



NAO Critical of Change Process

Under a PFI contract, 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 with a combined capital value of £44 billion.

A recent NAO Report has highlighted the key issues involved in making changes to the project, which range from simple small works variations (e.g. fitting electrical sockets) to major changes (e.g. adding new schools to an existing schools PFI contract). The report has attracted media attention in respect of alleged “fleecing” of the public sector by contractors, and its findings offer a good insight into how change processes are being implemented.

The report found that an estimated £180 million was paid by public authorities to PFI contractors to undertake changes to projects during 2006.

Key findings

In general terms, it found that 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 were satisfied or very satisfied with the quality of work done to implement change requests. The timescales for agreement and completion of larger changes also compares well with conventionally-outsourced refurbishment or upgrade work in the public sector.

Taking all projects together, some achieve better value for money than others, but several components of the cost of changes were problematic:

- 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 HM Treasury on standardised terms for future PFI contracts.
- 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.
- In total, an estimated £6 million was paid in SPV “mark-up” fees in 2006. Usually, this fee was not specified in the contract, although new Treasury guidance requires that this is clear at the outset.

Recommendations

The report recommends that for operational schemes:

- 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 existing projects, 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.
- 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.
- 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.
- Contract management teams should be properly resourced in order to manage the change process.
- Public sector authorities can also improve the value for money of changes by adopting the good practices used in some projects. These include:
 - Adopting a strategic approach to changes – for instance, bundling similar changes together to reduce costs or planning a change programme based on anticipated needs.
 - Understanding the contract to be sure that a change request is actually a change and not covered under the existing agreement and pricing structures.
 - Keeping good permanent records of changes and payments made
 - 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.

For more info:

www.nao.org.uk/publications/nao_reports/0708/0708205.pdf

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