



MPA PFI Review

April 2002

Introduction

The Metropolitan Police Service is a pioneer in the application of the PFI to public service re-provision. It is currently one of only two police services that has completed more than one PFI transaction. In March and October 2001 it signed contracts for two PFI projects:

- A new combined firearms and public order training facility at Gravesend to replace existing facilities at Lippitts Hill and Hounslow Heath respectively.
- The South East London Police Station Project comprising the provision of new serviced accommodation and a range of police support services at borough Operational Command Unit HQs for Lewisham, Bromley and Sutton, sector bases at Deptford and Brockley together with front desk services at Wallington, Catford, Orpington, Penge and Sydenham. The project also includes accommodation for the Serious Crime Group and the Mounted Branch.

New constitutional arrangements brought about by the creation of the Metropolitan Police Authority (the MPA) in 2000 required its members to engage with a very complex PFI process at a time when both projects were very well advanced. This experience served to prompt a review of the use of PFI in the Metropolitan Police Service (MPS) with particular reference to the two projects referred to above to see what lessons could be learned for the future. This was considered to be particularly important since the continuing lack of conventional capital resources implied that any significant future investment in the operational estate would need to involve continued consideration of PFI.

The 4ps (the body established by the LGA to assist local authorities with PFI/PPP proposals) was commissioned to undertake a review of this experience to:

- (a) determine what lessons could be learned and
- (b) offer guidance on how to approach the use PFI in the future.

The review was undertaken by Brian Smith, the ex-chief executive of Stoke on Trent City Council and Fred Portnell, a consultant with the 4ps. Both reviewers have considerable experience and knowledge of public administration and finance and the application of PFI to public service re-provision.

The Review was undertaken through an examination of relevant documentation and interviews with personnel and members who had been involved with the projects. A total of 21 interviews were conducted.

Acknowledgements

The Review Team wishes to acknowledge the very positive co-operation it received from members of the MPA and officers of the MPS. Particular thanks are extended to Messrs Frank Allum and Trevor Lawrence for the time they devoted to the Review and for allowing the Review Team unrestricted access to the considerable amount of documentation that accompanied the progress of both projects.

Summary of Main Findings

The following is a summary of our key findings:

- The decision to proceed with the procurement of both the South East London and Firearms and Public Order Training projects in parallel with each other using the same, under resourced, project team and without the benefit of PFI credits carried with it a very high degree of risk. It is fair to say that the consequences of this decision coloured many of the issues that emerged from the examination of the process. Had a thorough risk assessment been undertaken at the outset it is likely that many of these issues identified in this report may well have been averted.
- The project team was seriously under resourced for managing one PFI project let alone two running in parallel with each other. The team would have benefited from the inclusion of wider corporate skills on a full time basis, particularly financial skills. Its team members were inexperienced in PFI, although this was not untypical having regard to the state of the market at the time. In the circumstances, it is to the credit of the individual team members and in particular to its leader, Frank Allum, that these two complex projects were brought to a conclusion. He is to be commended for his efforts in this regard.
- There was an over reliance on external advisers, particularly with regard to financial advisers. This was certainly a reflection in part at least of the lack of internal capacity. The cost of the external advice procured is considered exceptionally high compared to comparable projects elsewhere.
- The departmental project board established to oversee the project was partially successful in meeting its objectives. However whilst it utilised wider business and operational skills to help carry out its remit, the majority of those skills could have been more fully engaged.
- Both projects were perceived as property led initiatives driven by the Property Services Department. The process of accountability and reporting to senior management in the period prior to the establishment of the MPA was satisfactory in principle but it is likely that the amount of involvement and challenge at this level would have been limited. This was perhaps consistent with the culture of the organisation at the time.
- The engagement of members in the period prior to the establishment of the MPA was limited and informal. Members were unlikely to have been expected to offer the level of challenge that the MPA members have shown to be capable of with officer support and training. MPA members may have felt less concerned and more relaxed about the projects if they had been given a greater opportunity for involvement at an earlier stage. However the timing of the projects in relation to the formation of the MPA made some of this dissatisfaction inevitable.
- Early consideration of aspects of procurement strategy particularly regarding the potential for bundling the two projects together and a more realistic assessment of the project timetable would have been advisable.
- Significant changes in the scope of both projects occurred during the procurement process. The inclusion of additional services in the SEL project was questionable given the amount of concern expressed about this issue subsequently. (paras 2.37 to 2.44)
- Inadequate attention was given to affordability until late in the procurement process. This should have been a key issue throughout given that there was no additional government funding to fall back on. Considerable attention was however paid to demonstrating that the PFI solutions for both projects delivered value for money in comparison with the public sector alternatives. The value for money

advantage of the PFI solution for the SEL project was improved by the inclusion of the additional services element and the headlease arrangement referred to below.

- There is a belief that PFI (particularly in the context of the SEL project) will constrain the flexibility that the MPS requires, certainly over the length of the PFI contract. There is a need to reconcile major strategic decisions and changing operational requirements with the need to set in train major long term investment decisions whatever method of procurement is selected. Neither of these PFI solutions implies a totally fixed or inflexible solution for the whole of the contract period and the project team put considerable effort into building in flexibility in both projects.
 - Concern was expressed about the extent of post tender variations for which approval was sought, a number of which had additional cost implications. Whilst some of these were unavoidable it is vital that adequate consideration is given to all identifiable requirements at the earliest stage and that proper contingency provision is allowed, in order to minimise subsequent variations.
 - Standard contract terms have developed further since these two projects were procured. Guidance on dealing with Best Value in PFI contracts has been published and the Office of Government Commerce is currently considering new guidance to deal with re-financing gains in PFI projects. The Review Team has offered recommendations on these matters.
 - The MPA needs to consider the implications of 125 year headlease arrangement entered into in respect of the SEL contract particularly in relation to future projects.
 - The course of the early history of the C3i project suggests that this is the type of project that would have benefited from the scrutiny of a gateway review as recommended below.
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Recommendations

The review of the experience of the MPS in procuring the SEL and Firearms and Public Order Training projects as PFI initiatives, together with our own experience of PFI lead us to make a number of recommendations. We believe these will assist in improving the MPA's relationship with the PFI provider for these two projects and also in achieving improved capital investment solutions in the future.

Additional Services: South East London PFI Project

- The contract for the South East London police stations allows for some variation to be made to the scope of the additional services element. The MPA should therefore consider a review, with appropriate professional advice, of elements of the additional services with the PFI provider prior to the service commencement date with a view to reaching an acceptable agreement. (paragraphs 2.38 to 2.41 Background papers)

Re-financing Gains: New Government Guidance

- The MPA should arrange early discussion of this matter with the Home Office, and ensure that these two schemes are referred to the OGC Taskforce on refinancing as soon as possible. The 4ps would be pleased to provide further assistance in this respect. (paragraphs 2.66 to 2.69 Background papers)

Best Value and PFI Contracts

- The MPA should enter a dialogue with the PFI provider in order to agree how it can assist the Authority in meeting its statutory obligations in respect of Best Value, particularly having regard to the extent and nature of the services being provided in the SEL project. (paragraphs 2.74 to 2.75 Background papers)

Alternative Funding Solutions

- Serious consideration should continue to be given to alternative funding solutions such as PFI. The MPA has a strong case for securing PFI credits for appropriate projects. (paragraphs 4.4 to 4.12)

Property Strategy

- The MPA requires a property strategy that allows major investment decisions to be made and implemented but which is also capable of allowing for the complexity, scale and changing requirements of the MPS. (paragraphs 4.13 to 4.20)

Affordability

- Affordability needs to be given high level consideration at an early stage in the development of all major project proposals, for example as part of a procurement gateway process. (paragraphs 4.21 to 4.22)

Corporate Commitment

- Major capital projects require sustained corporate commitment and involvement and must be initiated and developed in an integrated rather than compartmentalised manner (paragraphs 4.23 to 4.26)

Role of Members

- The role of members both from a strategic and scrutiny perspective is crucial and requires proper support and training. Members are also in a key position to help reinforce corporate commitment and continuity, the need for which is identified above. (paragraphs 4.27 to 4.32)

Project Team

- An adequately resourced project team is required reflecting expertise from all relevant disciplines. (paragraphs 4.33 to 4.34)

External Advisers

- External advisors should be employed to add value. They should be actively managed and not over-relied upon. (paragraph 4.35)

Project Board

- The establishment of a project board, meeting regularly, with appropriate representation and chaired at a senior level is crucial. (paragraphs 4.36 to 4.37)

Project Expertise: A Centre of Excellence

- Internal project expertise needs to be built up and consolidated into a 'centre of excellence'. (paragraphs 4.38 to 4.40)

Gateway Review Process

- Serious consideration should be given to development of a 'Gateway Review' process for high value, complex and high risk projects. (paragraphs 4.41 to 4.44)
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1 The Background

- 1.1 The PFI in the UK was launched in 1992 and by the mid 1990s the concept was adapted to enable local authorities to consider PFI as a means of renewing infrastructure and other assets and for

providing the services associated with the management of those assets. To encourage the use of PFI solutions by local authorities the Government introduced a system of financial assistance through the award of PFI credits for approved PFI projects.

- 1.2 PFI is the provision of assets and related services to the public sector by the private sector using private finance. Payment is fixed in real terms for a given output but is also dependant on the private sector provider performing to a predetermined standard. Because of the level of capital funding required PFI agreements tend to be long term, usually 25 years or more. A fundamental principle of PFI is that project risks are borne by the party best able to manage them. In local government, an overriding requirement is that sufficient of the principal risks attaching to the underlying asset or assets in a transaction are passed to the PFI provider so that the transaction complies with Regulation 40 of the Local Authorities (Capital Finance) Regulations 1997 as amended. In other words it falls to be a Private Finance Transaction where the asset is off the balance sheet of the public sector procurer and for which no credit cover is therefore required.
- 1.3 Today, these requirements are well established across all service sectors. Currently there are almost 200 approved local authority projects, of which 88 are signed and 57 operational. The majority of projects are in the Education sector (new/refurbished schools) and transport (new highways, street lighting, and public transport initiatives). In the police sector there are 18 approved projects ranging from new police stations and HQ buildings to fleet provision and management, custodial facilities, stabling and airborne services. There is a wide diversification of projects across remaining service sectors covering housing, elderly care, IT systems and electronic networks, fire stations and fire fleet provision and management, sports and leisure facilities, courthouse buildings, offices and energy management services.
- 1.4 The MPS approach to PFI as a procurement solution evolved in 1996. A number of possible projects were being considered at that time including the two projects subsequently selected. At the same time there was also a request from the Metropolitan Police Committee for a general outline of the MPS PFI strategy - some concern had been expressed in the Home Office that whilst there were a range of pilot schemes coming forward from provincial forces, none had yet emerged from the MPS.
- 1.5 Outline business cases for both projects were prepared with the help of external advisers (PA Consulting) and submitted to the Home Office for approval in late 1997 and early 1998 with a request for PFI credits. A third project was also brought forward for consideration at the same time – a major IT/telecomms and systems re-engineering project centred around the replacement of the existing call and dispatch system – the C3i project. After some deliberation and discussion, the Home Office indicated that support could only be given to one project – the Metropolitan Police Service (through the Receiver) determined that it should be given to the C3i project.
- 1.6 However, the Strategic Co-ordination Forum of the MPS also agreed that the procurement of the two accommodation based schemes should go ahead in parallel with each other as DBFO projects (Design, Build, Finance and Operate). The outline business cases for both projects included a Public Sector Comparator and whole life projected PFI costs so that value for money and affordability could be assessed and monitored throughout the process. The projects were considered to be affordable without PFI credit support.
- 1.7 The scope and scale of both of the accommodation projects that emerged from this process is judged to have been sufficient to attract a robustly competitive response having regard to the appetite of the market at the time. The underlying business need for the projects was reasonably robust. Both were considered to be high priorities and capable of being packaged to facilitate fairly rapid progress – in particular, suitable sites were available for the planned new facilities.
- 1.8 The decision to “go it alone” without PFI credit support also meant that both projects were outside the Project Review Group arrangements that had just been established by the Treasury Taskforce. These arrangements were specifically put in place to ensure, for example, that adequate attention was paid to issues such as project management, the appointment and management of advisers,

project scope, bankability, affordability and so on. It would be interesting to speculate on how many of the issues raised in this report would have occurred had these projects been put through this process. An informal review could have been requested and advice could have been sought from either the TTF or the 4ps. This did not occur and both projects were subsequently put to the market without the benefit of independent scrutiny and “road testing”.

- 1.9 Proceeding with both the accommodation projects simultaneously without revenue support and with one small and inexperienced project team carried with it a very high degree of risk. It is fair to say that the consequences of this decision coloured many of the issues that emerged during the examination of the process. Had a thorough risk assessment been undertaken at the outset it is likely that many of the issues identified in this report would not have arisen.
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2 Procurement Issues arising South East London Police Stations and the Firearms and Public Order Training Project

3 The C3i Project

(Sections 2 and 3 are now presented as Background papers to this report)

4 Recommendations for the Future

Introduction

- 4.1 Any review of this nature needs to recognise the size and complexity of the MPS and to some degree the culture prevailing prior to the creation of the MPA. It is certainly the case that lessons to be learnt cannot be introduced without careful consideration of the particular circumstances and nature of the MPS. Neither would it be constructive to present recommendations built upon hindsight given the fact that the accommodation projects were developed on a steep learning curve with few precedents to rely upon.
- 4.2 It should be emphasised that there are some very positive points that emerged from this process – not least of which is a successful outcome for two major projects brought about by a very small project team with relatively limited experience. One of these projects has met with universal acclaim from the interviewees that the Review Team met. Similarly, the decision to commission this review is an indication of the willingness of the MPA and the MPS to learn from this experience in order to improve processes for the future.

PFI as a Means of Service Re-Provision

- 4.3 This review recognises the concerns that have been expressed in relation to the PFI projects and the appropriateness of PFI as a method of procurement, particularly in relation to the SEL project.

- 4.4 However, the Review Team would suggest that PFI has proved to be a success in relation to the Firearms project (albeit with some reservations expressed about the emergence of significant variations). Furthermore, much of the criticism in relation to the SEL project specifically concerns the inclusion of the non-core staffing issues, without which the use of PFI might have been regarded as far less controversial.
- 4.5 In general PFI has been shown to be a useful procurement option which should be available to the MPA as a means of service re-provision but which should not be considered as the only option, as was perhaps the case in the mid 1990s.
- 4.6 Nationally, four police HQ and station PFI projects have been signed and are now either under construction or operational with another 5 in procurement. In addition one firearms training PFI project is operational. The total capital value of all of these projects is £182m. The suitability of PFI treatment for serviced accommodation in this sector is therefore reasonably well proven, although the opportunities for risk transfer and innovation are probably more limited on police stations projects than for other types of serviced accommodation.
- 4.7 Having regard to the scale and complexity of the MPS, its future business investment needs will be such that it is unlikely that any single procurement solution will ever be sufficient. It will need to explore a raft of funding solutions (internal and external, public and private), some of which may be in the form of partnerships with other public sector agencies and some with the private sector. A number of possible options are currently being explored in this context.
- 4.8 Current levels of capital spending in the MPS are considered to be low in relation to the scale and business needs of the organisation. Clearly this has much to do with existing, inadequate levels of conventional resources such as grant, approved borrowing, capital receipts, contributions from revenue and the overriding requirement to contain expenditure within affordable levels. This situation is unlikely to improve measurably in the foreseeable future.
- 4.9 Consideration of alternative funding solutions including Public Private Partnerships and PFI should therefore always be on the agenda and given serious consideration for projects where private sector participation and financing is likely to produce beneficial results. This is particularly relevant given that government policy will continue to encourage the use of PFI solutions with funding incentives in approved cases to facilitate affordability.
- 4.10 Since the MPS accounts for between 25 to 30% of current police spending and manpower in England, it should be in a relatively strong position to secure a significant amount of government PFI funding on an annual basis. To put this into context, if the MPA were to secure 25% of the Home Office's Police PFI allocation for the current spending review period, the equivalent PFI credit and subsequent additional annual revenue grant would be of the order of £57m and £6.8m pa respectively. Although an academic point now, had PFI credits been secured for the 2 accommodation projects consistent with the methodology set out in the (revised) Capital Finance Regulations, the affordability gap would effectively have been eliminated.
- 4.11 Finally, it is worth making the point that PFI procurement is much more efficient today than it was when these projects were brought into procurement. There are now standard contract terms and a significant amount of central guidance to assist authorities. There is a central project review process that all local authority projects have to be subjected in order to obtain revenue support. The PFI market has matured - funders, bidders and advisers have accumulated considerable experience over the last 4 years. As a consequence bidding costs have been reduced and procurements are now being completed in much shorter timescales.

Examples of PFI/PUBLIC/PRIVATE PARTNERSHIPS projects relevant in the Metropolitan Police Service

- 4.12 The examples in table 5 below are offered following points that were made to the Review Team during particular interviews. They take account of potential market interest and capacity and the experience of other police and emergency service authorities. They are offered purely illustratively but, having regard to the scale and nature of the MPA and the business needs of the MPS, there will undoubtedly be many opportunities for leveraging in private sector expertise and investment and for considering solutions involving the participation of other agencies within the GLA:

Examples of PFI/PUBLIC/PRIVATE PARTNERSHIPS projects relevant in the Metropolitan Police Service

Table 5

<ul style="list-style-type: none">● <i>Operational estate – in conjunction with other elements of the total estate as appropriate: review, rationalisation, consolidation, refurbishment and new provision including joint provision.</i>● <i>HQ estate – as above.</i>● <i>Residential estate – as above, with particular reference to the provision of affordable housing in conjunction with Housing Associations, for example.</i>● <i>Aspects of Training - as above, including the development of the Hendon estate.</i>● <i>Development of the Bridewell concept for custodial facilities.</i>● <i>Operational fleet provision and management (cf London Fire Authority PFI contract).</i>● <i>Provision and management of specialist facilities and services (boats, stabling, airborne services).</i>● <i>Sport and recreational facilities</i>

The following recommendations are offered in relation to the potential continued use of PFI by the MPA but it is important to recognise that the recommendations themselves and the principles underpinning them would and should apply equally to other forms of procurement:

Property and Asset Management Strategy and a prioritisation process

- 4.13 At the time these procurements were being planned the Property Services Department was working to a 30 year operational building strategy aimed at reducing the life of any individual property to a maximum of 65 years. To achieve this two new police stations were required each year. The strategy assumed that a capital receipts top up of around £30m per annum would be available to help fund the programme. Problems arose because of switching of allocations and capital receipts to vehicles plant and equipment (VPE), a downturn in receipts (mainly from the residential estate) and a lack of capital allocations.

- 4.14 Subsequently the delay in delivering the SEL project and consequent doubts about PFI has meant that the property strategy has effectively come to a standstill and projects in the pipeline have been put on hold.
- 4.15 In practice it would appear that in future new police stations can only be delivered on an opportunistic basis given the fact that VPE continues to have a major claim upon capital resources and that in general the balance sheet is regarded as under-capitalised.
- 4.16 Some reservations have been expressed about the usefulness of PFI in this context in particular with regard to a lack of flexibility. In addition, the last few years has seen a number of strategic and policy changes and discussion which could be regarded as having an effect on the development of a coherent property strategy, for example:
- the C3I project which materially affects the control and command function
 - the continuing consideration of the Bridewell concept and its effect upon the custody function
 - other possible changes to aspects of operations such as victim examination
 - changes to criminal justice units (Glidewells)
 - changes to operational requirements as a result of Sept 11
 - the general tendency given the turnover of senior staff for new operational requirements to emerge
- 4.17 In particular deliberations over the custody issue might be regarded as putting a stop in the short and medium term on the development and implementation of an operational buildings strategy.
- 4.18 It can be argued however that an organisation as large and complex as the MPS will always have a constantly changing environment and therefore there will never be an ideal time to put in place a long term property strategy that takes account of resource constraints and opportunities.
- 4.19 Irrespective of PFI the MPA as property client needs to address this issue. Certainly a viable strategy needs to be developed and reviewed in an integrated fashion if further deterioration in the Authority's building stock is to be avoided and if the changing operational requirements of the MPS are to be adequately met. Such a strategy should subsume detailed asset management plans and provide a means of implementing operational building solutions that can offer maximum flexibility and adaptability in priority order.
- 4.20 Overall a process needs to be developed which recognises not just the complexity and scale of the MPS but also the rapidly changing nature of its operations and the need for strategies to be constantly refined and revisited to recognise changing circumstances. There is clearly a belief that PFI constrains the flexibility that the MPS requires, certainly over the length of the PFI contract. It is the case, however, that whatever the procurement process the organisation must address the issue of reconciling major strategy and policy decisions and the changing requirements of those working at a more operational level, with the need to set in train major investment decisions. In many ways the disciplines associated with PFI serve to highlight these potential conflicts but they need to be addressed whatever procurement route is followed.

Affordability

- 4.21 One major issue that needs to be considered corporately and at the highest level is that of affordability. This needs to be viewed not only in the context of the projects themselves but also in the light of overall resource constraints within the MPS, other competing priorities and alternative financing options.

- 4.22 Transparent consideration of these options (for example, as part of the gateway review process described in paragraphs 41-44 below) is crucial. It is essential that a process is established to enable such consideration to take place at a high level within the organisation, at an early stage in the process and with adequate provision for monitoring and reviewing progress and variations from original expectations.

Corporate Commitment and Involvement

- 4.23 Major capital projects (whether PFI or not) require to be integrated within the whole business and not dealt with on a compartmentalised basis. There must also be corporate ownership to the policy framework within which major capital investment decisions are taken. Without that ownership and the stability that it brings, there is a real danger that as project sponsors move on in their careers commitment to the project with which they were associated will decline – as appears to have been the case in relation to the SEL project in particular.
- 4.24 There is considerable evidence that the two PFI accommodation projects were driven, led and managed by PSD and as a result input from other disciplines and expertise was inadequate. This should not be regarded as a criticism of PSD but was perhaps characteristic of the prevailing traditions and culture. However it did not allow for sufficient corporate consideration and awareness of the overall issues as well as sensitive items such as the staffing issues.
- 4.25 It is important therefore that there is overall awareness of and involvement in such projects at the highest level in the MPS. Projects on the scale of SEL and Firearms should be in the sphere of consideration of the Deputy Commissioner and Director of Resources and should be reported regularly to the management or policy board or its equivalent.
- 4.26 Similarly, there is a need to ensure that proper consultation processes are in place and that consultees perceive that their input has been taken into account within the procurement exercise. This is particularly important where sensitive issues may be involved, including for example, the transfer of staff engaged in functions perceived to be close to core activities.

The Role of the MPA and its Members

- 4.27 In the era prior to the creation of the MPA it is apparent that the involvement of members in major projects such as these was minimal. Many key decisions would rest in the hands of the Receiver. Consequently awareness of the concept of PFI and many of the characteristics of PFI in general and the projects in particular would have been exceedingly limited as far as members were concerned.
- 4.28 Such a situation may have been accepted convention at that time but with the advent of the MPA there now needs to be a clear recognition and acceptance in particular of the strategic and scrutiny role and responsibilities of members. Future arrangements must make allowance for this.
- 4.29 Whilst recognising that this role needs to be viewed carefully in relation to operational matters, it is considered crucial that projects of this nature should be reported at the earliest possible stage to MPA members and monitored and reviewed regularly thereafter.
- 4.30 Notwithstanding the efforts that have been made in this direction, there is a strong view that members need to be more fully appraised and involved in relation to issues such as:
- determination of priorities within the overall property strategy,
 - the affordability of projects and factors affecting that affordability,
 - the inclusion of non-core elements within the projects,

- the cost and extent of the role of external advisers,
 - a gateway project review process and ongoing monitoring of progress of projects,
 - adequate training in relation to innovative procurement methods and
 - adequate officer support and advice from all relevant professional disciplines.
- 4.31 Members also have a key role to play in helping to cement the corporate commitment, ownership and continuity necessary to provide a stable policy framework as described in the preceding paragraph.
- 4.31 The Byatt Report ('Delivering Better Services For Citizens') has reviewed local government procurement methods and is a highly relevant document for an authority which is perhaps more closely aligned to local authority procurement processes than previously. It argues, inter alia, that procurement should be part of the remit of members and in particular it suggests that members should take a strategic role, including scrutinising the procurement process and monitoring the outcomes of major and complex procurements. This clear member responsibility obviously brings with it the need for appropriate training.
- 4.32 Arguably the expertise required of members in monitoring and scrutinising is already being developed through their roles on the MPA's Finance, Planning and Best Value Committee. Further, focused development with appropriate skills and awareness training is what is now required together with a clearly defined remit for members to carry out this role effectively.

Project Management

Project Team

- 4.33 Whilst there is considerable evidence that financial, legal and other skills input was obtained for the PFI projects mainly from external sources, it can be argued that this occurred in a context of a considerably under-resourced project team. This point must be particularly emphasised in relation to the existence of two major PFI projects at the same time. Whilst considerable expenditure was incurred in terms of procuring external consultancy expertise, the resultant level of internal resources clearly placed unreasonable demands upon the internal team.
- 4.34 It is essential for projects of this nature that an adequately resourced project team is available reflecting expertise from all of the relevant disciplines at the appropriate level. Client-side resources that are required to manage the procurement process tend to be consistently under-estimated – there is a need to include officers with appropriate skills including strategy and business, finance, project management, legal, HR, contract negotiation and contract management.

External Advisers

- 4.35 External advisers should be actively managed and controlled and used to provide supporting technical and professional advice rather than act as project architects. Project teams should not be over-reliant on the advice and support they buy in.

Project Board

- 4.36 For larger or complex schemes a project board should be established. Its composition is critical because of its important role in bringing key stakeholders into the process – there is a need to consider carefully how project boards fit into decision-making structures and how they relate to the project group delivering the scheme. Failure to put the correct organisation and decision-making structures in place can have a significant impact on the procurement process.

- 4.37 The importance of a Project Board in respect of the above comments cannot be over-emphasised. That Board should:
- meet regularly
 - have appropriate representation reflecting all relevant corporate interests
 - be chaired at a senior level and
 - receive at the appropriate time all relevant issues requiring decisions.

Building and Consolidating Internal Expertise – A Centre of Excellence

- 4.38 A characteristic of the two initial PFI projects is that for reasons outlined earlier in this report in the project relevant PFI procurement skills resided in the hands of very few individuals despite the peripheral involvement of many others. The scale and complexity of the MPS requires that these skills should be embedded within the wider organisation and the development of appropriate procurement expertise - "a centre of excellence" - as part of the responsibility of the Director of Resources is considered a priority.
- 4.39 The development and consolidation of such expertise is important to ensure that sufficient attention is given at an early stage to the procurement strategy for a project and in identifying issues that could have a critical bearing on the progress of a procurement e.g. site acquisition and planning consents.
- 4.40 Allied to this is the need to develop new and enhanced contract management skills particularly where longer term contracts make it more difficult to be confident that a service can respond to changing needs over a long period. The development of an 'intelligent client' role from within the organisation with a strong set of business skills is essential to protect the interests of the organisation and to develop a constructive and positive relationship with the service provider. This is not a role that should be bought in from advisers.

Gateway Reviews

- 4.41 The Office of Government Commerce has developed a "Gateway Review" process where independent Review Teams systematically evaluate procurement projects at critical stages during their life cycle. It is a technique that is also widely used in industry and deployed properly should improve the quality of projects. All significant government procurements are now subject to "gateway reviews" which, depending on the level of risk attached to a project, may either be carried out by the Office of Government Commerce or by departmental teams independent of project procurement teams.
- 4.42 The gateway review process identifies 6 key stages in the life of a procurement project and is designed to provide assurance that a project can progress to the next stage. The critical stages are summarised in table 6 below and described in more detail in Gateway Review Pack issued by the Office of Government Commerce.

Table 6 - Overview of the Gateway Process

1	2	3	4	5	6
Strategic Assessment	Business justification	Procurement strategy	Investment decision	Readiness for service Evaluation	Benefits

- 4.43 The concept is entirely consistent with the recommendations of the Byatt Review for big ticket local government procurements. We believe there is considerable merit in introducing such a process or an adaptation of it, into the MPA and the MPS, particularly in relation to high value, high risk and complex procurements. Consideration would need to be given as to how such a process should feed into the scrutiny and monitoring role of members described earlier. It may be that a summary report is presented at each review stage to members responsible for overseeing the procurement that concentrates on issues of primary concern to them (e.g. strategic fit, service benefits, affordability, value for money, deliverability, risk management and project timescales).
- 4.44 Consideration would also need to be given to training requirements and how such a process should be organised and resourced, since the value and credibility of any independent review process will depend on the quality of the people undertaking them. The 4ps would be pleased to provide further assistance in this respect. We suggest in the first instance opening a dialogue with the Office of Government Commerce to explore the possibility of assistance in developing the technique and training in the accreditation of selected MPA and MPS staff in the use of gateway review workbooks and toolkits.

Conclusion

- 4.45 Whilst some of our findings and recommendations inevitably emerge with the benefit of hindsight we would emphasise that overall our assessment is based on recommended best practice developed from the cumulative wisdom of earlier PFI experience, together with published guidance and the recommendations of recent government sponsored reviews. In total they are designed to produce faster, cheaper and better procurement solutions.

Public Private Partnerships Programme

April 2002