



Infrastructure  
and Projects  
Authority

# PPP Contract Management

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# Agenda

1. What is Contract Management?
2. Stages of Contract Management (Project Whole Life)
3. Managing Performance – Tools Available (Paymech, Change Control)
4. Lessons Learned
5. Summary

# Strategic Context – PPP in the UK

(as at 31<sup>st</sup> March 2016 data verification)

- Approximately 716 PPP Projects.
- 686 Operational Projects
- Circa £59.4 billion capital value
- Approximately £209 billion of future (long term) Unitary Charge payments
- Over 120 projects will have been signed for more than 10 years – **changes in requirements are inevitable**
- Central, coordinated support to drive best value from long term commitments in changing environment essential

# What is Contract Management?

What does it mean to different organisations, departments and individuals?

What does it mean to you?

Value for money is a key concept. It means securing the best mix of quality and effectiveness for the least outlay **over the period** of use of the goods or services bought. It is not about minimising up front prices.

It can be summarized as the process of systematically and efficiently managing contract creation, execution, operations, close down and analysis for the purpose of maximizing financial and operational performance with **minimal risk to meet your expectations**.

In PPP Contracts, contract management is basically making sure that you get what you have paid for at the agreed price, at the right quality; all the time!

How does PPP Contract Management differ from any other contract management requirement?

# Four components of contract management



# Why is Contract Management important?

***“A great contract at signing can be the worst six months later, unless someone is carefully managing its operation”***

*Head of Procurement, University College London*

***“There is strong evidence to suggest that the existence of a dedicated team and frequent meetings between the two sides to review performance levels helps improve service levels”***

*H.M. Treasury: PFI: Strengthening Long-term Partnerships March 2006*

***“The government will not achieve value for money from its contracts until it pays much more attention to contract management”***

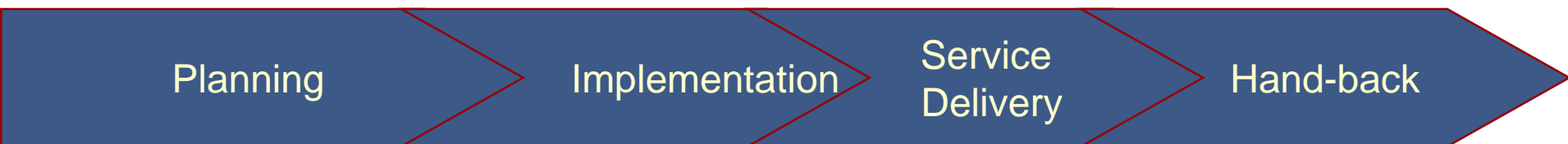
*House of Commons Committee of Public Accounts (PAC) February 2016*

**Failure to adequately manage a PPP Contract will inevitably erode its value-for-money and may ultimately undermine its objectives**

# **Stages of Contract Management in PPP Projects**

# When does Contract Management happen?

At all stages of the contract management lifecycle:



***“The foundations for successful contract management are laid down in the stages before contract award, including the procurement process”***



# Planning Phase

Covers all activities from the initial concept of a project, through the strategic and outline business cases and procurement up to the point of contract award

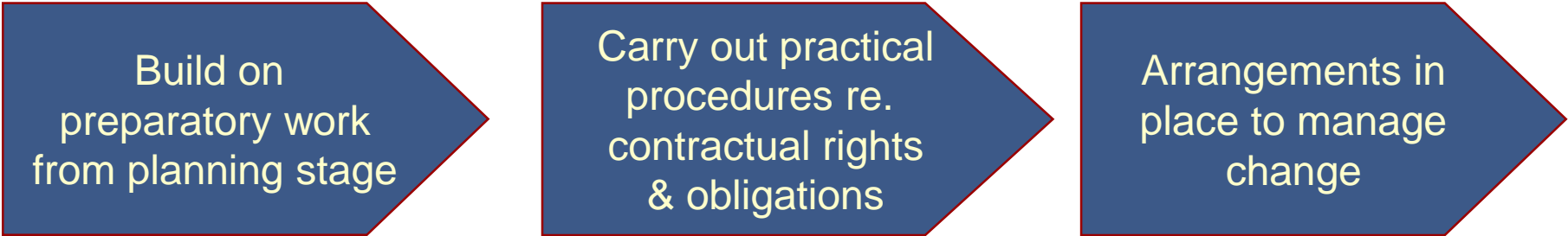
## Key objectives:



# Implementation Phase

Covers all activities after the award of the contract up to the point of full service commencement

## Key objectives:



Build on  
preparatory work  
from planning stage

Carry out practical  
procedures re.  
contractual rights  
& obligations

Arrangements in  
place to manage  
change

# Service Delivery/Operations Phase

Covers all Contract Management activities from the point of service/operations commencement to the end of the contract

## Key objectives:



Service to conform  
to contract


Non conformance  
dealt with  
as per contract

Benefits are being  
realised & payments  
only made for  
valid service

# Hand-back Phase

Covers all activities in the lead up to the expiry of the contract, including consideration of and planning for what happens upon termination

## Key objectives:



Succession arrangements  
developed  
re:- commercial;  
organisational; operational

Lessons learned  
taken into  
account

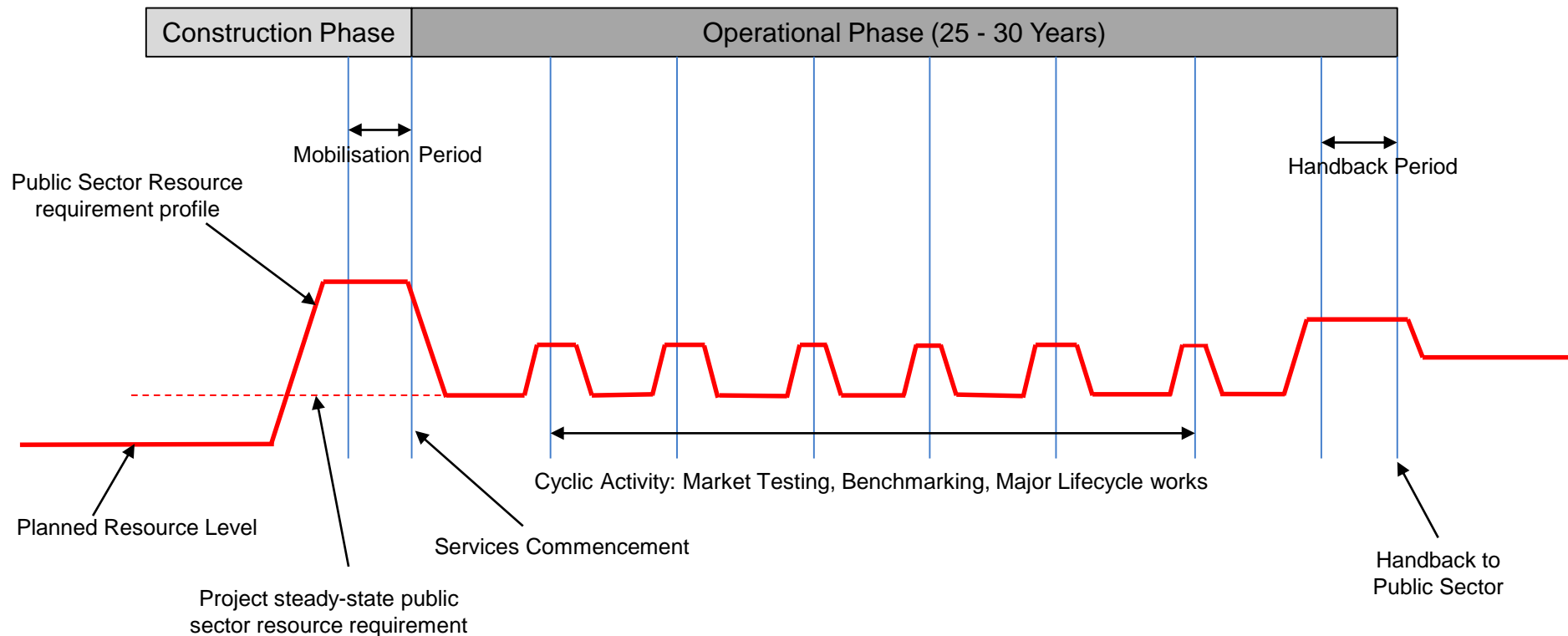
Transition to new  
arrangements as  
smooth  
as possible

# **How can you accommodate the PPP whole-life contract management requirements?**

**Just to make it more complex – It's not a flat or straight line project.**

# Theoretical Public Sector Resource Requirement

The diagram below is an example of the theoretical public sector resource requirement model to meet the long term requirements of a PPP project. The diagram emphasise the 'step-change' nature of resources requirement (capacity and capability) that is required during the project if the initial assumptions were correct.



# **Managing Performance**

# Establishing a contract management team

Ask yourself the following questions: (there are lots more)

- When will I design, recruit and set up the team?
- What team structure will I adopt and what size of team?
- What competencies and skills do I need?
- Should I use external specialist resources and are they available?
- How will I flex the team to follow the PPP model?
- How can I attract the right candidates and keep the candidates on board?
- What will be the mix of my multidisciplinary team(s)? Technical, Legal, Financial, Communications, Insurance, Administrative?

**The team must be matched to the characteristics and environment of the project.**



# PPP Contract Manager(s)

- Skills, Attitude and Experience
- Knowledge
- Specialist Skills
- Project management, commercial expertise and negotiation.
- User training - simplified contract guides and user manuals.
- Advantageous if a contract manager has been involved in the procurement phase of a project.
- If not, formal handover procedures are important.

**Know the contract!**

# Overview of Tools and Techniques

- The actual management and monitoring procedures can be tailored to those most relevant to a particular contract.
- The list of relevant contract management activities should be devised jointly with the contractor.
- Activities should be developed to reflect optimum frequency of the routine measures and prioritisation.

# Contractor should have in place:

- **Performance** monitoring procedures
- **Quality management** and management information systems
- Procedures for the **management of its sub-contractors**
- **Systems for recording** contract information
- A **reporting** mechanism
- A robust **audit trail** supporting its **assessment of performance**
- The **Authority** should ensure that the **Contractor's process** ties in to the local authority meeting and payment processes.

# **Managing Contracts: Key Activities**

- User satisfaction surveys
- Complaint logs/help desk
- Physical inspections
- Spot checks and testing
- Sign off/certification
- Adherence to monitoring plans
- Agreeing and reflecting change control/variations
- Reporting and review of reports

# **Managing Contracts: Key Activities**

- Use of contractual remedies
- Self-assessment
- Operational audits
- Measurement of and updating of KPIs
- Benefits measurement
- Financial reviews

# Resource Planning (quick rule of thumb – operational phase)

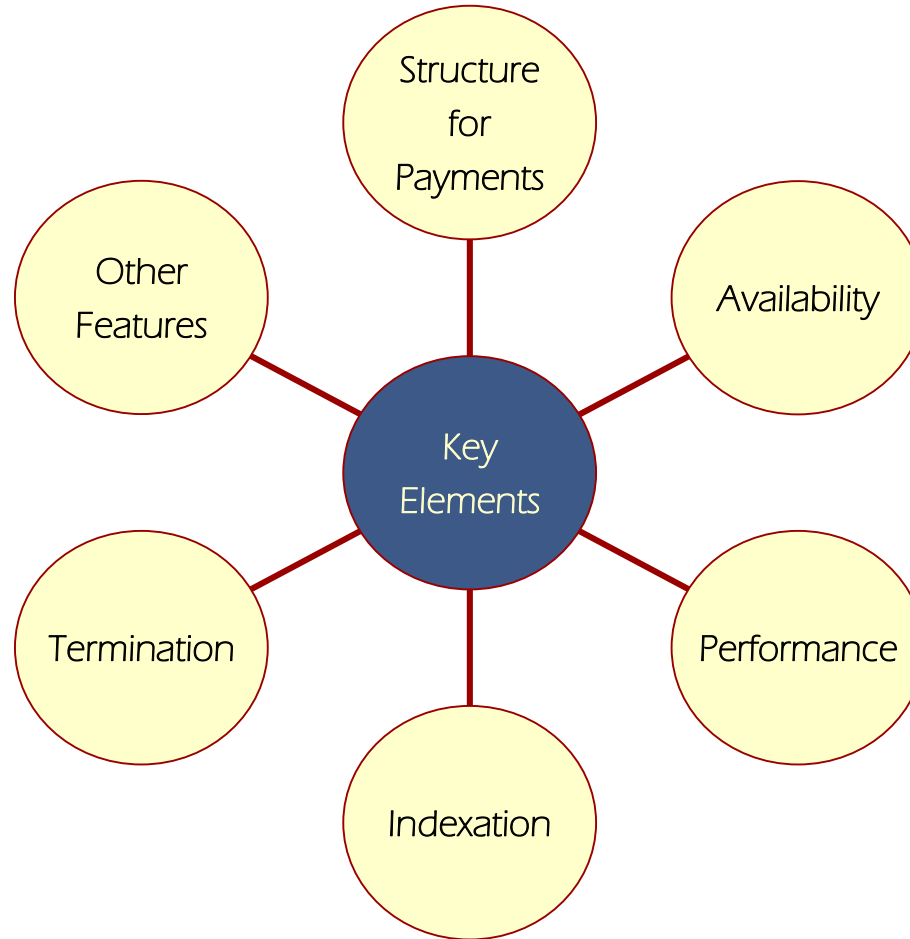
| Project                                        | Size  | Contract Manager | Service Performance Manager | Communications Manager | Administration | Total      |
|------------------------------------------------|-------|------------------|-----------------------------|------------------------|----------------|------------|
| Availability based contract + Hard FM          | Small | 50%              | 0%                          | 0%                     | 100%           | 1.5 people |
|                                                | Large | 100%             | 100%                        | 50%                    | 200%           | 4.5 people |
| Availability based contract + Hard and Soft FM | Small | 100%             | 100%                        | 0%                     | 100%           | 3.0 people |
|                                                | Large | 100%             | 200%                        | 100%                   | 200%           | 6.0 people |

Small defined as  $\leq 1$  PFI Site: and/or GIA  $< 30,000\text{m}^2$

Large defined as  $\geq 1$  PFI Site: and/or GIA  $> 30,000\text{m}^2$

# **The Payment Mechanism**

# Key Elements of Payment Mechanisms





# **Why is the Payment Mechanism Important?**

## **The Payment Mechanism:**

- Is Central to the Contract - Core Schedule
- Reflects the financial effect of the allocation of risk
- Determines the payments that the Authority will make to the Contractor
- Sets out indexation arrangements
- Addresses Contractor incentives to deliver the Services
- Sets out the Service Credit or Deduction regime

# Structure for Payments

- Payments linked to availability, performance and / or usage.
- Availability usually attracts highest proportion of payment and likewise risks the highest deductions.
- Payments at risk for poor performance, unavailability, repeated failures, reporting failures and poor satisfaction.
- Deductions can accelerate where poor performance is persistent, or there are multiple instances of unavailability in a defined period.

# Payment Mechanisms in Practice

## Common Issues

Demonstrating  
unavailability

Agreeing  
responsibility  
for failures

Deciding  
whether or not  
to apply  
deductions

Self-monitoring  
& reporting

Keeping  
standards  
up-to-date  
& relevant

Record  
keeping

# **Dealing with Change: Overview**

- Plan in procurement stage
- Principles set out in the Project Agreement
- Contracts usually have provisions to deal with change

# Changes

**Can cause more problems than anything else:**

- Need to understand what constitutes a change
- Workable protocol for changes needed
- Small changes to be treated differently to major capital works

# Benchmarking and Market Testing – Objective

- A key requirement of all Contracts is to obtain Value for Money for Public Sector Authorities throughout the life of the Contract, and not to erode Value for Money already obtained during the procurement process
- Value for Money can be achieved through benchmarking, market testing, savings and efficiencies, service improvements, refinancing and profit sharing.

Benchmarking and Market Testing are tools to ensure VfM.  
Collectively they are referred to as **Value Testing**

# What benchmarking is for

Benchmarking is intended to protect both parties to a PFI contract:

- It is meant to protect the Contractor from unforeseeable cost pressures over the life of the contract due to:
  - particular sector-related influences on costs;
  - geographical influences on costs; or
  - operational cost consequences of changes in law.

Which may lead to cost increases significantly above the rate of any inflation indexation in the Contract.

- The Authority is protected by ensuring that continued value for money is achieved from the PFI contract by comparing it with prices in the current marketplace.

**Benchmarking - not to protect Contractors from general inflationary cost increases or to recompense an inefficient service provider.**

# **Contract Management** **Lessons Learned in the UK**



# What have we learned?

***“To evaluate the effectiveness of public sector contract management teams responsible for operational PFI project to ensure whole life VfM can be achieved from the PFI portfolio”***

- 12 major issues that are placing maintaining whole life VfM at risk.
- 8 solutions identified to mitigate the 12 major issues.
- 5 challenges that have to be addressed to enable the solutions to be activated.

# 12 Major Issues

- Lack of understanding about PPP/PFI principles and risk transfer.
- Lack of knowledge of the contract its clauses and obligations.
- Over-reliance on self-monitoring provisions.
- Lack of understanding of private sector commercial drivers.
- Poorly applied value testing.
- Lack of senior management support.
- Poorly resourced teams (capacity and capability).
- Lack of access to specialist skills.
- A poor understanding of the payment mechanism.
- Poorly drafted change mechanisms and poorly drafted contract clauses.
- A lack of awareness of central support and guidance.
- Lack of investment and engagement by SPVs.

# 8 Potential Solutions

- Improve the core skills of public sector managers by the provision of targeted specialist operational PPP training.
- Provide targeted specific operational PPP training to senior managers (CFO's, CE, Op's Directors etc) to ensure whole life VfM and risk transfer is understood by senior managers.
- Explore in detail different operational contract models such as consolidation of teams, regional centres of excellence etc
- Improve support and guidance from central government.
- Encourage departments, regionally collocated projects, or sector specific projects to have regular networking events and lessons learned seminars.
- Gain wide acknowledgement that operational contract management of PPP projects is a 'specialism' and adjust recruitment and payment policies accordingly.
- Develop a 'specialist' PPP operational contract management community across government with a 'Head of' post that has day to day responsibility for operational improvement.
- Regularly formally engage with private sector stakeholders to encourage best practice across the PPP industry.

# 5 Challenges

- Budgets.
- Corporate knowledge and records.
- Quality and Retention.
- Partnership.
- Isolation.

# Thank you for Listening



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