Commercial Governance of PPP Projects

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• Senior Commercial Manager for MOD contract based in Northern Germany
• Commercial and Technical Lead on 11 PFI’s which included Schools, Universities, Hospitals and Military facilities – possibly the largest amount of PFI deals closed in one day!
• Commercial Manager and senior team member on £1 billion 30 year PFI contract for the MOD within central London
• Lead Project Manager for CTMP IT Infrastructure project (London and South West) – awarded UK Government project of the year 2006
• Experienced in Infrastructure communication projects
• Fellow of the Institute of Commercial Managers
• Honorary PhD Research Fellow at Liverpool John Moores University studying PPP and FM Best Practices
• Knowledge Transfer Partnership Facilitator
Content

• Commercial Governance in PPP Projects
• Commercial Balance in Design
• Building to the required Quality
• Asset Management
• Lifecycle Management
• PPP Case Study
• Challenges of PPP Commercial Governance
• Summary
• The provision of infrastructure both nationally and locally is key to ensuring that services and transport structures are in place to support economic development and to allow the generation of viable communities
• The planning, funding and delivery by PPP of core infrastructure requires the private sector to work closely with the authorities to ensure that effective and efficient government procurement processes are put in place and to avoid the project being hindered by unnecessary bureaucracy
• Authorities need to recognised that investment in infrastructure delivery can also be an important economic stimulus during any financial downturn
• Well planned and executed Commercial Governance should not be underestimated and is essential for any PPP project to be a success
“The World Bank estimates that globally for every 1% of (government) funds invested in infrastructure this leads to an equivalent increase of over 1% in gross domestic product (GDP)” (2005 report)

- PPP Organisational Structures
  - One of the biggest obstacles to the effective implementation of PPP’s can be the lack of local knowledge and experience in the areas of technical and project planning
  - This can lead to poor and late decisions that will have the impact of the PPP not achieving its targets equally from a delivery perspective and fiscally
  - The result is often a management organisation which is top heavy with internal and international advisers, often impacting negatively on implementation – Using good Commercial Governance can avoid this situation
  - Stakeholders need to invest in the promotion, education and communication of good PPP delivery both in the public and private sectors
• The Partnership
  – Authorities can unfortunately adopt practices of traditional patronage and favouritism over capability and competence in selection and several PPP projects have been known to fail at start-up because the process of Stakeholder selection was flawed
  – PPP’s initiated and then not honoured due to financial or political reasons will have an impact on the confidence of investors and contractors
  – Stakeholders must be prepared to continuously develop and implement changes both at the early stages of the PPP contract and throughout its life
  – Benchmarking against international standards is essential for PPP projects to attract the correct funding and technical competence
  – Contract terms must be comparable with international standards if the PPP is going to attract the most cost effective global investors
Organisational and culture barriers

- The cultural gap which will exist between the public and private sector should not be overlooked.
- Traditionally, the public sector is known to be an inefficient machine and while this is a common problem across the world, economies that have mature PPP schemes have encouraged and developed great talent in the public sector.
Commercial Balance in Design

• Considering all of the project requirements before selecting a final design is essential and especially if the project is going to support future growth
• The collation of accurate data to establish the base requirements of the Infrastructure should not be under estimated as to its importance
• The successful School and National IT projects have considered the future as being equally as important as the current business needs
There are a number of innovative high profile projects that have not only offered significant challenges during their construction, but have resulted in operational, commercial and financial problems.

Regardless of the scale of the project, in order to reduce risks it is essential that there is sufficient time to establish the aims and review the design before executing the project.

- The “inside out building” was completed in 1986.
- Services are external to building.
- Significant amount of re-working has been required to replace corroding components.
- Building has higher maintenance costs than traditional service installations.

The “inside out building” was completed in 1986.

Original cost estimate in 1957 was $7m and was due to be completed in 1963.

One of the first structures to use glue to assemble the precast structural elements.
Commercial Balance in Design

- The future requirements of the project should always be at the forefront of any final design.
- The Stakeholders need to be prepared to commit a higher capital sum at a measured risk to achieve commercial balance in design.
- The design needs to fully consider the liability held by the project owners and operators and the duration that this will be held.
By working closely with the constructor, the quality of the project can be maintained and reduce the risk of performance deductions.

- Less than 20% rated their buildings as having a good build quality.

- It is also important to ensure that specification creep does not affect the build quality.

- Poor build quality will have a direct increase in the risk profile of the project and also has the potential to significantly damage Stakeholder relationships as the project suffers performance and more importantly availability issues.
• Inspection and maintenance plays a key role in the operational performance of a project.

• Good asset management considers the selection at design stage.

• Good asset management is both an art and a science and necessary to reduce the commercial risk.

• At the end of the Project term, assets will usually have to be handed back with a minimum lifespan and even in the condition they were in when the PPP commenced.

• Minimising of the whole life cost.

• Operational issues.

• Business continuity.

• Future maintenance regimes.

• Renewal/disposal of the asset.
### Lifecycle Management

- **The cost / benefit analysis considered a number of factors**

<table>
<thead>
<tr>
<th>Costs based on 5,000 sqm</th>
<th>£32,500</th>
<th>£62,500</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Material Supply Cost</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Installation Cost</strong></td>
<td>£16,250</td>
<td>£16,250</td>
</tr>
<tr>
<td><strong>Projected Lifespan of carpet (years)</strong></td>
<td>7</td>
<td>25</td>
</tr>
<tr>
<td><strong>Estimated Number of replacements</strong></td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td><strong>Enhanced maintenance per annum</strong></td>
<td>nil</td>
<td>£5,000</td>
</tr>
<tr>
<td><strong>Lifecycle costs over 25 year project term</strong></td>
<td>£195,000</td>
<td>£141,250</td>
</tr>
</tbody>
</table>

**Even considering the increase in material cost for the higher specification product and the enhanced maintenance cost, the potential savings were identified as having saving in excess of 35% over the term of the project**
The PPP now operates in its Main Phase over two buildings having completed the Decant, Refurbishment and Recant phases.

The MOD Main Building

The Old War Office
The PFI Contract is for an initial period of 30 years.

Contract is based on an Output specification.

Deductions for poor performance and unavailability of facilities can be sought by the Client.

PFI has adapted from one Hard and Soft Service Provider to:

- Hard FM Contractor – Asset maintenance
- Facilities Manager – Cleaning, catering, mail, IT, Churn

The Project Agreement is a large and complex contract document – Over 1.8metres of files!

There are good Stakeholder relationships between the Client, PFI Contractor, Funders, Architects, Engineers, Builder, Service Providers and the Building users.

Over 1500 Variation Orders had been issued up to April 2010 which shows that PPP’s can be flexible.
MOD Main Building

- Designed by Emmanuel Vincent Harris
- Original construction was completed in 1959
- Full integrated IT infrastructure that allows flexibility of use
- Conference Suite
- Over 1352 serviced Meeting Rooms
- Audio Visual Conferencing Facilities
- Restaurant
- Shop
- Nursery
- Gym
- PFI provides serviced accommodation to over 85,000 sqm
- Over 10,000 visitors per month

PPP Case Study
MOD Main Building

• Good design has been essential to the success of the PFI
• Design is operationally sustainable
• The refurbishment provided a new approach to workplace utilisation
• Historic features were sympathetically adapted

MOD Main Building

• Design considered the whole-life management of the building
• Stakeholders worked effectively together to engineer a cost-effective design solution which has been essential to the project success
Challenges of PPP Commercial Governance

• The private sector needs to understand the Clients requirements, their business drivers and to maintain this understanding for the duration
• An effective PPP requires good Stakeholder relationships that can achieve flexibility in the partnership and it is essential to reinforce the PPP expectations to all parties on a regular basis

• PPP arrangements can be designed and adapted to the specific characteristics of the project, as well as tailored to the competence and abilities of those involved
• Mitigate wherever practical the project risks and make sure the Stakeholders are prepared to share these risks
• Keeping accurate and accessible records are essential to avoid knowledge loss as team members change, especially as PPP’s can be established for 40+ years
• Investment in the design and construction of the project can have great rewards throughout the life of the PPP as short term financial gains can often prove to be uneconomical over the term of the PPP
• Embrace and implement changes in technology and operational methodology as the PPP matures
• Commercial, project and facilities management in PPP requires a very different approach to traditional FM and construction projects
• If the PPP is to be successful there is a need to ensure the project has;
  
  – Stakeholder buy-in at all levels
  – excellent communication between parties
  – good commercial governance
  – innovation in the design
  – a design that is feasible
  – quality in the construction
  – to be operationally viable for the end user and operator
  – Stakeholder accountability to the public and investors
  – profitability for investors and operators
Thank you for listening.