

A GUIDE FOR PFI AND PPP PROJECT DIRECTORS AND PROJECT OWNERS



For local authorities considering the **Private Finance Initiative (PFI)**, a **Public Private Partnership (PPP)**, or **long-term strategic partnership for the first time, the project development and procurement process can appear overwhelming. This is especially true for newly appointed Project Directors and Project Owners who have been given the responsibility to develop, execute and deliver a project or service improvement through a partnership route.**

This Guidance provides an overview of the whole project process, and clarifies the roles and responsibilities of the Project Director, Project Owner and other parties to the project. It also identifies the key activities at each stage of the process, together with the vital success factors that contribute to the effective delivery of projects through a partnership route. The Guidance contains best practice and identifies the standard documentation available from 4ps, HM Treasury and other government departments.

This Guidance assumes that the procurement of the project or service is being undertaken using the competitive dialogue procedure.

WHAT IS PFI/PPP?

Characteristic of PFI/PPP for the delivery of a local authority service is a long-term design, build, finance and operate contract (typically around 25 years) that transfers the project construction and service delivery risk from the local authority to a private sector service provider. The contract seeks a balance that best meets the needs of the local authority and users of the service, while being acceptable to the service provider. In opting for PFI/PPP, local authorities and their communities can benefit from significant private sector investment, as well as government funding (in the form of a PFI credit) for new or upgraded services. It is a procurement method being used increasingly by local authorities, and

already encompasses many service areas, including schools, roads, light rail, highways management, street lighting, social housing, waste management, leisure services, social services, corporate and transactional services, office accommodation, and fire and police stations.

Decisions made during the development and procurement stages of a PFI/PPP project will clearly have long-term implications. This Guidance highlights the key issues that Project Directors and Project Owners need to address in implementing a PFI/PPP project, and the key drivers of the process.

Procurement through PFI/PPP is a complex process that will involve local authority officers at all levels and across a range of disciplines, as well as external advisors. The success of the project depends to a great extent on the skills, expertise and experience of those involved, and the synergy between them.

The Project Director will be a critical appointment. The Project Director should be 'empowered' to do the deal, and the seniority of the person appointed will need to reflect the complexity of the project and the local authority's decision making structure. The Project Director plans and allocates responsibilities for the project's tasks and development as part of the project methodology and takes day-to-day responsibility for managing the development, procurement, execution and delivery of the project.

The structure of the team set up to deliver the project will be different for each local authority, but most will involve the Project Director having a central role and interacting with all the main parties.

The Project Director will be responsible for leading and directing a multi-disciplinary team, and will lead the discussions and 'competitive dialogue' with bidding consortia.

ROLES AND RESPONSIBILITIES

TYPICAL PROJECT DELIVERY STRUCTURE

PROJECT DIRECTOR

The Project Director plays a key role in delivering the PFI/PPP project, and is therefore considered the most critical appointment to the Project Team. As such, the appointment will be full-time and will take account of the local authority's decision-making structure, and the risk and complexity of the project.

The Project Director is required to:

- be empowered to make key decisions and to 'do the deal'
- be a full-time appointment
- understand his/her role, and the level of delegated powers
- have the requisite seniority and experience to reflect the level of delegated authority and complexity of the project
- have the appropriate skills and experience in PFI/PPP, procurement and project management
- have the ability to lead the Project Team
- communicate effectively with all members of the Project Team, Strategic Project Board, stakeholders, users and the wider community
- appoint and manage advisors
- in conjunction with the Project Owner, identify and secure sufficient resources to deliver the project effectively
- lead competitive dialogue and negotiations with the bidders
- manage the vital success factors for project delivery
- report regularly and at key stages to the Strategic Project Board and the Stakeholder Board
- manage competing interests
- provide Quality Assurance and sign-off to all project documentation
- put in place an appropriate project management methodology and Risk Register
- network with other local authorities and the wider market to understand and share best practice
- help the team maintain a work/life balance
- celebrate success

PROJECT OWNER

The Project Owner provides overall sponsorship and leadership for the project and ideally should be the local authority Director or Assistant Director with responsibility for the service area in which the project is being proposed. In a particularly complex or high-risk project, the Project Owner may be the Chief Executive or an executive member.

The Project Owner is the person who is ultimately responsible for the successful delivery of the project, and is required to:

- ensure cross-functional/departmental interaction and support
- identify and secure a properly resourced team for the delivery of the project, including appropriate budgets for external support
- manage issues that affect the 'stability' of the project
- promote the project and liaise with members, stakeholders, government departments and external bodies
- obtain Cabinet approval at key milestones in the process
- chair the Strategic Project Board
- ensure the project provides Best Value and is affordable
- support the Project Director on key negotiating issues

PROJECT TEAM

The Project Team, set up to support the Project Director through the development and procurement process, should have the relevant technical, financial, PFI/PPP and legal skills, expertise and experience to deliver the project. While most local authorities can draw upon their own resources to fill appointments to the Project Team, it is likely that external advisors (for example, technical, financial and legal) will be required as well. The extent to which external advisors are needed will depend on the internal staff available, and the type, size and complexity of the project. For complex and high-risk projects, the Project Director may need the support of a dedicated internal or external Project Manager and Project Administrator.



Typically the Project Team will comprise eight-ten members to ensure a sufficient breadth of expertise while remaining a workable group. Members should include representation from relevant departments in the local authority, and a representative from the 4ps operations team can be included if appropriate. Sub-groups might be established to deal with specific tasks at key stages in the development and procurement process.

STRATEGIC PROJECT BOARD

Member, Cabinet or Council approvals will be required at key stages of the project, principally for the approval of the Outline Business Case (and any Strategic Business Case or Expression of Interest for a 'bidding round'); at the initial shortlisting stage once competitive dialogue has opened; on the de-selection of any bidders during the competitive dialogue period; at selection of a Preferred Bidder; and to approve the Final Business Case. It is considered good practice to put in place a Strategic Project Board to ratify the Project Team's decisions at these key stages. The Strategic Project Board comprises senior local authority officers and members, as well as the Project Director, and is chaired by the Project Owner, the person with overall responsibility for the project. Meetings are typically held at quarterly intervals, and/or at significant milestones, such as at selection of the initial shortlist, for approval of the Invitation to Submit Detailed Solutions, at appointment of Preferred Bidder, and at approval of the Final Business Case prior to financial close. Terms of Reference for the Strategic Project Board are put in place by the Project Owner.

STAKEHOLDER BOARD

To ensure that the opinions and needs of the wider stakeholder group are represented in the development of the project, a Stakeholder Board is set up. It is a means of ratifying decisions taken by the Project Team, and provides support in a wider strategic context. This Board is usually chaired by the Project Owner, who manages the stakeholders' expectations of the project. Stakeholders can communicate with the Project Team through the Project Director, who is also a member of the Board. Other members may represent interests external to the local authority, such as tenants in a housing scheme.

Stakeholder consultation groups are often convened to discuss the project as part of a structured engagement process. The number of such groups will vary according to the size and scale of the project. Good communications with the various stakeholders is very important if the project is to gain broad support and stakeholder 'buy-in'.

ADVISORS

In the majority of PFI/PPP projects, external advisors will be required to support the local authority's in-house skills, experience and resources.

Any skills gaps should be identified at the outset, and options considered for securing any additional resources required (for example, technical, financial and legal advisors). The primary role of these advisors is to give appropriate advice in their area of expertise to the Project Team. In appointing external advisors, experience has shown that the expertise of the individuals for the assignment should be the most important factor in evaluation.

The Project Director, in making the appointments, is required to:

- specify clearly what is needed from external advisors
- take advice from 4ps and references from other local authorities
- put in place an appropriate budget for advisors' fees
- appoint advisors through competitive procurement, basing selection on expertise, capacity, knowledge, resources, price and references
- ensure capacity building and skills transfer are part of the appointment

External advisors most likely to be required for a PFI/PPP Project are:

Technical Advisor, whose role includes:

- supporting the development of the technical aspects of the Outline Business Case
- drafting the Output Specification
- developing the Payment Mechanism in conjunction with the financial advisors
- ensuring that all technical aspects of the project meet, in full, the project objectives
- evaluating and advising on all technical solutions throughout the procurement, including bidders' Method Statements
- scrutinising costs of the bidders' solutions throughout the procurement
- undertaking technical due diligence on bidders' solutions
- site condition work, planning and design work
- supporting the Project Director in clarification and fine-tuning of technical issues

Financial Advisor, whose role includes:

- supporting the development of the financial aspects of the Outline Business Case, in particular the options appraisal and financial modelling
- developing the Payment Mechanism in conjunction with the technical advisors
- preparing the financial submission requirements
- ensuring that all financial aspects of the bidders' solutions meet the financial submission requirements
- optimising and scrutinising the financial models submitted by bidders
- evaluating and advising on all financial proposals throughout the procurement
- reviewing funding and taxation aspects of solutions
- preparing the accounting opinion for the Chief Financial Officer
- undertaking financial due diligence on bidders' solutions
- supporting the Project Director in clarification and fine-tuning of financial and commercial issues

Legal Advisor, whose role includes:

- developing the contract documentation for the project, using 4ps Procurement Packs and sector specific contracts where appropriate
- developing other legal aspects of project bid documents
- preparing the legal and contractual submission requirements
- ensuring that all bidders' solutions meet the legal and contractual submission requirements
- evaluating and advising on all legal and contractual solutions throughout the procurement
- undertaking legal due diligence on bidders' solutions
- supporting the Project Director in clarification and fine-tuning of legal aspects

MANAGING ADVISORS

In managing the external advisors throughout the term of their commission, the Project Director will be required to ensure that they provide good value for money, and will:

- establish and maintain clear lines of communication
- keep all advisors up to date with all key developments
- avoid stifling advisors' contributions, while ensuring they are not allowed to lead the project



- avoid allocating routine tasks to external advisors when these could be done internally
- encourage good team relationships
- ensure that advice is reviewed for quality and consistency
- use standardised documentation (4ps Procurement Packs and other documentation) wherever possible
- expect the diligent and expeditious resolution of issues by advisors
- monitor continuity of the advisor team resources
- maximise opportunities to transfer skills into the local authority
- control advisor resource (such as use of trainees and the doubling up of staff at meetings)
- monitor fee levels on a monthly basis against the agreed fees, and consider capping individual stages
- have a robust change control system to agree, control and monitor changes in the scope of the advisors' services and fees

OVERVIEW OF THE PFI/PPP PROCESS

The Project Director and Project Owner are appointed at the outset of the PFI/PPP process. There are six key stages in the process, all involving considerable preparation, planning and management.

STAGE 1 – STRATEGIC CONTEXT

Initial tasks in the PFI/PPP process are to provide decision makers with all the relevant information needed to give their approval to allow the project to be taken forward.

These involve:

- identifying the strategic and business need for the project and setting its objectives
- appointing the Project Team, including any external advisors that may be required
- identifying the input required from the local authority and other stakeholders
- identifying any statutory processes that apply
- ensuring the local authority and external approvals are in place
- setting budgets

STAGE 2 – OPTIONS APPRAISAL AND BUSINESS PLANNING

During this stage, the project objectives are reconfirmed, the current service provision and any underlying assets analysed, and appraisals of the project and procurement options carried out to determine the preferred project option and procurement (or service delivery) option.

This stage also involves:

- establishing a Reference Project and Public Sector Comparator, including an exemplar design where relevant
- preparing a draft Output Specification and Payment Mechanism that set out the service requirements and performance standards
- assessment of optimum bias and risks and preparing a detailed Risk Register
- soft market testing to confirm market acceptability of the costs, scope and requirements of the proposed scheme
- detailed financial modelling to determine costs, affordability and value for money
- drafting other documentation required for the project (using standard versions from the 4ps where appropriate), ie Descriptive Document, Pre-Qualification Questionnaire, evaluation procedure and Model Contract
- developing the project delivery structure and project plan

The key outcome of this stage is the preparation of an Outline Business Case that documents the results of this work for submission to the relevant decision makers.

STAGE 3 – PRE-QUALIFICATION

Following approval of the project, the formal procurement process can be commenced. The aim of the initial stage is to determine a list of pre-qualified bidders.

Key steps are:

- OJEU – A Prior Information Notice (PIN) is issued if required, and an advertisement of the project to the market is placed in the Official Journal of the European Union. The OJEU notice sets out the award criteria and stages to be used for the competitive dialogue.
- Pre-qualification – A Descriptive Document (with details of the local authority and the project) and a Pre-Qualification Questionnaire are sent to those parties expressing an interest in the project. The aim at this stage is to test potential bidders' technical capability, and financial and economic standing. A robust evaluation procedure is required.

STAGE 4 – COMPETITIVE DIALOGUE

Following pre-qualification, competitive dialogue will be commenced to select a shortlist of bidders, and to enter into detailed dialogue with those bidders, to seek detailed solutions from those bidders and ultimately to request final tenders from bidders.

During this stage:

- Shortlisting – Pre-qualified bidders are sent an Invitation to Submit Outline Solutions on how they intend to address the critical aspects of the project. This usually consists of eight to 12 questions critical to the project. Evaluation of bidders' outline solutions will enable a shortlist of three-four bidders to be selected for further competitive dialogue.
- Invitation to Submit Detailed Solutions – An ISDS is issued to the shortlisted bidders. It provides instructions and guidance to bidders on the competitive dialogue process and timetable, the local authority's bid submission requirements, the criteria to be used for evaluation, proposed contractual terms (including Output Specification and Payment Mechanism), and the extent to which bidders are able to enter into dialogue on and submit variant solutions.
- Through competitive dialogue with each bidder, the aim should be to 'drive out' Best Value solutions.
- Bids are received detailing how the bidder will provide the service (in the form of Method Statements), together with financial models, design submissions and a commentary on the Model Contract.
- Bidders' solutions are evaluated, and further dialogue will be initiated to refine the solutions.

At the end of the competitive dialogue period, final tenders are sought from bidders.

STAGE 5 – SELECTION OF PREFERRED BIDDER

The principal objective of this stage is to select a Preferred Bidder (to become the Service Provider) who offers Best Value and will deliver the required service to the standards set, and within the budget and contract terms agreed.



This stage involves:

- selection of a Preferred Bidder for limited final contract clarification and fine-tuning
- preparation of the Final Business Case for assessment and approval by the Strategic Project Board, Members, and where relevant the sponsoring department
- finalisation of design proposals and signing off technical issues
- finalising and signing contract documentation
- remaining service provider and funder due diligence

STAGE 6 – CONTRACT MANAGEMENT

The key outputs and objectives for this stage are to ensure the timely provision of the fully commissioned and operational facility and services. Since the aim of the project is to deliver a long-term, sustainable service, it is important to consider the operational phase during the procurement process.

It is necessary to appreciate the 'fit' between:

- the service requirements
- the Payment Mechanism through which the service provider will receive payment for the services
- the contractual monitoring regime, which should be effective but as simple and manageable as possible

At handover, the local authority should have all monitoring measures and monitoring procedures in place.

VITAL FACTORS FOR PROCUREMENT SUCCESS

The Project Director, Project Owner and Project Team should be aware of eight vital factors that contribute to the successful development and operation of a PFI/PPP project.

It is important for the progress of the project to be reviewed against these vital factors, at every key stage, to ensure that each is being, or has been, properly addressed. The Project

Director implements this review, and involves all relevant parties in the actions at the different stages of the development and operation of the project.

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Vital factors for procurement success

Project principles embody the clear vision and objectives set for the project, which should flow from the local authority's corporate and service strategies. The project principles should be incorporated in the evaluation of project options, evaluation of solutions and contract management. Project documentation should clearly reflect the project principles.

Affordability and Best Value – as part of the business planning process, accurately costing the Reference Project and making a realistic assessment of the affordability of the project will contribute to a smooth procurement. The chosen project and procurement option should represent Best Value

Leadership and managing the process effectively will involve good planning, dedicated and adequate resources, and robust project management processes. All are essential to achieve a high quality project that meets the expectations of the local authority and maintains private sector confidence.



Technical and statutory issues should be addressed early in the project to avoid delays and additional costs arising from, for example, planning, site acquisition, ground conditions, environmental issues.

Stakeholder management and communication is important to align stakeholders' objectives and contributions with those of the project. A communications plan should be developed to ensure that stakeholders are engaged throughout. A collaborative web site will facilitate communication internally and externally, and can be used to manage the distribution of project data.

Understanding the market – an awareness of the aspirations and concerns of potential service providers is necessary. The aim is not only to secure an affordable and well-managed project, but also to manage and mitigate any uncertainty so that Bidders are reassured about issues associated with delivering the project

Risk management – risks associated with the project must be identified, quantified, and allocated to the party best able to manage that risk. A Risk Register should be used during the procurement process, particularly as part of the bid evaluation. Risks retained by the local authority should be quantified, mitigated and managed.

Guidance and documentation such as the 4ps Procurement Packs and HM Treasury guidance on standardisation of PFI contracts should be used to reduce the time and costs in delivering projects



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