MOD Private Finance Unit
Guidance Note
Market Soundings for PFI Projects

Version 1

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This document can be found on the MOD PFU website at :

http://www.mod.uk/DefenceInternet/AboutDefence/WhatWeDo/FinanceandProcurement/PFU/PrivateFinanceUnit.htm

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DOCUMENT CHANGE RECORD

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Issue No	Details Of Amendments Made	Amended By	Date
A	Document reviewed and updated.	J Marchbank	March 2007
1	Minor editorial changes	R Haria	August 2008

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MARKET SOUNDING QUESTIONNAIRE

Constraints

1. None

Authoritative Guidance Summary

2. This note provides a list of the key issues that should be addressed by acquisition teams in any market sounding activity carried out to support the Treasury PFI Value For Money Stage 2 Qualitative Assessment. It will thus inform the Business Case presented at either the Initial Gate or Review Note stages under the PFI-specific IAB approvals procedure. It is envisaged that the market sounding questionnaire would form part of a briefing pack issued to companies which the acquisition team have identified as potential service providers ahead of direct discussions with the private sector.

3. It is in the nature of Feasibility Studies that any given requirement will have project-specific issues that will need to be investigated as part of market sounding. Hence, although this note provides a basis for ensuring the key issues are addressed, it should not be used prescriptively if the maximum value of the exercise is to be obtained.

Key Principles

4. The checklist is structured around the three high level criteria identified by HM Treasury as being key to selecting projects with PFI potential; that is, those:

   a) where PFI is viable, i.e. where the investment objectives and desired outcomes can be translated into outputs that can be contracted for,

   b) where PFI is desirable, i.e. where the benefits of PFI in better risk management, the integration of life cycle costs with design & construction, the increased probability of delivery on time & to budget and opportunities for innovation do not outweigh the additional cost of transfer of risk to the private sector,

   c) where PFI is achievable, i.e. where there is a capability and desire on both the public and private sector sides to contract for a service, where the transaction costs do not outweigh the PFI benefits and there is a competitive market interest and capacity.

5. It should be noted that these three criteria are not mutually exclusive, but are defined in a way that minimises overlap. The criteria for each of the above categories are given in Annexes A, B and C respectively

Further Information

Further reading:

- HM Treasury Value For Money Assessment Guidance November 2006
- PFI Approvals process

Annex A:

A Viable Contract

1. The following addresses whether the project has the potential to be delivered as a service within a commercial arrangement.

2. Does the scope of the service lend itself to providing the service provider with “end-to-end” control of the relevant functional processes?

3. Are the boundaries of the service clear (especially with respect to non-negotiable areas of MOD-side control). Would you prefer a revised scope; are there capabilities that you would prefer to be included or excluded and why? How would these changes affect the attractiveness and value for money of any subsequent contract?

4. Does the service lend itself to establishing a genuinely incentivised payment regime to ensure that service levels are achieved (and payment withheld if they are not) and remain best value in terms of price, quality and delivery mechanism? What form might this mechanism take?

    a. Would the private sector be reluctant to take full responsibility for any of the risk areas below:

    b. design, (all components, facilities, resources and materiel required for design and development activity)?

    c. financing, (establishing and maintaining the funding for service provision throughout the contract life)?

    d. implementation, (all aspects of implementation, transition and certification)?

    e. operation, (delivery of a high quality service at required levels of availability and continuity)?

    f. regulatory change, (the consequences of changes in non-discriminatory legislation)?

    g. technological obsolescence, (ensuring that the technology under-pinning service delivery remains consistent with contemporary market standards)?

    h. service provider lock-in, (ensuring that the service is provided in such a way as not to constrain MOD’s ability to continue to meet its requirements cost-effectively in due course via an alternative supplier/solution)?

i. residual value/disposal, (the residual value of the assets at the conclusion of the service contract)?

j. Demand risk?

5. Are there other major risk areas not identified above and how would you wish these to be allocated or shared between yourselves and MOD in order to maximise value for money?

6. What are the key issues in ensuring a smooth transition from the current arrangement to the proposed PFI service?

7. What are the issues with respect to maintaining service continuity through transition to war and full conflict [if appropriate]?

8. What are the personnel issues, either civilian or military, which you consider need to be addressed in determining the optimal procurement package?

Annex B:

A Desirable Contract

The following addresses the project’s potential to deliver value for money under PFI.

1. What possibilities exist for cost savings under a private sector PFI arrangement (e.g. through lower manpower rates, more efficient/flexible working practices etc.)?

2. Are there opportunities for exploiting economies of scale through the provision, operation or maintenance of other similar services to other customers (not necessarily utilising the same assets)?

3. Are there opportunities to improve the level of utilisation of the assets underpinning the service (e.g. through selling, licensing, commercially developing for third party usage)? What impact would any boundary and procurement options have on the opportunity for third party income generation?

4. Does the private sector have relevant experience/expertise in the delivery of this service?

5. Where is there scope for innovation in the design of the solution or the provision of the services and what would constrain your ability to innovate?

6. Is the private sector likely to be able to manage the generic risks associated with the project design, production, implementation, maintenance or operation more cost-effectively than MOD? Does the private sector inherently have lower risk working practices/solutions or more effective risk controls? Is it able to manage and control long term issues, such as obsolescence, effectively?

7. What is the minimum length of contract that the private sector would wish to see to make the opportunity both commercially viable and capable of delivering good value for money service to MOD?

8. If required, is the private sector likely to be able to borrow capital at competitive rates given the scale and nature of the project?

9. Are there issues relating to the transfer of existing MOD assets at contract start? What is the likely need for the assets on completion?

10. In your opinion, what should be the length of any transitional period for service delivery and why? What measures would you put in place

to ensure continuity of service/availability during the transitional period and how could MOD assist you to ensure the success for this?

Annex C:

An Achievable Deal

The following addresses whether there is the realistic potential to deliver a PFI deal beneficial to both parties.

1. Is the overall value of the contract significant (sufficient for the private sector to justify their bidding costs?)

2. Is there sufficient industrial spare capacity to take on this project?

3. Is the proposed allocation of risk likely to be acceptable to the funders given the level of reward?

4. Is the private sector experienced in securing finance of the type and magnitude required?

5. Is the scoping and nature of the proposed service free from any novel features and issues, the impact of which cannot yet be assessed?

6. Is the procurement timescale feasible?

7. Is the technical solution deliverable given the risk associated with design, development and implementation?

8. Does the opportunity align with the strategic interests of the private sector?

9. Are there any potential showstoppers to the delivery of a viable, cost-effective service operating under PFI; are there any regulatory constraints?

10. In general terms, what forms of information would you require on any existing infrastructure in order to assess how to manage and price it?

11. Should the MOD wish to maintain flexibility over the level and nature of the service what do you consider to be the main challenges to achieving this and how might it be met? How would you approach pricing for the contract if significant change in capital and/or operating costs were anticipated?

12. Are you familiar with the MOD’s standard PFI Project Agreement and would you consider there to be a need for any significant derogations from it?