement in terms of both the cost on external advisers (most projects spent over £100k on external advisers, one spent just under £1m) and internal resources. This is due to the complex contractual arrangements, to the hoops that need to be gone through to secure PFI credits and the length of time for procurement.

For the smallest projects (around £5m) it appears that the interest rates charged by lenders to (correspondingly small) contractors are high and these are reflected in high unitary charges. For example, in North Yorkshire, there is evidence that the cost per year for the training facility is high compared with a leasing option.

It is possible that some of the assets have been over-specified. However, the only obvious example of over-specification was at Manchester where, for example there were two dining rooms and apparent wastage of space. The only example of where usage of the asset has been less than predicted (and hence where there has been a “waste of money”) is the fire station in North Yorkshire which has been designed to be used 24x7 and is in fact currently being used only as a retained fire station.

Three projects have folded

The three projects that have folded prior to contract closure are Mid and West Wales, West Midlands and Cleveland. All three schemes were under £10m. West Midlands did not fold until one month after bidders had submitted final bids, over 2.5 years into the procurement process. The reason given was that the fire station was no longer required.

Appendix 2 – Changes in the External Environment

Squeeze on Potential Bidders

From the literature on PFI and from discussions with, amongst others, 4Ps it is apparent that there has been a change in the market from the early days of PFI. There are now fewer private sector players in PFI. Resources with PFI experience are also scarce within the remaining players. Thus large contractors are not bidding for small schemes and the number of bidders for individual schemes is declining. This erodes competitiveness.

Treasury guidelines on size of project

The Treasury guideline on minimum size of PFI project has been set at a capital value of £20m. The reason for this is that procurement costs (for the public sector and for bidders) are disproportionately high for smaller schemes. Thus small schemes will not attract many bidders and will not provide value for money. From the literature, backed up by our interviews with contractors, both the larger remaining PFI contractors and banks are tending to set the same minimum limit.

Gateway process

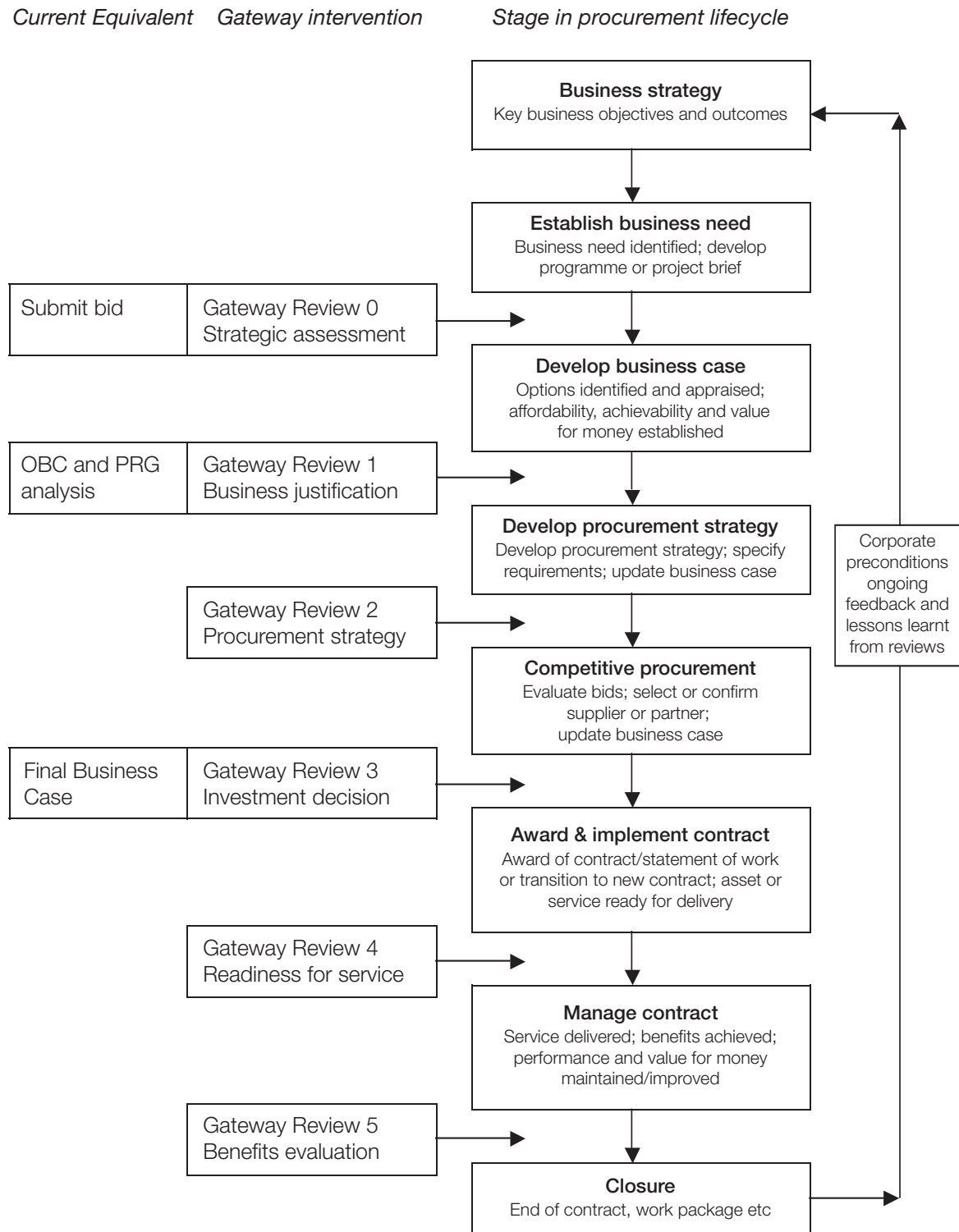
The Government have introduced a Gateway process, a quality control process to help public sector managers to think through, plan and deliver successful projects. Fig 2 shows how some of the Gateway Reviews correspond to existing checks within the F&RS procurement process, but others have no corresponding check.

Consultation on changes to PSC

The Government is currently consulting on reforms to the appraisal process and in particular the Public Sector Comparator. The proposed changes are to:

- Recognise that the PSC is just one tool to assess a project's value for money.
- Consider the PSC as the second stage of a three stage evaluation process (the first stage being to assess whether the characteristics of the PFI programme are consistent with a PFI approach and the third being to monitor procurement to make sure that it is a 'competitive process', with the option of going back to the first stage should PFI not appear to be giving value for money).
- Reform the existing PSC into a comprehensive project appraisal carried out at the outline business case stage.

Figure 2. The Gateway Process



Fire Priorities

The Government's priorities for the Fire and Rescue Service are set out in the White Paper, 'Our Fire and Rescue Service' and developed in the 'Draft Fire and National Framework: 2004/05'.

Quotes from the White Paper of relevance to this study include:

'The Independent Review of the Fire Service identified large benefits from collaboration between brigades. But, even though such benefits had been identified in previous studies, there has been little evidence that the fire service, as a whole, has pursued amalgamation of fire control rooms, better procurement, collaboration arrangements for vehicle maintenance, or the rationalisation of management and support costs with any real enthusiasm.'

'...improved collaboration across areas larger than the current area of fire authorities is needed to unlock the benefits of modernisation in terms of lives saved and more efficient operation'.

Appendix 3 – Sources of Information

Referenced Documents

1. Review of PFI Contracts; Report 1 – PFI Programme Review CGE&Y March 04
2. PFI: Meeting The Investment Challenge HM Treasury July 03

Visits and Meetings – Fire Authorities

- Greater Manchester Roger McLachrie
- Tyne & Wear Chris Foster
- North Yorkshire Ian Young
- London Terry Brewer, Keith Cook
- Lancashire Roger Rymer, Malcolm Evans
- Cornwall Mick Howell, Barry Austin, Sue Day
- Avon, Somerset & Gloucestershire Peter Thorp, Bob Manners, Facilities Mgr, Deputy Director of Training

Meetings and teleconferences with other stakeholders

- 4Ps Alan Burnett
- PUK Kate Cohen
- Carden Croft David Croft
- Jarvis Ron Abrahams
- Vosper Thorneycroft Mike Kinsey
- Sharps PFI Services Ltd Brian Sharp

Documentation stored at Office of the Deputy Prime Minister including:

- Summary report on de-briefing meeting Tyne & Wear Civil Defence Authority PFI Project May 2003
- PFI Progress Report & Learning Points for ODPM DESPI February 2004

Key documents for specific schemes (where available)

- Outline Business Case
- Information to Negotiate
- Project Agreement
- Final (or Full) Business Case

Background reading including:

- Public Private Partnerships – A Review of the Key Issues ECI Aug 03
- Our Fire & Rescue Service ODPM June 2003
- Burning Issues (John Hall, Jack Lunn Group) PFI Journal Nov/Dec 01 v.6
- www.publicprivatefinance.com
- www.nao.org.uk
- www.odpm.gov.uk
- www.hm-treasury.gov.uk