



National Audit Office

## Making Changes in Operational PFI Projects

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LONDON: The Stationery Office  
£13.90

Ordered by the  
House of Commons  
to be printed on 14 January 2008

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

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**9 January 2008**

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# SUMMARY

**1** Under the Private Finance Initiative (PFI), the public sector enters into a long-term contractual arrangement with private sector companies to design, build, finance and operate an asset such as a hospital or school. There are now over 500 operational projects (nearly 400 of which are in England) with a combined capital value of £44 billion. Future payments across all PFI projects up until 2031-32 amount to £91 billion in today's money.<sup>1</sup> Although public sector requirements are specified in contracts, it is inevitable over the course of 25 to 30 years of operation that changes will be needed to the services and assets provided. It is therefore important that PFI contracts are able to provide the flexibility required at a cost that represents value for money.

## Findings

- 2** An estimated £180 million was paid by public authorities to PFI contactors to undertake changes in 2006. In our examination of these changes we found that:
- a** PFI deals are offering sufficient flexibility to the public sector. Contractors had handled urgent requests in a timely manner and around 90 per cent of contract managers responding to our survey were satisfied or very satisfied with the quality of work done to implement change requests.

- b** The timescales for agreement and completion of larger changes compare well with conventionally outsourced refurbishment or upgrade work in the public sector. Timescales were slower for minor changes than for equivalent conventionally outsourced work. This was an occasional source of frustration for front-line users, although service delivery was not affected.
- c** Taking all projects together, some achieve better value for money than others but several components of the cost of changes were problematic:
  - i** higher value changes were not always competitively tendered, partly because of timing, cost and the difficulties of integrating new work with the existing set of obligations under a long-term contract, though other provisions to validate costs were sometimes in place. Contractual provisions in existing PFI deals do not always give the public sector adequate rights to insist on competitive tendering, although this has now been rectified in the latest guidance issued by the Treasury on standardised terms for future PFI contracts.
  - ii** For minor works, there was little consistency in the methods used by public sector teams to validate costs and in some instances there was no validation. Base costs for the installation of electrical sockets, a common example of a minor change, varied widely between projects and, for the projects we reviewed, were on average higher than benchmark prices published by the Royal Institution of Chartered Surveyors.
  - iii** The cost of replacing an item throughout the life of the contract was usually calculated at the point of requesting the change. This “lifecycle cost” has the advantage of improving transparency of costing but it was applied inconsistently and sometimes added inappropriately.
  - iv** In addition to mark-ups to cover overheads and profit added by service providers, the Special Purpose Vehicle (SPV – a company set up by a consortium of contractors to design, build, finance and operate the asset) often charges a fee, typically 5 to 10 per cent of the cost of the change. In total, an estimated £6 million was paid in such fees in 2006. Usually, this fee was not specified in the contract, although the most recent Treasury guidance requires that this is clear at the outset. Although in principle, the private sector should be able to charge an appropriate fee to cover the overhead cost and profit for work that they have not already contracted to do, we found that this fee often related to work that was carried out by sub-contractors rather than the SPV and was very often not justified.
- d** Overall, we found that if the change process is managed well and there is a good relationship between the parties, changes are more likely to be cost-effective and implemented quickly. Some public sector authorities do not employ a full-time contract manager, risking false economy in the case of contracts that are worth up to £10 million in payments to the private sector each year.

## Conclusion and Recommendations

**3** The Treasury has recently produced guidance for new PFI projects coming to the market which sets out good practice in the management of changes. The value for money of individual changes to existing projects varies but value for money is not generally being obtained. The following recommendations are intended to complement the new guidance published by the Treasury and are aimed at PFI projects that are already operational:

- a** Where there is a relevant contract clause, competitive tendering should be undertaken if Authorities deem this to be value for money and they should insist on at least three competitive tenders being obtained for larger changes. In the absence of a contractual clause requiring competition, Authorities should negotiate such a clause when the opportunity arises. For example, as part of negotiations needed during benchmarking or market testing exercises, which are part of regular reviews of PFI contracts.
- b** For existing deals, Authorities need to put in place consistent and robust means to validate the costs of small changes. Authorities should consider carefully the need to pay lifecycle costs for the replacement of small items and challenge inappropriate costs. They should also consider the advantages of bundling together the processing of small changes, including the negotiation of appropriate lifecycle costs, and agreeing any adjustments to the unitary charge once every six months or yearly.
- c** Public authorities should explore with their private sector partners the feasibility of clarifying earlier contracts to bring them into line with current best practice. For instance, Authorities could seek to re-negotiate SPV fees when discussing major asset changes, as happened at the Blackburn hospital.

- d** Information is not shared across locally managed PFI projects as widely as it needs to be. Authorities should develop forums whereby questions and answers on the handling of changes and their costs can be shared within and across sectors. Authorities should also make more use of central government resources already provided, for instance the training courses, helpline and websites run by Partnerships UK (PUK) and 4ps who are the bodies which provide help and guidance to central and local government PFI projects.
- e** Contract management teams should be properly resourced in order to manage the change process. In general, it should be exceptional for a PFI contract not to be managed by the equivalent of at least one person full-time on the public sector side, and there should be more than this for larger contracts or where a lot of changes are anticipated. Authorities should also consider employing a quantity surveyor on a part-time basis specifically to check the cost of changes, where the number of changes processed is likely to justify it.
- f** Public sector authorities can also improve the value for money of changes by adopting the good practices used in some projects. These include:
  - i** Adopting a strategic approach to changes – for instance, bundling similar changes together to reduce costs or planning a change programme based on anticipated needs.
  - ii** Understanding the contract to be sure that a change request is actually a change and not covered under the existing agreement and pricing structures.
  - iii** Keeping good permanent records of changes and payments made, including whether new assets will need to be replaced at some point during the remainder of the contract and form part of the lifecycle cost element of the unitary charge paid to the SPV. Failure to do so risks paying for something twice at a later point in the contract when, for instance, works are already covered by lifecycle cost payments.
- iv** Providing their private sector partners with proper briefs to make it clear what they want done. This is especially important for larger, more complex changes.
- v** Using effective validation mechanisms to challenge costs when necessary, including the use of industry-wide benchmark prices and the experience of other PFI projects.
- vi** Fostering open lines of communication with front-line users and other stakeholders, as well as the PFI contractor. This is necessary in the operational phase as headteachers, medical and nursing staff and other users have narrower scope to act autonomously in arranging for work to be done in the context of a contractual relationship than they may have had previously.

# PART ONE

## Most operational PFI deals have already made changes and further change is inevitable

This part of the report shows that in 2006 some £180 million was spent on contract changes under PFI. The majority of changes processed are small in terms of value and usually involve relatively simple additions to assets, such as serviced buildings.

### Over time, PFI deals need to be changed to meet inevitable changes in public services

**1.1** Under the Private Finance Initiative (PFI), the public sector enters into a long-term contractual arrangement with private sector companies to design, build, finance and operate an asset such as a hospital or school. The companies involved establish a separate company, usually known as a Special Purpose Vehicle (SPV). The project agreement is between the public sector authority and the SPV, while the relationships between each of the constituent companies and the SPV are governed by separate contracts (**Figure 1 overleaf**). Although it is the provider of facilities management (the FM provider) which will implement most changes, especially the small ones, the SPV will normally manage the process, including any competitive tendering for new work, and provide the interface with the public sector. Under conventional outsourcing, the public sector would usually have a number of shorter-term contracts directly with separate suppliers.

**1.2** The duration of a PFI contract should reflect the optimal period over which the procuring authority wishes its services to be provided, after taking account of the anticipated level of changes in service requirements. Contracts for PFI projects with major capital assets usually last for 25 to 30 years. Under the terms of the contract, the SPV is paid by the public sector authority once assets are operational (usually in the form of a monthly “unitary

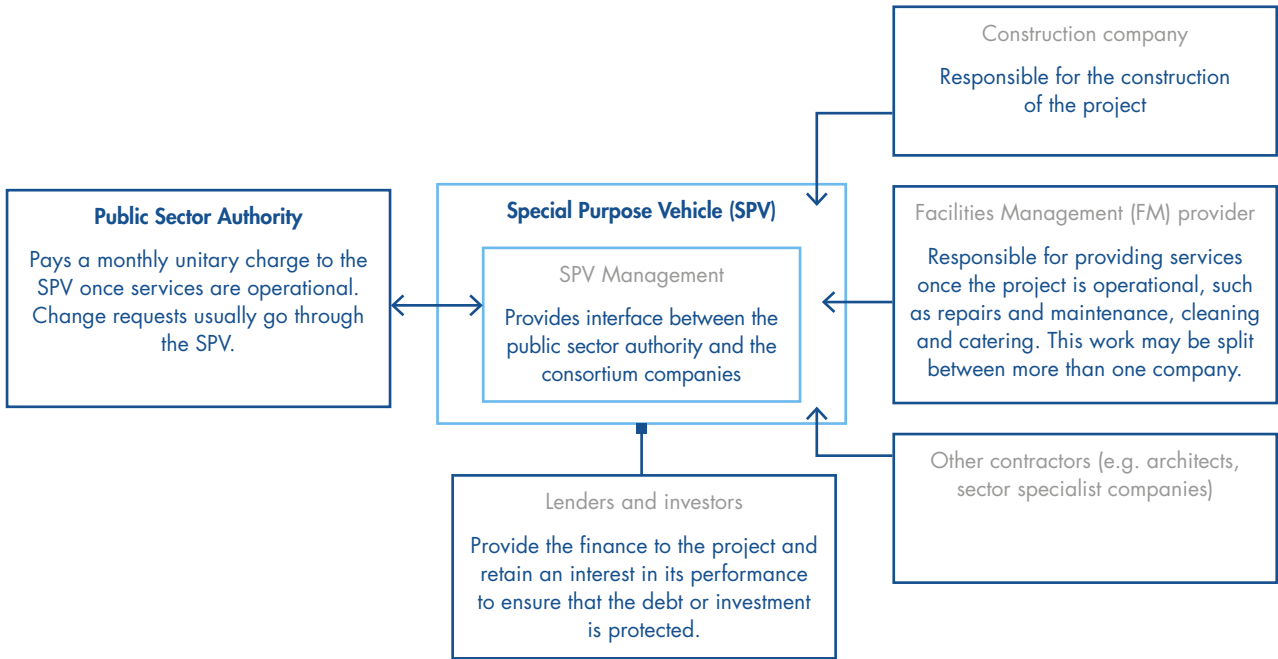
charge”) and may face payment deductions if availability or performance fall below agreed standards. Such a structure aims to incentivise delivery of quality services and the ongoing maintenance of the assets involved.

**1.3** In 2006, 435 PFI deals had been signed in England of which 390 were operational<sup>2</sup> and unitary charges for operational projects amounted to nearly £5 billion. The annual figure is projected to rise to a peak of approximately £6.2 billion in 2017-18, before declining as earlier PFI projects come to a close. The operational deals encompass a wide variety of services, including serviced accommodation such as schools and hospitals, defence equipment and training, light rail, street lighting and waste management. Around three out of four operational deals are managed at a local level (for instance, by an NHS Trust or Local Authority) rather than as a programme of projects coordinated by a central team, such as the PFI prisons programme overseen by the Ministry of Justice.

**1.4** The long-term contractual approach inherent in PFI contracts provides two key advantages over conventional procurement:

- a** transparency of pricing in that the public sector knows in advance how much it will be paying and the contract is for the provision of services on a whole-life basis. This removes the possibility of replacement costs arising unexpectedly in any one year or being delayed in the event of budgetary constraints; and
- b** a planned and consistent approach to maintenance as the SPV is under an obligation to maintain the asset in good condition until the end of the contract period and, if maintenance is not undertaken, it risks being penalised for not meeting agreed availability and performance standards.

**1** In a PFI deal, the public sector authority's primary relationship is with the SPV



Source: National Audit Office

**1.5** Long-term contracts, whether procured under the PFI or conventionally, may not be value for money if they cannot be changed in the face of changing public sector requirements. For instance, if there is a lack of demand for a new school, or a major piece of defence equipment becomes prematurely outdated, it is likely that the public sector will not achieve value for money from these assets, irrespective of the procurement route. Under PFI, almost any requested change, even as small as a new electrical socket, has to be processed through the SPV as it manages the asset during the contractual period and bears the risk of failing to meet service obligations. Often lacking the option of going to a different supplier, even for major changes, there is a risk that the public sector will have reduced leverage in negotiation and that the SPV or FM provider may not be incentivised to keep down the cost of changes or to process them quickly.

**1.6** It is important that PFI deals can cope with at least a moderate level of change, not least because this is inevitable over a 25 to 30 year contract period. Changes may arise as policy in a sector evolves or in response to new local needs. **Figure 2** illustrates the types of changes that have occurred in different sectors.

### About £180 million was spent on changes to operational PFI deals in 2006

**1.7** Changes often involve two distinct types of expenditure which are paid in different ways. A capital element covers the up-front costs, for instance of purchasing and installing a new piece of equipment. Once installed, the equipment will then need to be maintained and, if needed, eventually replaced.

**1.8** In practice, the capital element of nearly all changes is funded directly by public sector authorities through a lump sum or staged payments without altering the existing unitary charge for the original deal. Additional operating costs for changes are usually funded through an adjustment to the existing unitary charge, and this method of funding is also used for changes which have no capital element, such as improvements to cleaning services in a building.

## 2 Change is inevitable in long-term PFI projects, whether because of new policy initiatives or from changing local needs

Sector	Examples of policy change	Examples of localised change
Hospitals	Agenda for Change – updating the terms and conditions of NHS staff transferred to the private sector.  Payment by Results – hospitals may need to alter bed numbers to reflect changing demand.	NHS Trust needs to change the cleaning and isolation regimes in response to infection control issues.  Hospital staff request new data points and sockets for an office.
Schools	A move to electronic whiteboards requires new infrastructure.  Changing food standards for school dinners require different service responses.	Head teacher wants to reorganise a classroom or to introduce air conditioning.  CCTV cameras are needed to combat poor behaviour or vandalism.
Prisons	National Offender Management Service – integration of prisons and probation services leading to a change in service level requirements and key performance indicators in existing PFI contracts.	Existing prison buildings are extended to increase capacity in light of higher demand for prison spaces.
Roads	New road widening or traffic management scheme.  New road surfacing standards.	Safety study indicates that the layout of a junction needs improving.  Changes to signs or safety fencing.
Social housing	Carbon emission policies require upgrading of insulation.	Installation of additional electricity sockets in existing houses.
Waste	Changes to statutory targets for recycling and composting.	Alterations to deal with expansion of local waste recycling.
Street lighting	Energy saving policies require changes to lighting units.	Accommodating advances in technology.  Adding Christmas decorations and advertising to lamp posts.

Source: National Audit Office survey 2007

**1.9** Based on our survey of operational PFI projects with capital values of more than £20 million, we estimate that the total capital cost of changes made in 2006 was approximately £164 million and that first year maintenance and replacement costs totalled £14 million (Figure 3). To put these numbers in context, this level of change represents just over one per cent of the total of unitary charges paid to PFI contractors in 2006-07.

**1.10** One in five projects responding to our survey stated that work requested as a change since they became operational had been considered for inclusion in the original deal. In just under a half of these cases, work was taken out of the original deals for reasons of affordability, including changes or additions to assets ranging in value from £70,000 to £17 million. It is likely, however, that these projects will have paid more to introduce this work after they were operational, partly because of a lack of competitive tension once the incumbent contractor was in place and partly because the original design may not have incorporated the extra work.

## 3 The capital and operating costs of changes made in 2006

Type	£ million
First year capital costs <sup>1</sup>	9
First year change to on-going operating costs	14
First year capital plus operating costs	23
Unitary charges paid in 2006-07	2,140
Changes as a proportion of unitary charges	1.1%

Source: National Audit Office survey 2007 and HM Treasury (2007)

### NOTE

<sup>1</sup> This is the sum of the capital cost of changes for each project divided by the remaining life of the contract.

Although major changes were relatively uncommon, they contributed 90 per cent of the total spend on changes in 2006

**1.11** In 2006, 82 per cent of change requests cost £5,000 or less, reflecting the importance of small works to the day-to-day running of serviced buildings in particular. The total value of these small works was just over £3 million. Although high-value changes (£100,000 or greater) were relatively uncommon, they contributed 90 per cent of the total spend on changes in 2006 (Figure 4).

The majority of changes in 2006 involved additions to assets rather than direct changes to the type or level of services delivered

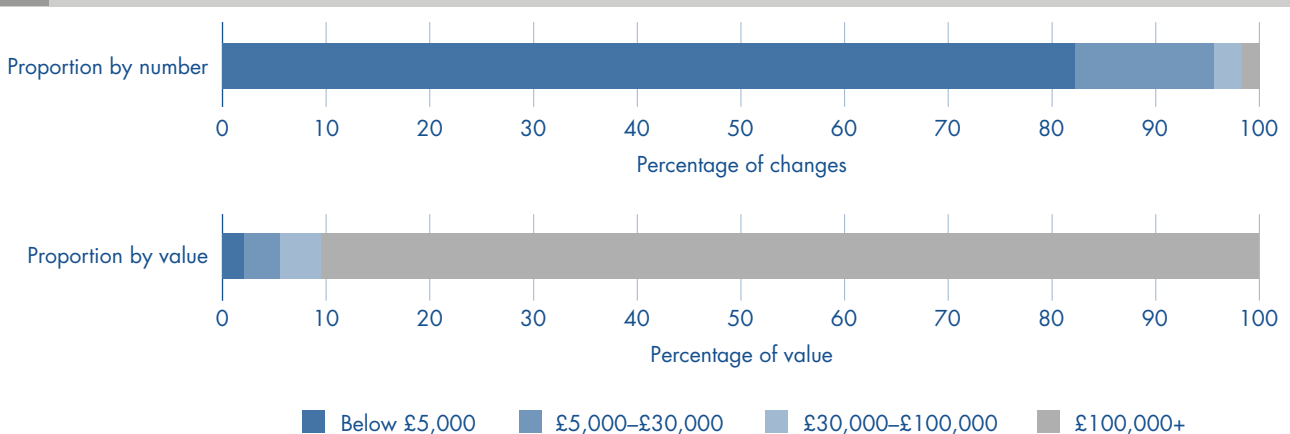
**1.12** Nearly all the changes processed in PFI projects in 2006 were either direct changes to assets or changes to the way in which assets were used, through which a room or area was set up for a different purpose. There were very few changes made either to service specifications or to performance standards. Nearly all changes originated with a request from the public sector rather than from the private sector contractor or as a result of a change in law.

In 2006, most of the total spending on changes was for hospitals, equipment and training and prisons projects

**1.13** Although changes have occurred across the whole of PFI, Figure 5 shows that most of the spending on change in 2006 was concentrated in three sectors. Changes to PFI prisons are handled centrally by the Ministry of Justice and the majority of equipment deals are projects managed by the Ministry of Defence. Hospitals deals are managed by local NHS Trusts and the majority of other deals, including schools, are also managed locally.

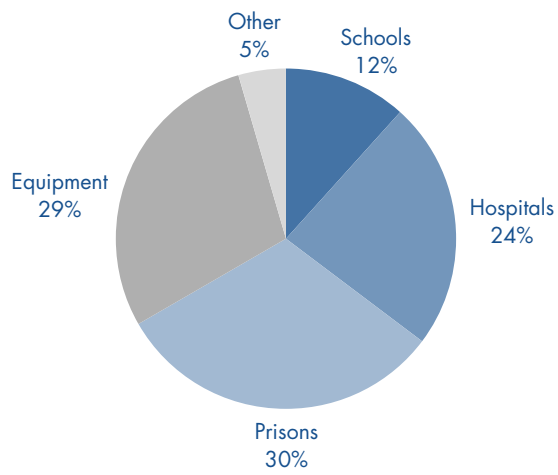
**1.14** The differences between sectors in 2006 can be attributed to a mixture of factors. Prisons were particularly affected by the need to find space for more prisoners, necessitating some additional building works. Other sectors saw relatively little change in 2006 but have seen much higher levels of change in previous years and are expecting more change in the future. In sectors such as schools and hospitals, as well as defence equipment projects, the annual level of change is likely to be more consistent, reflecting the continuing changes to local and national requirements and the need to adapt accordingly.

**4** Although high value changes were relatively uncommon, they contributed 90 per cent of the total spend on changes in 2006



Source: National Audit Office survey 2007

**5** Most of the total spending on changes in 2006 was concentrated in three sectors



Source: National Audit Office survey 2007<sup>1</sup>

NOTE

1 Equipment deals are largely defence projects.

## PART TWO

### Changes to operational PFI deals are often poor value for money

Although the quality of work when changes are implemented is usually considered by the public sector to be satisfactory, making the changes and processing them is often costly and can take longer than expected.

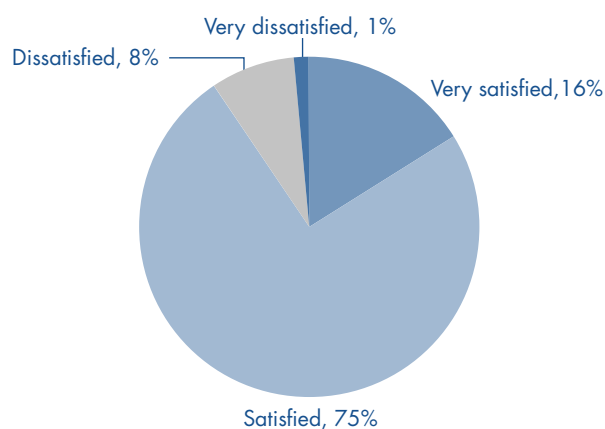
#### Very few changes have been withdrawn or cancelled

**2.1** Overall, only 8 per cent of change requests considered by authorities' contract management teams were not taken forward. In general, public sector authorities have been able to make the operational changes to PFI contracts they required. Decisions not to proceed with changes have reflected the estimated cost of the change, but more often related to internal decisions about the need for the change or an assessment that the request was already covered under the existing contract or provided elsewhere.

#### The quality of changes made has met expectations

**2.2** Before any payment is made for a change, public sector contract managers check to ensure that work has been completed to an agreed standard. Around 90 per cent of contract managers responding to our survey were satisfied or very satisfied with the quality of work done to implement change requests (Figure 6). PFI contractors have an incentive to minimise the risk of a poorly executed job impacting on core elements of service provision. If, for instance, additional wiring was faulty and resulted in a whole room becoming unavailable, the SPV could face a reduction to the unitary charge. We did not find any examples of the public sector refusing to pay for work on the basis that it was not completed to a sufficient standard or had not been rectified when brought to the attention of the contractor involved.

**6** The vast majority of public sector contract managers were satisfied or very satisfied with the quality of work done to implement change requests



Source: National Audit Office survey 2007

#### Larger changes are not always subject to a competitive process, putting value for money at risk

**2.3** In 2003, the Committee of Public Accounts recommended that Departments should insist on competitions for the provision of additional work after a deal becomes operational.<sup>3</sup> Furthermore, they should also take a close interest in these competitions and to make recommendations on firms who should be invited to compete for the additional work. There is a risk that value for money may be compromised if additional work, in particular large changes, is not subject to effective competition.

**2.4** In 2006, 70 changes with a cost of £100,000 or higher were made in 43 PFI projects.<sup>4</sup> Between them, these changes contributed to 90 per cent of the total spend on PFI changes in England. Appendix 2 sets out the details of each major change and **Figure 7** shows that a competitive tendering process was carried out for about 29 per cent of changes, 41 per cent of changes were unsuitable to a competitive process and that around 27 per cent of changes (or 47 per cent of the total value of changes in 2006, most of which was accounted for by major changes to three projects<sup>5</sup>) may have been suitable but were not competed for a range of reasons.

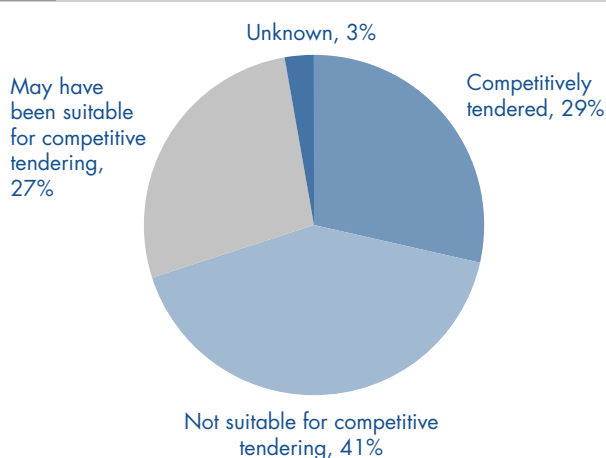
**2.5** Changes to staff pay and conditions and software enhancements are inherently not capable of being tendered, while other changes aimed at enhancing soft service provision such as cleaning or portering, can usually be priced using existing costs – for instance, the price of cleaning per square metre. For changes that were not suitable for competitive tendering, public sector authorities typically turned to advisers to benchmark (where possible) and negotiate prices. Where a benchmark could be found, such as with changes that enhanced soft service provision, the final cost was usually similar to, or less than 10 per cent above the benchmark. For other changes, public sector authorities were more dependent on negotiation for lowering costs.

“Our contract says the SPV isn’t required to get competitive quotes in the first instance. So what happens is we write them up into a variation, they come back with a price, we go ha ha, right, now go off and get three quotes. We can’t instruct them to get three quotes in the first place, which is really, really infuriating. It would just be so much more simple if you could say to them please just get three quotes.”

NAO focus group attendee

**2.6** The key reason put forward by project managers for not undertaking a competitive tender is the potential impact of the change on the existing project. For works which involve alterations to existing assets rather than the creation of new assets there can be complex interface issues with the ongoing risks and obligations borne by the incumbent private sector contractor, making the option of bringing in a potentially untried third party to do the work less attractive. An example of this is the conversion of a ward in a hospital. Under the PFI contract, the incumbent contractor retains responsibility for ongoing cleaning and maintenance and may face a payment deduction if, for instance, work carried out by a sub-contractor results in adjoining areas of the hospital becoming unavailable. However, competitive tendering has not always been undertaken for changes where it could have been possible in principle. For example, the erection of completely new buildings rather than changes to existing buildings may involve little if any risk to existing services.

## 7 High-value changes were not always competitively tendered



Source: National Audit Office survey 2007

Where competitive tendering does take place for larger changes it may not always result in the best value for money

**2.7** In competing a change, an SPV may have different incentives to the public sector authority requesting the change. An SPV will want to ensure that a change will not jeopardise its ability to meet the requirements of the contract or to service its debt. As a result, it will tend to give greater priority to the quality of contractor than to keeping the cost of making a change down, typically restricting any competition to sub-contractors which it has vetted. In addition, where SPVs charge a fee as a percentage of the cost of the change, there is again an incentive to not necessarily minimise costs. The public sector can use external advisers to check costings, but this is an incomplete substitute for a fully competitive process.

**2.8** The most recent version of the standard form guidance for PFI contracts (SOPC4) recognises the need for public sector authorities to have rights under the contract so that they can monitor competitive tendering processes undertaken by SPVs and intervene if proposed contractors are unsuitable. The new guidance also states, for the first time, that quotes should be obtained from at least three suppliers. This will benefit new PFI projects, however, projects that are already operational tend not to have the same safeguards in place.

**2.9** The example of Avon and Somerset magistrates' courts highlights this risk of higher costs under PFI, even where a competitive process has taken place, in the absence of the new SOPC4 safeguards (**Case example 1**). No two jobs will be exactly alike although the courts project team thought that the two jobs set out below were reasonably comparable in terms of labour, materials, and skill level required. In the PFI court, four firms were invited by the SPV to bid for the work and two tenders were received. Following a review of costs conducted by the Authority and the SPV, the price was reduced by over 30 per cent in negotiations. There were also significantly higher fees incurred for the change made to the PFI court than the conventionally-procured court (see paragraphs 2.20 – 2.24). This example is not an isolated one. Overall, 59 per cent of contract managers responding to our survey considered changes in PFI to be more expensive than equivalent changes in conventionally procured projects.<sup>6</sup>

## Minor changes we reviewed were often expensive, compared with industry benchmarks

**2.10** **Figure 8** sets out the components of costs for a typical change. Under the PFI, the cost is not confined to parts, labour, overheads and profit ("base cost") but is likely to include the ongoing cost of maintaining an item ("annual maintenance") and the cost of replacing it ("lifecycle") over the lifetime of the contract.

**2.11** An element to cover overheads and profit ("mark-ups") for the FM service provider is included in the base cost and the size of mark-ups is often specified at the outset in the project agreement. A typical fee is 12.5 per cent of the cost of the change, although this can vary between projects, with a range from five per cent to 28.8 per cent.<sup>7</sup> Mark-ups charged by FM contractors for PFI projects are in line with rates of between 10 per cent and 20 per cent recommended by the Royal Institute of Chartered Surveyors.<sup>8</sup> An SPV is responsible for overall management of the project on the private sector side and often levies an additional management charge or fee as a percentage of base costs.

### CASE EXAMPLE 1

#### A comparison of room conversions made in PFI and non-PFI courts in Avon & Somerset, both with base costs of approximately £100,000

Court	Worle	Bridgwater
Procurement method	PFI	Conventional
Year change completed	2007	2007
Description of work	Two rooms merged to create a dual function Judges' hearing room and court. Conversion of a store-cupboard to a toilet. Staff room split into two. Furniture and IT/data requirements.	Conversion of areas to provide two new custody suites, new prison staff area and toilets, and interview rooms. Corresponding mechanical and electrical work.
Nature of price testing	Competitive process run by SPV. Four tenders invited and two tenders received. Value engineering exercise to negotiate costs down.	Competitive process run by a company appointed by HM Courts, which also provided a pre-tender estimate. Three tenders received.
Initial base cost quoted by winning bidder	£140,000 + VAT	£107,000 + VAT
Agreed base cost	£96,000 + VAT	£100,560 + VAT
Fees	15% for the FM provider + 15% for the SPV – total of £31,000	10.5% – total of £10,560
Additional costs	Fee for initial cost report: £17,000 Lifecycle costs: £56,000 (reduced from £180,000 following negotiation) Miscellaneous other costs: £18,000	Contingency sum: £6,000 There may be further costs over time if items need replacing or repairing. The whole-life cost of this change is thus unknown.

Source: HM Court Service, South West region

## Base costs for comparable jobs vary widely across PFI projects

**2.12** Public sector authorities keep records of changes made to PFI deals. We obtained these records for just over a third of the projects we surveyed and extracted the cost of jobs which are relatively uniform and comparable across different PFI projects. We then standardised to take account of known regional pricing variations. **Figure 9** indicates that there were wide variations in the amount charged from project to project. The number of projects is relatively small as many were unable to separate base costs from lifecycle and maintenance provisions and we could not therefore make a direct comparison with benchmarks.

As an example of small PFI works, the base costs of additional electrical sockets we reviewed were higher than benchmark prices

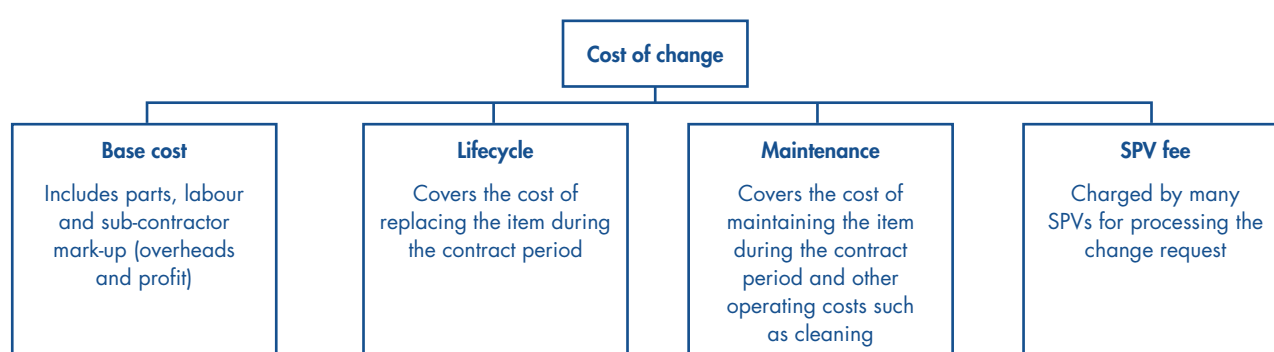
**2.13** As many small works are common to all kinds of accommodation, irrespective of procurement method, it is possible to compare their cost under PFI with alternatives. We chose the case of electrical sockets

(**Figure 10 overleaf**) as, though there will naturally be a range according to a number of different factors, the cost of installing these is readily available. Standard<sup>9</sup> prices published by the Royal Institute of Chartered Surveyors and SPON's estimating costs guide for electrical works range between £51 and £103, depending on the type and positioning of the socket. On this basis, the average base cost for the installation of electrical sockets under PFI contracts within our sample was around 54 per cent higher than the published comparator.<sup>10</sup>

## Several methods are used to check the cost of small changes

**2.14** For approximately half of small changes public sector contract managers have used a schedule of rates, agreed at the time the contract is signed and uplifted with inflation or agreed on an annual basis, to validate the cost of those changes. In many cases, this is an efficient way of ensuring costs are reasonable but its effectiveness depends on the extent to which the schedule can be validated at the point of creation and reviewed thereafter. Inevitably,

### 8 The cost of a change in PFI is made up of several elements



Source: National Audit Office

### 9 The cost of comparable jobs carried out in 2006 often varied substantially across and within projects

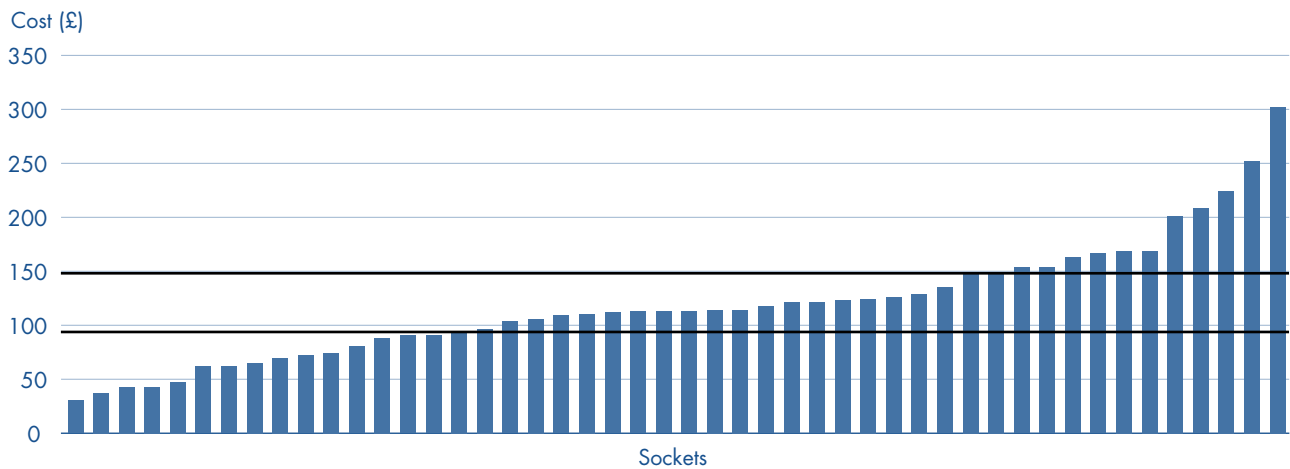
	Number of projects sampled	Mean £	Highest £	Lowest £	Lower quartile £	Upper quartile £
Supply and fit an electrical socket	17	118.94	302.30	30.81	86.65	147.68
Supply and fit a data point	7	246.96	398.30	95.74	183.99	297.02
Fit a board (whiteboard, noticeboard etc.) – labour costs only	6	36.60	149.71	nil	18.72	37.72
Supply and fit a lock	9	120.41	486.54	15.09	54.08	152.26
Supply a key	4	18.94	47.48	4.26	8.62	24.58

Source: National Audit Office analysis of records of changes made in 2006

#### NOTE

Following the receipt of additional information from the project, after publication of the report, the £149.71 included the cost of supplying and fitting shelves and the repair and repainting of an area of wall.

## 10 The cost of installing an electrical socket in 2006 ranged from £31 to £302 in our sample



Source: National Audit Office analysis of records of changes made in 2006

### NOTE

The black lines represent the upper and lower quartiles.

such schedules can only anticipate the most common jobs, and where change requests are not included in schedules of rates, public sector authorities have had to use other means of checking costs. In these cases, a range of methods have been used including informal means of checking prices, such as drawing on their own experience (or that of a colleague) to gauge how much things ‘should cost’ or whether a quote looks reasonable.

**2.15** Public sector contract managers have told us that there is a trade-off between seeking to challenge the costs of changes and avoiding delay. There is also a small number of projects in which public sector contract managers have not sought to validate the cost of minor changes, either because there are too many of them or because the low value is thought not to justify the time. Overall, it is clear that the amount of time and resources spent checking and challenging the cost of small changes varies significantly from project to project.

“We need to develop some central body of knowledge. It’s not necessarily benchmarking in the common sense, but some sort of common understanding of what components make up a variation and what sort of margins are applied. And then you can cross compare to understand it.”

NAO focus group attendee

## Additional fees and ongoing costs are often added to base costs but are not always justifiable

**2.16** In addition to the capital cost of making a change to the asset, there may also be ongoing costs. In particular, a new item may require regular maintenance and there may need to be a plan for its replacement over the lifetime of the contract (the “lifecycle” element). The advantage of including these ongoing costs is that it offers transparency as to the true cost of a change over the lifetime of the contract. It also provides an incentive to the contractor to carry out the job properly, as the contractor takes the risk of more frequent or more costly replacements than anticipated.

**2.17** Against these advantages, the pricing of the lifecycle element in particular can be subjective, requiring judgement about how often an item is likely to need replacing over 25 or 30 years and an estimate of what it is likely to cost. Reaching agreement over what should be charged for lifecycle can be difficult and lead to delays. Contract managers from both the public and private sector have told us that the pricing of the lifecycle element is “more of an art than a science”.<sup>11</sup>

There are inconsistencies in the treatment of lifecycle and maintenance costs and value for money is uncertain

**2.18** There has been inconsistency between projects as to whether a lifecycle element needs to be added at all for some jobs. For example, a lifecycle element has been explicitly added for items such as sockets, locks and data points in some projects, but not in others.<sup>12</sup> Although it may be reasonable to charge a small maintenance cost for potential repairs, adding a charge on the assumption that a shelving unit or lock will need replacing every ten years is questionable and undermined by the fact that many contractors have not done so and absorb it as part of their day to day business.

**2.19** Ongoing maintenance cost often goes beyond the cost of simply maintaining the item in question, capital works can have implications for other ongoing services such as cleaning (**Case example 2**). As with the lifecycle element, we found inconsistencies as to when and what maintenance is charged, with much depending on the attitude of the private sector partner and the willingness of public sector authorities to challenge unnecessary charging.

## CASE EXAMPLE 2

### Taking down smoking shelters at a PFI building

At a PFI building, the public sector authority wanted to take down the smoking shelters used by staff and visitors. The base cost of removing the shelters was £750. The ongoing cost was agreed with the SPV at £2,600 a year on the assumption that removing the shelters would result in a greater spread of cigarette butts around the site, adding to the cost of cleaning.

Management fees charged by SPVs vary widely, are mostly unjustified and cost the public sector approximately £6 million a year

**2.20** Although it is the FM provider which will implement most changes, especially small changes, the SPV usually manages the process. SPVs are paid for the day-to-day management of PFI projects, including staff and other administrative costs, out of the unitary payment agreed when the deal was signed. For most small changes, SPVs simply act as conduits, passing requests for changes from the Authority to the FM provider and back again.

**2.21** However, SPVs have increasingly sought to charge additional management fees for processing change requests. Several SPVs, having already imposed a management charge, are now trying to increase it for future changes. Management fees have ranged from two per cent to as much as 25 per cent of the value of the changes, adding up to an estimated £6 million paid in SPV fees for changes made in 2006. SPV fees are rarely specified in the project agreement, although some contracts do contain a provision that “reasonable costs” can be recovered. Partly because of this contractual ambiguity, the attempt to impose management fees has been the subject of disagreements between public sector authorities and SPVs.

“What is your 5% giving us? In actual fact, being derogatory and cynical, all you’re doing is acting as a post box between our request for a variation, passing it through the service provider, and then providing it back. So where is the 5%? What value are we getting?”

NAO focus group attendee

**2.22** As a matter of principle, SPVs should be entitled to recover the cost of work they are doing in addition to the contracted services, where this cost is actually incurred. However, SPVs have sometimes acted unreasonably in trying to impose management fees for small changes, occasionally employing spurious arguments and not relating fees to work done (**Figure 11 overleaf**). In one PFI schools project, the SPV refused to process any changes at all until the public sector agreed to pay a five per cent management charge on changes that included maintenance and lifecycle costs, despite the fact that such a charge had not been applied in the first two years of operation. This was resisted by the public sector authority and remains unresolved.<sup>13</sup> In a few projects, the SPV percentage has been applied not just to the base cost of the change, but also to lifecycle and maintenance.<sup>14</sup> There are also examples of very large fees being added to major changes with no contractual basis and with the SPV refusing to negotiate (**Case example 3 overleaf**).

“Just because you’re getting detail doesn’t mean to say you’re getting value for money. All you’re getting is a price broken down into loads of small prices. But you still don’t know whether it’s worth it.”

NAO focus group attendee

## 11 Some reasons given for SPV management fees on small changes have borne little relationship to the work actually done

### Reason given for charging

Cost of tendering out the work to sub-contractors

Need to consider the change and that it can be implemented under the Project Agreement

Need to evaluate lifecycle and risk implications

Cost of re-running the financial model

### Assessment

This is not done for the vast majority of changes and, if it is done, is usually carried out by the FM provider rather than the SPV. Moreover, if this cost is incurred, it is often charged separately.

In practice, this is very rarely an issue for all but a handful of complex changes. 82 per cent of changes under PFI have a value of under £5,000.

Risk can be an issue, but in practice few SPVs need to consider it for small works. 81 per cent of changes in 2006 did not attract lifecycle charges.

Nearly all changes are paid for through a lump sum payment. Although ongoing maintenance and lifecycle payments may be added to the annual charge and require a change in the financial model, most SPVs combine such changes and re-run the financial model once or twice a year. Updates to the financial model should be a regular occurrence throughout the life of a PFI deal and SPVs should already be resourced sufficiently through the annual charge paid by an Authority to undertake such activity.

Source: National Audit Office

## CASE EXAMPLE 3

### Avon & Somerset courts

An extra 15 per cent was charged by the SPV for a major change requested by HM Courts in the Avon & Somerset courts deal. When the Authority asked the SPV where the contract stated that a fee could be charged, the SPV responded by arguing that the contract did not specify that it could not be charged. It told the Authority that this was a "take-it-or-leave-it" position. In the end, the Authority decided to pay the fee as it needed the change to be made and could not afford to delay any further. It had already spent time negotiating a substantial reduction to the capital and lifecycle costs.

## CASE EXAMPLE 4

### Blackburn hospital

A fee of 8.5 per cent was charged by the SPV on all changes at the PFI hospital in Blackburn, which became operational in 2005. In 2007 the hospital began implementing its "meeting patients' needs" programme which involves considerable changes to the estate. The hospital used this as an opportunity to renegotiate the SPV fee. Changes over £5,000 now attract a fee based on a sliding scale from four per cent to 8.5 per cent; the hospital is seeking to bundle changes together thus attracting the lower fee. In addition the SPV has agreed that it should never have charged a fee on changes under £5,000 and has repaid £17,000 to the hospital.

**2.23** In the latest version of guidance to authorities on the standardisation of PFI contracts, the Treasury has recommended that the proper resourcing of contractors to provide an effective change management service should be a part of the specification set at financial close and that there should then be no additional SPV fees for individual changes, unless these are particularly complex.

**2.24** The advisory bodies, 4ps and PUK, are working with public sector authorities managing existing PFI deals that were agreed without the benefit of the latest standard form guidance. It is too early to say how far they will be able to reduce or eliminate SPV fees, however, we have identified an instance where this has happened (**Case example 4**).

## Larger changes have been implemented in line with conventionally outsourced work of a similar size

**2.25** Most changes with a value of over £100,000 took under a year to agree a specification and price, and most changes were then implemented within six months. The timescales compare well to conventionally outsourced refurbishment or upgrade work within the public sector. According to OGC figures, the average time to tender out this type of work is seven months, and the average construction time is eight months.<sup>15</sup>

## Small changes take longer to process under PFI than in conventionally managed accommodation, but there have been no delays to urgent changes

**2.26** For most small changes, a price is agreed between the public sector authority and the SPV within a month and changes are then completed within a month (**Figure 12**). Sixty seven per cent of public sector contract managers who answered our questions said that agreement or completion of changes was a little or much slower than agreed timetables<sup>16</sup> and both public and private sector contract managers believe that efficiencies can be made. There are also a small minority of relatively straightforward changes which have seen more significant delays, causing frustration to front-line users.

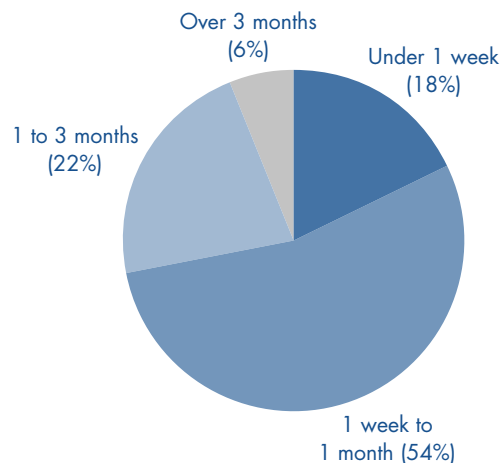
**2.27** Generally, small changes under PFI take longer to process than similar changes for conventionally procured managed accommodation. Fewer than 20 per cent of PFI schools and hospitals agreed or carried out small-value change requests within a week. This timescale would be more common for conventionally outsourced jobs of a similar nature and size although in some instances there may have been good reasons for the extra times taken (such as the need to agree a lifecycle element). For instance, small works changes undertaken by contractors on buildings occupied by HM Revenue & Customs under the STEPS contract<sup>17</sup> are nearly always authorised within two to three days and implemented to an agreed programme, or if there is no such programme, then as soon as reasonably practical.

**2.28** The types of change requests that have taken longer than expected by authorities have been non-urgent building works. In sectors such as hospitals where there may be a need for urgent changes, PFI contracts usually contain separate provisions for changes that need to be processed as a matter of urgency. Our survey respondents said that contractors had responded to these urgent requests in a timely manner.

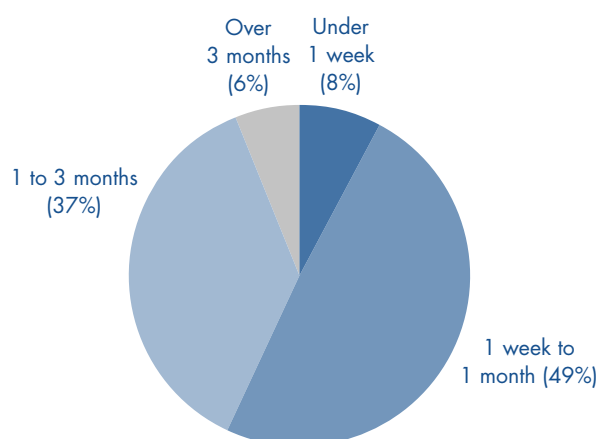
**2.29** Service improvements are usually easier to negotiate, as the price can be based on existing rates. Where service improvements have been required as a matter of urgency, contractors have been able to respond very quickly (**Case example 5**).

### 12 Time taken to agree and complete small changes in 2006: for most small changes a price is agreed within a month and then completed within a month

a) Time from change request to price agreement



b) Time from price agreement to completion



Source: National Audit Office survey 2007

## CASE EXAMPLE 5

### Responding to an infection control crisis at Stoke Mandeville Hospital

The PFI contract for Stoke Mandeville Hospital in Buckinghamshire reached financial close in May 2004. Under the contract, the contractor had responsibility both for the new building and for the existing estate. Shortly before construction of the new building was completed in 2006, the hospital faced an infection control crisis and decided to respond by increasing the frequency of cleaning and tightening up the isolation regime through changes to the existing PFI contract. Due to the emergency nature of the situation, the contractor agreed to implement the new requirements immediately and then agree a price afterwards. A price was subsequently agreed by applying existing rates for cleaning per square metre, as contained in the PFI deal itself.

# PART THREE

## The management of change needs to be improved

Revised guidance on contract changes has been issued for new PFI deals, but nearly 400 existing projects are now operational and using change mechanisms which fall short of latest good practice. The final part of this report shows that the change process has not always been managed by the public sector as well as it could have been.

### Improved guidance for new deals has been published and an operational taskforce is in place to support existing projects

**3.1** In March 2007, the Treasury introduced a new version of the standard form guidance (SOPC4), upon which new PFI contracts will be based. The new version updates previous guidance by setting out the circumstances under which change should be anticipated and makes a number of detailed recommendations on cost issues, including the reasonableness of mark-ups and fees charged by contractors.

**3.2** In addition to the Treasury guidance for new PFI contracts, other central Government bodies have taken a number of measures to try to assist local public sector contract managers in making changes. The Operational Task Force, run by PUK on behalf of the Treasury, was established in 2006 to provide assistance and training to operational PFI projects. During 2006, the task force held seminars on contract management in nine locations across the UK which were attended by over 200 people. As well as providing a telephone helpline to projects, it has produced a change protocol that can be applied in operational projects and new training courses and workshops will

include advice on the management of changes. In addition, 4ps is helping local authorities by facilitating network meetings, providing a secure website for authorities to exchange ideas and by producing protocols.

**3.3** Approximately half the projects we contacted as part of this study called for practical guidance in a variety of areas relating to the change process. In many cases, contract managers were looking not so much for formal guidance as for examples of good practice and an indication of what was typically being paid – for instance in fees – by other projects.

### Poor value for money is not inevitable, even for older projects signed without the benefit of the latest central guidance

**3.4** In two-thirds of projects we surveyed, the public and private sector have recently reviewed the change process with a view to adapting it in the light of experience. Therefore, although PFI contracts often include details about how the change process should work, it is clear that this has not inhibited contract managers from trying to improve the process and it is common for local protocols to be agreed outside the contract to guide behaviour. **Case example 6** highlights a project where the public sector negotiated more transparent competition in the change process.

**3.5** The best management of change by public sector authorities has avoided delays and kept costs down by:

- a** controlling the flow of changes to avoid overstressing resources and delays;

- b** understanding the contract. This is essential not just to ensure that rights and obligations are being honoured but also to verify that a works request is actually a change and not covered under the existing agreement and pricing structures;
- c** keeping good records of the changes and payments made. Failure to do so again risks paying for something twice when, for instance, it is already covered by lifecycle;
- d** providing their private sector partners with proper briefs to make it clear what they want done. This is especially important for larger, more complex changes;
- e** using effective validation mechanisms to challenge costs when necessary;
- f** fostering open lines of communication across projects in a single sector, with front-line users and other stakeholders, as well as the PFI contractor. This is necessary in the operational phase as headteachers, consultants and other users have narrower scope to act autonomously in arranging for work to be done in the context of a contractual relationship than they may have done previously;
- g** adopting a strategic approach to changes. For instance, bundling similar changes together to reduce costs or planning a change programme based on anticipated needs.

## CASE EXAMPLE 6

### East Riding Schools

In the early years of the contract it was accepted that the SPV would implement any changes using its own supply chain of sub-contractors and procurement procedures. The Local Authority would verify that the proposed cost of a change was reasonable and in line with benchmark prices before it was approved. As the project developed, it became apparent that there were opportunities to enhance value for money outcomes where work was being sub-contracted. The Authority therefore sought to introduce more transparent competition where changes are sub-contracted, if necessary using contractors from the SPV's contract partners or those from the Local Authority's approved contractor list. The SPV has now agreed to follow the Local Authority's recently revised competition requirements as below:

Up to £2,000	One oral quotation (confirmed in writing where over £500)
£2,001 – £30,000	Three written quotations
£30,001 – EU Threshold	Invitations to tender by advertisement or list to at least three suppliers
Above EU Threshold	EU procedure

**3.6 Case example 7** highlights many of these characteristics in one of the earliest PFI hospital projects and **Case example 8** shows how contract managers for roads projects meet regularly to discuss changes.

## CASE EXAMPLE 7

### Wycombe and Amersham hospitals in Buckinghamshire

Wycombe and Amersham hospitals were amongst the earliest PFI hospitals to open, becoming operational in 2000. Both the NHS Trust and SPV teams consider the change request procedures to be working well, although user perceptions can be mixed until they have gone through the process. Most changes are priced and completed within 6 weeks of the request being made, and the Trust team is confident that the pricing is reasonable, supported by comparisons of similar work being carried out in parts of the hospital that are still managed by NHS staff. Underpinning the success of the change process is the strength of the relationship between the NHS Trust and the SPV. The strong relationship has been demonstrated in a number of ways:

- The SPV has acted pro-actively in looking to see whether any changes would benefit the Trust. As an example, it noticed that a toilet was under-used. It suggested to the Trust that it should be closed to reduce the risk of legionella infection and to reduce cleaning costs, and the Trust agreed.
- Both parties recognised that delays to the process could be caused by difficulties in agreeing the lifecycle element of changes, so they agreed to deal with lifecycle separately on an annual basis, grouping changes together.
- There is an agreed pricing structure, with hourly labour rates and fixed costs for materials. An SPV fee of 2 per cent is charged for changes above £100, comparing favourably with other projects.
- The change process has been regularly refined and is no longer paper-based – this is still rare in operational PFI projects.

## CASE EXAMPLE 8

### Highways Agency Private Finance Best Practice Group

The contract managers for the Agency's PFI roads projects meet several times a year to discuss current issues, including changes made or needed in individual deals and across all deals. The Group also holds joint meetings with their private sector counterparts and PFI practitioners from other sectors are invited to share their experiences.

This sharing of experience allows the Agency to adopt a consistent approach to the management of individual contracts and prevents differing interpretations of contracts or specifications. A recent example of this is a change to the specification for Mobile Lane Closures where a consistent approach was taken during negotiations across the contracts.

## Value for money of changes is often undermined by insufficient resources and poor contract management

**3.7** Recent guidance from PUK and the 4ps emphasises that the size of a contract management team for a PFI deal is dependent on the size and complexity of the project, how performance is to be monitored, and how the relationship will be managed. It is therefore difficult to provide generic guidance on the level of resources required. For small projects the contract management function may be performed by a single person, whereas larger projects often require a team of people. The contract manager plays a key role in developing relationships with the service provider and in monitoring performance. As such, the appointment is therefore likely to be full-time.

“It’s about having a dedicated, internal team, whose sole responsibility is just to manage, administer, and look after the PFI deal. And not just tag it onto finance.”

“It’s not something you can back into as a part-time job.”

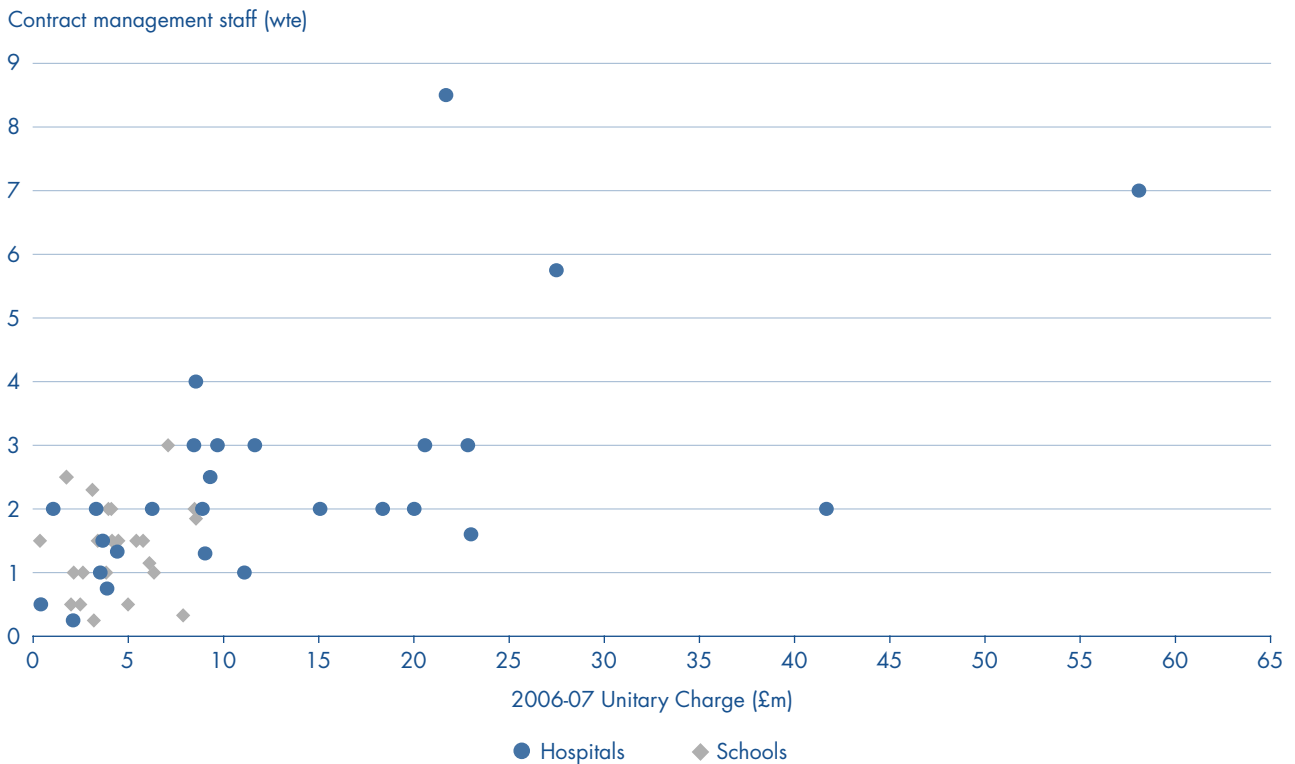
NAO focus group attendees

“Early on we had a proper project director, we had commissioning teams, a commissioning nurse – we had a full range of people. And, as soon as the contract was at the operational stage, the director of facilities disappeared, they all disappeared.”

NAO focus group attendee

**3.8** Although there is an overall correlation between the size of a project and the size of its contract management team, there are large variations in the level of resources devoted to the management of PFI contracts of a similar size.<sup>18</sup> **Figure 13** demonstrates this for the schools and hospitals sectors. Overall, a third of contract managers at PFI hospitals and one in six contract managers of PFI schools we surveyed described their teams as under-resourced. Over 15 per cent of PFI projects we surveyed were not being managed on a full-time basis, including ten with annual unitary payments of more than £3 million each.

**13** There are large variations in staff resources between individual projects of similar size in both the schools and hospitals sectors



Source: National Audit Office survey 2007

**3.9** A similar point can be made about the relationship between the amount spent specifically on change and the level of staff resources devoted to managing that change. There is a weak correlation between them and less than a quarter of variation in staff resources devoted to change is explained by the amount spent on change.<sup>19</sup>

**3.10** Most public sector authorities have access to relevant skills and substantial experience. However, without proper resources or planning, the change process can be ineffective. In our visits to projects, we have seen examples of poor control of change requests, inadequate job briefs, no checks or challenges over costs and disputes over relatively insignificant matters. In one instance, the contractor was overwhelmed by the volume of change requests coming through, leading to long delays (**Case example 9**).

“There needs to be resources on both sides to actually deliver what you say, and according to the timescales that you need.”

“The public sector are naïve about what the commercial relationship is really about. And there needs to be training in contract management as well.”

NAO focus group attendees

**3.11** A relatively small number of public sector authorities have used available central resources in response to issues with the change process. For instance, since it was set up in April 2006, there have been 30 phone calls to PUK’s Operational Task Force dealing with change issues across the whole of PFI.<sup>20</sup> Most project managers who answered our questions on seeking guidance when implementing changes had sought advice from internal sources such as other team members or line managers and from external professional advisers. Only a fifth had contacted PUK or 4ps for advice on change (**Figure 14**). The vast majority of project managers described the advice they received from all sources as helpful or very helpful.

## 14 Project managers have sought advice on change from a range of sources

Source of advice	Proportion of projects using the source in 2006
Other team members or line managers	81%
External professional advisers	69%
Other contract management teams	37%
Departmental PFU	28%
PUK or 4ps	21%

Source: National Audit Office survey 2007

## CASE EXAMPLE 9

### Blackburn hospital

The PFI hospital in Blackburn, which became operational in 2005, has experienced a number of problems in relation to the change process. There have been substantial delays in getting changes through and some minor change requests had still not been processed after 15 months. There have been complaints also over the cost of changes with disagreements about both the capital cost and lifecycle elements. A consultant who works at the hospital told us that there was a degree of despondency amongst front-line users who felt that there was little point reporting problems that were occurring.

To some extent, the problems have reflected the transitional difficulties commonly faced in PFI or conventionally funded projects when they first become operational. For instance, it can take time for contract management teams and front-line users to become familiar with the contractual mechanisms in place, and any ongoing disputes surrounding minor defects in the completed construction work can distract attention away from new change requests. In the case of Blackburn hospital, these transitional issues were exacerbated by the sheer volume of change requests that were made – some 1,600 in the first 12 months of operation.

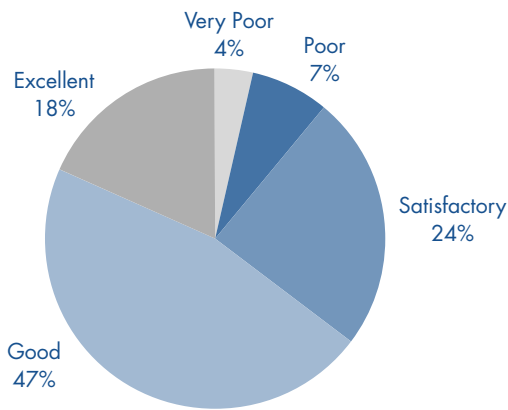
However, the public and private sector teams have also argued that more can be done on both sides to solve the problems that have occurred. The public sector team has questioned the attitude of the SPV at times, suggesting that it should see making changes as part of its core business, in addition to its maintenance and other performance obligations under the contract. Meanwhile, the SPV has argued that the process would be improved if the public sector team exerts greater control over the flow of change requests, is clearer as to what it wants and has a better understanding of the full cost of changes. Both teams recognised that they were under-resourced and that additional staff could speed up the processing of new change requests.

Recent evidence such as the renegotiation of the SPV fee suggests that the relationship between the public and private sectors is improving (see Case Example 4).

## Although relationships between the public and private sectors are generally good, this was not always true when making changes

**3.12** Overall, we found that relationships between the public and private sectors were usually good or excellent in PFI deals (Figure 15). This is consistent with previous research, and it is critical to the ultimate success of the operational phase of a PFI contract.<sup>21</sup>

**15** Relationships between the public and private sectors were good or excellent in two-thirds of PFI projects in 2006



Source: National Audit Office survey 2007

**3.13** However, this overall picture did not always correspond to actual experiences of making changes. In response to our survey, half of public sector contract managers who described their relationships with their private sector counterparts overall as good or excellent nevertheless raised issues of cost and time with the change process.

“The key is for better partnership working. I think if you can get that you can work around the contract.”

NAO focus group attendee

**3.14** We found examples of a genuine partnership ethos displayed by private sector contractors in relation to change requests. A simple example is the practice of not charging for every change request. Some SPVs were willing to waive fees for small changes where they felt the request was minimal and a normal part of the day-to-day operation of the building.<sup>22</sup> Another example is where SPVs are proactive in looking for areas where changes could benefit the public sector authority and acting as an arbiter in cases of dispute between the public sector authority and the sub-contractors. Figure 16, based on visits to operational projects, sums up how both effective public sector management and a partnership ethos from the private sector are needed for good value changes to be achieved.

## 16 Typology of change process

### Contractor working in spirit of partnership

#### Poor management of change process by Authority

- Inefficient but reasonable cost
- Poor controls over the change process with numerous change requests going through, leading to delays and complaints from service users.
  - Limited validation of prices.
  - Transparent fee structure.

#### Good management of change process by Authority

- Good value for money
- Strong control over number of changes going through with most changes processed within a few weeks.
  - Low levels of complaints from service users.
  - Transparent fee structures, base prices at market rate.
  - General lack of dispute.

### Contractor focusing on profit

- Poor value for money
- Overload of changes with long delays.
  - No validation of costs.
  - Very high fees.
  - Disputes common.
  - Complaints from service users.

- Efficient but expensive
- Change process generally working well: although there are some delays, service users are generally happy and understand the process.
  - However, some indication of over-charging and attempts to hike up fees.

Source: National Audit Office

# APPENDIX ONE

## Scope and methodology of the National Audit Office's examination

### Study Scope

**1** As of July 2007, 435 PFI deals had been signed in England of which 390 were operational. These figures come from a database of projects compiled by the Treasury and are available at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).

**2** This study covers operational PFI projects procured in England across all sectors. Projects with a capital value of under £20 million and IT projects were not included as these would now be ineligible for a PFI approach under Treasury guidance issued in 2003. The very large public private partnerships for the London Underground, now categorised by the Treasury as PFI deals, were also excluded as they are not easily comparable with the majority of operational PFI deals and have been the subject of previous reports by the NAO.<sup>23</sup>

### Study methodology

#### Census

**3** In the first half of 2007, we carried out a census of all 171 projects within the study scope. Approximately half of these projects were schools and hospitals; the remainder was split between 9 other sectors. The combined capital value of the projects included in the census was £14 billion. The questionnaire was returned by public sector contract managers from 153 projects representing an 89 per cent response rate. The non-responses were distributed relatively evenly between sectors. The reasons given for failing to respond include a lack of available data and workload pressures.

**4** The questionnaire asked for detailed factual information about changes made in 2006, with a focus on cost and processing issues. The main topic headings were:

- Summary cost data on changes made in 2006.
- Further details relating to major changes (with a present value of £100,000 or greater) made in 2006.

- Breakdown of changes (by origin, type, funding method, validation technique and timescale).
- Processing of changes.
- Contract management.

**5** In the majority of cases we also obtained a more detailed breakdown of the changes by value. Four bands were chosen, following consultation with PUK and others, to see how the management of changes differed by value: small changes (£0 to £5,000); small-medium changes (£5,000 to £30,000); medium changes (£30,000 to £100,000) and large changes (£100,000 and over). Although this approach could not completely mirror the complexity of changes made, it was considered a reasonable proxy and the nearest that could be found.

**6** We later followed up the census by asking contract managers from all sectors for more detail in relation to private sector fees. We also asked for more details of any large changes (£100,000 and over); this information is set out in Appendix 2.

**7** Census analysis was carried out using Excel and SPSS, excluding projects that had not provided data for a particular element of the analysis. We also carried out regression analysis to explore associations between key variables. In general, contract managers provided full responses to questions on number and value of changes. However, missing answers were more common for some processing questions, for instance in respect of timescales taken to process changes. This reflected the varying levels of detail in the public sector's records of changes.

## Analysis of change logs

**8** We invited public sector contract managers who kept full logs of completed changes to share these with us, and collected over 60 in total. This sample was subsequently analysed and found to be representative of the population in terms of geographical location, project value and total number and value of changes made in 2006.

**9** Logs of completed changes usually contained detailed data on the costing of changes, including the lifecycle and maintenance costs. We analysed the data to compare the cost of similar change made in different projects, and to calculate the average charges added for lifecycle and maintenance.

## Other fieldwork

**10** The survey work was supported by further fieldwork, as follows:

- Three focus groups were carried out by MORI in February 2007. Participants were public and private sector contract managers and discussions were focused around key value for money issues of the cost, time and quality of changes made.
- During 2006 and 2007 we spoke to a range of private sector contractors, financial and legal advisers, and public sector officials (listed below). Discussions were used initially to scope the main value for money issues, and subsequently to explore and 'triangulate' the issues arising out of the survey work. They were chosen to ensure that we heard from a good range of parties with different perspectives and interests in PFI.
- Visits to five individual public sector authorities were carried out in the first half of 2007 (listed below). Public sector authorities were chosen in particular where they were responsible for managing more than one project (either two PFI projects or a conventionally procured project in addition to a PFI project). By visiting these authorities, it was possible to compare experiences and explore reasons for different outcomes despite similar or identical management teams. As a result, the case visits were used not just to provide real life examples in the report but also to reach conclusions on the main influences on the effectiveness of change processes.

- An advisory Expert Panel, consisting of nine PFI experts with a variety of backgrounds from the public and private sectors, was convened in September 2007 in order to discuss the preliminary conclusions of the study and to consider potential recommendations. The members of the panel were:

**Graham Beazley-Long** – PPP Forum  
Director

**Jo Fox** – HM Treasury  
Senior PFI Commercial Adviser

**Bob Horner** – Corla  
Chief Executive

**Margie Jaffe** – UNISON  
Policy Officer

**Martin Lipson** – 4ps  
Programme Director

**Dominic Leadsom** – Turner and Townsend  
Director

**Chris Lonsdale** – University of Birmingham  
Senior Lecturer

**Mark Page** – Norfolk and Norwich NHS Trust  
PFI Contract Manager

**Chris Standing** – East Riding County Council  
PFI Contract Manager

## Organisations we consulted during the study

### Central Government

National Offenders Management Service

Home Office

Highways Agency

HM Courts

Ministry of Defence

Transport for London

Department of Health

Department for Children, Schools and Families

HM Treasury

### Other central advisory bodies

Partnerships UK

4ps

### Public sector authority project teams

North Tyneside

East Lancashire NHS Trust

Hereford NHS Trust

Buckinghamshire NHS Trust

STEPS

### Private sector companies

Carillion

Sodexo

WS Atkins

Corla

### Advisers to public sector teams

PriceWaterhouseCoopers

Ernst & Young

Grant Thornton

KPMG

Nabarro Nathanson

Deloitte & Touche

Trowers & Hamlins

Turner & Townsend

## Summary of statistical methodology

**11** We carried out statistical analysis in order to explore trends in the number and value of changes made in PFI projects and in the staffing levels of project teams.

### Results for the extent of change in operational PFI projects

**12** We carried out stepwise regression analysis to explore reasons for the extent of change carried out, defined here as the amount spent on changes in 2006.<sup>24</sup> We entered all the variables that might conceivably have affected the level of change carried out by projects, including project age, sector and size; however, all were eliminated in the process of selection.

### Results for general staffing levels

**13** We carried out linear regression analysis to explore the extent to which variations in staffing levels could be explained by the size of projects (defined as the unitary charge payment for 2006-07). We found that the size of projects explained about 40 per cent of the variation in staff resources. There was a correlation between project size and staff resources for all sectors; however, the correlation was weaker for school projects than other sectors. This may reflect the fact that the size of PFI schools deals may be a weaker indicator of complexity than in other sectors: some deals in the schools sector cover the maintenance of dozens of existing buildings, whilst other deals of a similar size cover only one or two newly constructed schools, with far simpler operational requirements.

### Results for staff time spent on managing changes

**14** We asked project teams to estimate the proportion of time spent by staff specifically on managing changes. This was multiplied by staffing levels to give a figure for the total staff time spent on managing changes. We then explored the relationship between this figure and the extent of change (defined as the amount spent on change in 2006), again through linear regression. We found that approximately 25 per cent of the variation in staff resources devoted to managing changes can be explained by the level of change. However, repeating the analysis by sector shows that the relationship exists only for changes made in PFI schools projects. For hospitals and other sectors, there is no statistically significant relationship between the amount spent on changes in 2006 and the associated staff resource.

# APPENDIX TWO

## List of high-value changes in 2006

### A Capital changes

PFI Project	Capital value of change £000	Associated operating cost in first year £000	Description of change	How was the cost validated?
<b>Competitively tendered</b>				
A19 Dishforth to Tyne Tunnel DBFO	270	Not yet agreed	Driver information system including CCTV and permanent variable message signs.	Quotes were obtained from various suppliers for the communications and technology element of the project. Non technology works and project management was undertaken by the SPV.
Army Foundation College	209	3	The Command Leadership And Synchronisation Programme (CLASP). Includes enhancing the assault course and to provide nine Command and Leadership Tasks.	This change was originally tendered as part of a larger project which was shelved for affordability reasons. This element was then negotiated based on the original tenders.
Avon & Somerset Magistrates Courts	166	2	County Court brought into Magistrates Court so that they are on the same site.	Competitively tendered and validated by advisers.
Berkshire Healthcare NHS Trust (Prospect Park)	113	nil	Creation of a seclusion room with en-suite facilities from an existing bedroom within the ward for people with learning difficulties and acute mental health needs.	There was a competitive tendering process. Costs were also compared with a schedule of rates.
Cornwall Schools 1	966	7	Provision of a new children's centre on site of Pennoweth school (additional building).	Competitively tendered by school using an external project manager with the agreement of the SPV.
Cornwall Schools 1	539	3	Provision of a new children's centre on site of St Day school (additional building).	Competitively tendered by school using an external project manager with the agreement of the SPV.
Cornwall Schools 1	131	48	Conversion of lecture theatre to IT suite, upgrade of air conditioning, new fire doors plus new kitchen in a teaching/geography room.	Competitively tendered by school using an external project manager with the agreement of the SPV even though there were interface issues.
Heavy Equipment Transporters (MoD)	315	nil	Air conditioning for the transporters.	The service provider ran a competitive tendering process and the Department was involved in the evaluation of the tender bids.
Kirklees 1 – Twenty Schools	369	6	Remodelling of Pupil Referral Unit at Rawthorpe High school	Competitively tendered and the Authority appointed an agent to validate cost and quality. It is normal practice to tender large change orders.

**A Capital changes *continued***

PFI Project	Capital value of change £000	Associated operating cost in first year £000	Description of change	How was the cost validated?
<b>Competitively tendered <i>continued</i></b>				
Liverpool Grouped Schools	5,454	Not available	Building a new school.	The change was competitively tendered by the SPV.
Redevelopment of the Treasury Building	149	10	Equipment upgrades designed to produce energy savings.	Competition between expert providers won by the existing PFI contractor.
South Gloucestershire Integrated Waste Management Scheme	105	60	Service improvements: provision of reusable bags for papers, dry cell battery collections, additional staff and establishment of a joint waste minimisation and awareness raising team.	A range of suppliers of paper bags were contacted for quotes. Other costs were benchmarked against the existing contract and colleagues in other authorities. The service element of the change was not capable of being tendered.
South Tees Acute Hospitals NHS Trust	120	Not yet agreed	Theatre Clean Air Canopy.	The cost was validated through competitive tender.
South Tees Acute Hospitals NHS Trust	258	Not yet agreed	Replacement MRI.	The cost was validated through competitive tender.
Southampton – Three Secondary Schools	104	2	Erect a free standing canopy to cover a courtyard.	The SPV obtained three tenders and the existing FM contractor was chosen by the school to do the work.
Sussex Partnership	195	4	Acute unit extension.	Tendering Process and internal specialist. FM provider ran the competition and undertook project management.
Wiltshire – North Wiltshire Schools	259	9	Construction of an extension onto the side of a restaurant and kitchen.	The work was competitively tendered. Three builders were approached, two answered and due diligence was carried out on the selected builder.
Worcestershire Acute Hospitals NHS Trust, New District General Hospital	206	24	Additional 12 space A & E Assessment Unit.	The change was competitively tendered.

**A Capital changes continued**

<b>PFI Project</b>	<b>Capital value of change £000</b>	<b>Associated operating cost in first year £000</b>	<b>Description of change</b>	<b>How was the cost validated?</b>
<b>May have been suitable for competitive tendering</b>				
A19 Dishforth to Tyne Tunnel DBFO	101	20	TiS Loop replacement (23 sets of loops).	The Agency technology team advised that costs were consistent with market rates.
A19 Dishforth to Tyne Tunnel DBFO	100	nil	Low noise re-surfacing.	This was part of a larger scheme. Rates were consistent with the contractor's previously tendered work and were checked by an internal quantity surveyor.
Berkshire Healthcare NHS Trust (Prospect Park)	3,473	152	Conversion of a 35 bed Elderly Organic Dementia Treatment & Assessment Ward (part of the Department of Psychiatry of Old Age) to a 35 bed Intermediate Care Ward for Berkshire West Primary Care Trust. Conversion of an Elderly Day Hospital to a 12 bed Elderly Organic Dementia Treatment & Assessment Ward. Conversion of a 21 bed Acute Mental Health admission ward to an Elderly Day Hospital and Elderly Community Mental Health Team base.	<p>The Trust employed financial, legal, technical advisers and quantity surveyors to examine, validate and report upon the costs and timetable. Quality was monitored by the appointment of an Independent Certifier and quality surveys carried out by the Trust and the FM service provider as the project progressed.</p> <p>This was a major project that impacted significantly upon the construction of the hospital. In order to maintain the existing interface arrangements and to protect the building warranties the original design team was commissioned for the project.</p>
Birmingham 1 – Ten Schools	674	Not available	New teaching block extension.	Benchmarked against original construction cost.
Birmingham 1 – Ten Schools	254	Not available	New staffroom facility.	Benchmarked against original construction cost.
East Riding of Yorkshire – Bridlington Schools PFI	850	Not yet agreed	Electrical upgrade to bring schools up to modern day curriculum standard – undertaken whilst the existing buildings were being rewired.	External and in house advice was used to negotiate the change. The work was negotiated to be done on top of another change.
HMP Altcourse/ Fazakerley	327	1,750	Provision of 84 additional prisoner places.	Cost was validated through benchmarking against similar provision of additional prisoner places. Quality was validated as per existing custodial accommodation.
HMP Altcourse/ Fazakerley	25,004	4,300	New house block accommodating 180 additional prisoner places.	<p>The ongoing service element of the change substantially outweighed the works element. Following legal advice that there was no requirement to competitively tender the change, the Department entered into negotiations with the existing provider. The Department also considered that competitively tendering the expansion would have been impractical from a security perspective. The change delivered additional prisoner places earlier than was expected.</p> <p>The cost was validated through benchmarking against similar public/private sector construction projects. The PFI financial model was validated to ensure the project returns were no better and no worse than before the expansion took place. Quality was validated throughout build phase by Independent Engineers working on behalf of the Authority. Advice was also taken throughout the procurement from PUK.</p>

## A Capital changes *continued*

PFI Project	Capital value of change £000	Associated operating cost in first year £000	Description of change	How was the cost validated?
<b>May have been suitable for competitive tendering</b> <i>continued</i>				
HMP Lowdham Grange	17,229	2,100	Provision of a 128 place new house block and extensions to the existing amenities building.	<p>The ongoing service element of the change substantially outweighed the works element. Following legal advice that there was no requirement to competitively tender the change, the Department entered into negotiations with the existing provider. The Department also considered that competitively tendering the expansion would have been impractical from a security perspective. The change delivered additional prisoner places earlier than was expected.</p> <p>The cost was validated through benchmarking against similar public/private sector construction projects. The PFI financial model was validated to ensure the project returns were no better and no worse than before the expansion took place. Quality was validated throughout build phase by Independent Engineers working on behalf of the Authority. Advice was also taken throughout the procurement from PUK.</p>
Kirklees 1 – Twenty Schools	1,989	nil <sup>1</sup>	Design and build costs of a sports hall at Thornhill High school.	Authority appointed an agent to validate cost and quality. Cost was negotiated with the contractor based on rates which had been tendered previously.
Kirklees 1 – Twenty Schools	392	17	Design and build of a children’s centre at Carlinghow school.	Authority appointed an agent to validate cost and quality. Cost was negotiated with the contractor based on rates which had been tendered previously.
London Fire and Civil Defence Authority - Vehicles and Equipment	1,102 <sup>2</sup>	62	Introduction of fleet of six Operational Support Units.	The change could not be competitively tendered as the contract includes an exclusivity clause and a process for introducing and managing change. The Authority has developed a 15 point value for money assessment procedure to evaluate the validity of costs submitted by the contractor. This consists of a list of 15 areas within the cost proposal which are scrutinised on a case by case basis. The list includes scrutinising the assumptions and proposals made by the contractor for planned and unplanned maintenance, capital costs, lifecycle costs and residual values.
M40 Junction 1 to 15	683	nil	Installation of emergency crossing points at four places along the M40.	Timescales did not permit this change to be tendered. Costs were based on actual costs incurred by the contractor.
North Cumbria Acute Hospitals NHS Trust – Carlisle	206	nil	Alteration and expansion of TSSU - capital equipment.	The work was undertaken by a nominated specialist supplier and a mix of measured term contractors and labour, provided by the FM contractor. The work was carried out on an open book basis with the FM contractor taking the risk for additional cost over 15 per cent.

**A Capital changes continued**

PFI Project	Capital value of change £000	Associated operating cost in first year £000	Description of change	How was the cost validated?
<b>May have been suitable for competitive tendering</b> <i>continued</i>				
Northumbria Healthcare – Hexham	22,900	Not available	This 98 bed Acute General Hospital was to be built in two phases but the second phase was deferred following the announcement of NHS-wide changes. The second phase, a major expansion of the clinical facilities of the project, was reinstated at a later date.	During negotiations the PFI contractors' costs and plans were monitored by an adviser appointed by the Trust. This involved benchmarking of individual cost plan elements as well as an overall standard construction rate per square metre.  As the project involved an extension to the main hospital building, the Trust considered that there were significant construction and facilities management interface issues which would have to be managed by the existing PFI contractors.
Waltham Forest 2 – Grouped Schools Project	201	Not available	Changing a school from primary to infant - requiring changes in furniture and classroom sizes.	The contract does not allow changes to be tendered. The cost was verified by an in house service.
Worcestershire Acute Hospitals NHS Trust, New District General Hospital	141	nil	Reconfigure Medical Assessment Unit to provide additional bed and trolley space.	The change was undertaken by the existing contractors and validated by an extended schedule of rates.
<b>Not suitable for competitive tendering</b>				
Attack Helicopters – Apache Simulator Training	17,700	nil	Enhancement to equipment and software.	This was proprietary software from the existing supplier and the Department was tied into the contract.
Attack Helicopters – Apache Simulator Training	1,300	nil	Enhancement to equipment and software.	This was proprietary software from the existing supplier and the Department was tied into the contract.
Attack Helicopters – Apache Simulator Training	3,950	nil	Introduction of enhanced Weapon Effects simulations.	This was proprietary software from the existing supplier and the Department was tied into the contract.
Attack Helicopters – Apache Simulator Training	1,600	nil	Software upgrade.	This was proprietary software from the existing supplier and the Department was tied into the contract.
Attack Helicopters – Apache Simulator Training	9,800	nil	Incorporation of Weapons Effects 2 upgrade.	This was proprietary software from the existing supplier and the Department was tied into the contract.
Attack Helicopters – Apache Simulator Training	8,000	nil	Enhancement to equipment and software.	This was proprietary software from the existing supplier and the Department was tied into the contract.
Avon & Western Wiltshire Mental Health NHS Trust	459	50	Change of use from an adult acute to a low secure facility.	Costs were validated by comparison with a schedule of rates and technical advice from quantity surveyors.  The change was not competitively tendered as the PFI contractor was refurbishing another building on the same site and the Trust was concerned about: duplication of set up costs and preliminaries arising from two contractors operating on the same site; costs associated with overcoming interface issues (e.g. access to utilities, site access, easements, minimising disruption to the remainder of the operational hospital site).

**A Capital changes *continued***

<b>PFI Project</b>	<b>Capital value of change £000</b>	<b>Associated operating cost in first year £000</b>	<b>Description of change</b>	<b>How was the cost validated?</b>
<b>Not suitable for competitive tendering <i>continued</i></b>				
Greater Manchester Police Authority PFI Project	104	2	Fully network the access control system and additional door control to five custody suites.	Validated through a reference price based on a specification. The change was not put out to competition because there were no other suppliers whose equipment would interface with the original equipment and the original system was still under warranty. The competitive tender process is available to the Authority and will be utilised should other large variations be required.
HMRC – 100 Parliament Street	104	nil	To provide a space planning facility to carry out a re-configuration of the building.	Plans were provided by the consultants responsible for the PFI project. Expert knowledge of the site and the mechanical and electrical systems was needed to maximise the space available. Costs were validated by making a comparison with the costs of similar exercises in the past.  The work was not competitively tendered because it required a thorough knowledge of the site to ensure that planned usage could be maintained by the facilities management providers and to protect the department from health and safety and security risks in its future use of the building.
Home Office Building	300	Not available	300 extra desks as a result of the closure of the satellite building.	The Department wanted to match the existing desks. These were acquired after a competitive tendering process and the extra desks were bought from the same supplier at the same cost per desk. The contract allows the Department to insist on competitive tendering if required.
Islington street properties	1,500	nil	Increase in the number of electrical sockets to be provided in each home to meet NHBC standard or in some cases additional sockets.	The contractor was already contracted to install sockets and this change increased the number to be installed, so it would have been impractical to go out to tender for the additional work. The cost was checked against BCIS rates and examined by a quantity surveyor.
Medium Support Helicopter Aircrew Training Facility	2,700	nil	Software upgrade to the Merlin Elements of the Training Service.	There were two elements to the change which both involved proprietary software and the Department was tied into the contracts.
Merton Schools – Age of Transfer	1,306	nil	Lump sum compensation payment to sub-contractor as Facilities Management services removed from the contract under a part termination clause for two of the six schools in the original project.	External financial and legal advice for negotiated settlement, derived from figures in the financial model for the deals. This contract change was not capable of being tendered.
<b>Unknown</b>				
Haringey – Grouped Secondary Schools	104	3	Fitting out a music technology room. Office and kitchen alterations.	The project team do not know whether the change was competitively tendered, this is a decision left to the SPV. The Authority used technical advisers to advise on cost and negotiate the price, the ultimate decision about whether to accept the cost and proceed was made by the individual school.
Haringey – Grouped Secondary Schools	100	Not available	New temporary teaching huts.	The project team do not know whether the change was competitively tendered, this is a decision left to the SPV. The Authority used technical advisers to advise on cost, the ultimate decision about whether to accept the cost and proceed was made by the individual school.

**B Operating changes**

<b>PFI Project</b>	<b>Whole life cost of change £000<sup>3</sup></b>	<b>Cost in first year £000</b>	<b>Description of change</b>	<b>How was the cost validated?</b>
<b>Competitively tendered</b>				
Queen Elizabeth Hospital NHS Trust	10,559	600	Increase in soft facilities management costs due to regular market testing exercise.	Competitive tendering exercise undertaken by the SPV.
Queen Elizabeth Hospital NHS Trust	2,866	163	Various additional costs resulting from NHS cleaning standards and increased baseline activity.	Competitive tendering exercise undertaken by the SPV.
<b>May have been suitable for competitive tendering</b>				
Barnett & Chase Farm Hospitals NHS Trust	249	13	To bring servicing and call out of equipment within the PFI deal.	The cost was compared against existing contracts and a check price obtained directly from the manufacturer. This currently forms part of the value testing process. It will be subject to market testing in 2009 if value testing is un-successful.
Health & Safety Laboratory Estate Rationalisation	620	34	Incorporation of existing grounds maintenance of 550 acre scientific test site into the PFI contract.	Following occupation it was realised that grounds maintenance could be incorporated into the PFI contract. The cost was validated by a reference price based on earlier market test.
<b>Not suitable for competitive tendering</b>				
A419/A417 Swindon to Gloucester DBFO	200	15	Take on the change to project facilities and maintenance arising from the construction of the Calcutt Rear Access Improvement Scheme.	This is a change in the existing maintenance specification so tendering would not have been appropriate. The cost was checked against typical industry rates.
A50/A564 Stoke-Derby Link DBFO	133	7	Adoption of current best working practice for the operation of Mobile Lane Closures.	This is a change in the existing maintenance specification so tendering would not have been appropriate.
Buckinghamshire Hospitals - Stoke Mandeville	12,183	640	Upgrade to NHS cleaning and infection control standards	The cost was compared with the existing schedule of rates. This is an extension to the existing service subject to periodic benchmarking and market testing.
Buckinghamshire Hospitals - Stoke Mandeville	1,352	71	Upgrade to the porter service.	The cost was compared with the existing schedule of rates. This is an extension to the existing service subject to periodic benchmarking and market testing.
Buckinghamshire Hospitals - Stoke Mandeville	761	40	Additional courier service.	The cost was compared with the existing schedule of rates. This is an extension to the existing service subject to periodic benchmarking and market testing.
Croydon Tramlink	Not yet agreed	Not yet agreed	Timetable adjustment requiring an increase in the number of trams in service.	Costs were validated by an internal exercise and the use of technical advisers. The change could only be implemented by the existing provider
Leicester Waste Management PFI	302	19	Decision not to devolve the call centre to the contractor (as originally planned) meant that an additional member of staff was needed.	The cost was benchmarked against known staff costs.

**B Operating changes continued**

PFI Project	Whole life cost of change £000 <sup>3</sup>	Cost in first year £000	Description of change	How was the cost validated?
<b>Not suitable for competitive tendering</b> <i>continued</i>				
M40 Junction 1 to 15	352	27	Maintenance of transmission stations and CCTV masts.	This is a change in the existing maintenance specification so tendering would not have been appropriate. Costs were verified by an internal quantity surveyor.
M40 Junction 1 to 15	283	22	Maintenance associated with variable message signs.	This is a change in the existing maintenance specification so tendering would not have been appropriate. Costs were verified by an internal quantity surveyor.
M40 Junction 1 to 15	281	22	M40 Junction 9 lane gains/ lane loss scheme.	This is a change in the existing maintenance specification so tendering would not have been appropriate. Costs were verified by an internal quantity surveyor.
M40 Junction 1 to 15	Not yet agreed	Not yet agreed	Maintenance associated with junction improvement and new dedicated slip road.	This is a change in the existing maintenance specification so tendering would not have been appropriate. Costs were verified by an internal quantity surveyor.
Newham - Canning Town Housing Regeneration Project	635	34	Provision of a bulk refuse collection service.	This change resulted from a clarification of the scope of the project. The cost was benchmarked against existing costs.
Norfolk & Norwich NHS Trust	Not yet agreed	Not yet agreed	Application of the introduction of Agenda for Change.	This change was as a result of a change in Department of Health policy and was not capable of being tendered. Costs were based on the number of staff and Department of Health regulations.
North Cumbria Acute Hospitals NHS Trust – Carlisle	1,895	114	Increase in infection cleans (variable fee).	This is an extension to existing service subject to periodic benchmarking and market testing.
South Gloucestershire Integrated Waste Management Scheme	2,354	160	Develop a network of plastic recycling banks. Plastic banks are rented.	The Authority explored a range of options jointly with the contractor. Costs were benchmarked and internal technical expertise used. There was only one local supplier of this specialist service (plastic banks) so it was not possible to have a competition.
Queen Elizabeth Hospital NHS Trust	15,216	864	Application of the introduction of Agenda for Change.	This change was as a result of a change in Department of Health policy and was not capable of being tendered. Costs were based on the number of staff and Department of Health regulations.

**NOTES**

- 1 The sports hall is run by the school and so the ongoing costs are outside of the PFI contract.
- 2 Estimated figure based on an increase in unitary charge of £154,000 per annum of which approximately 60 per cent is capital.
- 3 The costs of soft services are subject to regular benchmarking and market testing so this figure may change over the life of the contract.

# ENDNOTES

- 1 The present value of expected payments to 2031-32 of £171 billion, discounted at 3.5 per cent.
- 2 Source: HM Treasury (2007).
- 3 Committee of Public Accounts 35th Report of 2002-03 (HC 567) *PFI Construction Performance*.
- 4 We asked for the total cost of these changes over the lifetime of the contract, so as to take into account any ongoing costs. Fifty changes had a capital cost of over £100,000; the remaining 20 were changes to services with a present value life time cost of over £100,000.
- 5 HMP Altcourse/Fazakerley, HMP Lowdham Grange and Northumbria Healthcare – Hexham.
- 6 This figure does not include those who simply listed the inclusion of lifecycle as the main difference between PFI and conventionally-procured assets.
- 7 The latter case is Hereford hospital, a first-wave PFI hospital in which the FM provider fee was not specified in the contract. In later versions of the PFI contract, this anomaly was rectified.
- 8 *BMI Building Maintenance Price Book* (2006 edition).
- 9 Royal Institute of Chartered Surveyors, *BMI Building Maintenance Price Book* (2006); also SPON'S *Estimating Guide to Electrical Works* (2006).
- 10 Two of the projects in our sample, which use the same FM contractor, had sought advice from PUK following concerns over the time taken and management fees involved in processing small changes. A new change protocol was agreed in August 2007, which will include a catalogue of standardised costs for small changes. As the catalogue has yet to be agreed, there is no evidence of what impact, if any, this will have on the base costs of small changes.
- 11 Several interviews conducted in 2007, focus groups.
- 12 On average, lifecycle has been explicitly added to a fifth of changes.
- 13 North Tyneside – Four schools project.
- 14 East Riding schools, Wirral schools.
- 15 OGC Public Sector Construction Database 2006, for works up to a value of £2 million.
- 16 Thirty six per cent of contract managers said that both agreement and completion of changes was a little slower or much slower than agreed timetables.
- 17 The STEPS PFI contract differs from most PFI deals in that the contract involved the sale or transfer to the private sector of over 600 existing properties, along with their ongoing facilities management arrangements, which are then managed by a private sector partner.
- 18 This finding is consistent with surveys of operational PFI projects carried out by Partnerships UK in 2004 and 2005. See Appendix 1 for the statistical basis for this and the following paragraph.
- 19 See Appendix 1 for the statistical basis for this. There is no correlation at all between staff resources devoted to change and the number of changes.
- 20 Out of 210 altogether (as of June 2007).
- 21 See 4ps and PUK operational reviews among others.
- 22 E.g. Brooklands Avenue project, Cambridge.
- 23 National Audit Office (2000), *The Financial Analysis for the London Underground Public Private Partnerships*, HC 54, Parliamentary Session 2000-01; National Audit Office (2004), *London Underground PPP – Were they good deals?*, HC 645, Parliamentary Session 2003-04; National Audit Office (2004), *London Underground: Are the Public Private Partnerships likely to work successfully?*, HC 644, Parliamentary Session 2003-04.
- 24 Other measures for the extent of change, such as the number of changes and the cost of changes as a proportion of the unitary charge were also tested, but no significant correlations were found.

Design and Production by  
NAO Marketing & Communications Team  
DP Ref: 7658VC

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