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Construction Management and Economics

ISSN: 0144-6193 (Print) 1466-433X (Online) Journal homepage: https://www.tandfonline.com/loi/rcme20

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To cite this article: Akintola Akintoye , Cliff Hardcastle , Matthias Beck , Ezekiel Chinyio & Darinka Asenova (2003) Achieving best value in private finance initiative project procurement, Construction Management and Economics, 21:5, 461-470, DOI: 10.1080/0144619032000087285

To link to this article: https://doi.org/10.1080/0144619032000087285

Construction Management and Economics (July 2003) **21**, 461–470

Spon Press
Taylor & Francis Group

Achieving best value in private finance initiative project procurement

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Received 25 March 2002; accepted 20 February 2003

The wherewithal of achieving best value in private finance initiative (PFI) projects and the associated problems therein are documented. In the UK, PFI has offered a solution to the problem of securing necessary investment at a time of severe public expenditure restraint. In PFI schemes, the public sector clients must secure value for money, while the private sector service providers must genuinely assume responsibility for project risks. A broad-based investigation into PFI risk management informs the discussion in this paper. It is based on 68 interviews with PFI participants and a case study of eight PFI projects. The research participants comprised of contractors, financial institutions, public sector clients, consultants and facilities management organizations. The qualitative software *Atlas.ti* was used to analyse the textual data generated. The analysis showed that the achievement of best value requirements through PFI should hinge on: detailed risk analysis and appropriate risk allocation, drive for faster project completion, curtailment in project cost escalation, encouragement of innovation in project development, and maintenance cost being adequately accounted for. Factors that continue to challenge the achievement of best value are: high cost of the PFI procurement process, lengthy and complex negotiations, difficulty in specifying the quality of service, pricing of facility management services, potential conflicts of interests among those involved in the procurement, and the public sector clients' inability to manage consultants.

Keywords: Best value, risk management, procurement, facilities management, qualitative research, financial institution, risk allocation, value for money

Introduction

The achievement of best value through the private finance initiative (PFI) form of procurement is discussed in terms of procedures, obstacles, value for money, risk management processes and the perceptions of parties involved in the delivery of PFI projects. The discussion is informed by a commissioned research that examined risk management in the context of UK PFI practice. While the research was aimed at developing a framework for the risk management of PFI schemes, the achievement of best value therein was one of its major objectives.

PFI is a type of 'public–private partnership' (PPP) where project financing rests mainly with the private sector. The rationale of PPP is to combine the resources of the public and private sectors, in the quest for more efficient service provision. Apart from PFI, seven other models of PPPs have been identified by the UK government. PPPs, of one form or another, are gaining prominence and increased usage nowadays (Merna and Smith, 1999).

The extent of the responsibilities of both public and private sectors can vary considerably between PPPs. However, the public sector retains responsibility for

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Construction Management and Economics
ISSN 0144-6193 print/ISSN 1466-433X online © 2003 Taylor & Francis Ltd
http://www.tandf.co.uk/journals
DOI: 10.1080/0144619032000087285

deciding on the public sector services to be provided, the quality and performance standards of these services, and taking on corrective action if performance falls below expectation (Smith, 2000).

In the UK, the stage for PFI was set in the 1980s when different forms of procurement such as outsourcing, privatization and build–operate–transfer, were developed (Mustafa, 1999). The thrust of these forms of procurement was to replace the provision of public services by government departments. According to some sources, these measures have delivered substantial cost savings in project schemes (Private Finance Panel, 1996b). The Ryrie rules of the 1980s also served as a platform for introducing PFI in the UK (Birnie, 1999). Although PFI has been implemented in other countries, like USA, Australia, and New Zealand, the scheme was first launched in the UK in 1992. In November 1994, it became mandatory that all capital projects in the public sector, requiring Treasury approval, should explore the use of private finance options (Private Finance Panel, 1995), unless it was absurd or unrealistic to do so (Private Finance Panel, 1996a).

Part of the objectives of PFI is to attract private sector funds, resources, management skills, expertise and innovation to the provision of public sector infrastructure and services (Mustafa, 1999). PFI schemes are also expected to offer benefits by countering some of the negative aspects in public project delivery: over-design, poor project management, time and cost overruns, over degradation of assets, higher maintenance and operation costs and lower asset residual values (Forshaw, 1999). More recently, it has been argued that PFI will introduce commercial discipline and incentives to public sector capital projects, deliver 'value for money' and eradicate the dichotomy between the public and private sectors (Birnie, 1999).

It is a fundamental requirement in PFI procurement that for value for money to be achieved, appropriate risks should be transferred to the private sector. In practice, PFI has heightened the level of awareness of project risks in ways that public procurement hitherto has not been able to do (ICE and FIA, 1998). Although the aim of PFI is to transfer risks to the private sector, the ideal is to allocate risks optimally such that each party bears those risks it is best able to cope with (Private Finance Panel, 1995).

Overview of best value

'Best value' (BV) is a relative notion, which refers to the optimum outcome of a business process. It is applicable to all industries, sectors, geographic locations and cultures. BV is expected to help organizations improve their performance. The implementation of best practice in organizational activities requires competence and a proactive approach from both senior management and all staff members.

In 1997, the UK Labour government introduced the best value regime to engage local authorities in a drive for improvement and high service standards (Nettleton, 2000). The ultimate aim of the policy was to modernize the services provided to the public through a process of continuous democratic renewal (LGA, 1998). As a market-oriented approach, the BV regime considers the needs and expectations of modern service provision at optimum cost. At its core, the BV regime envisages the wider participation of the main groups in the society and collaboration and consultation in respect of related legislation (Geddes and Martin, 2000). It was an alternative to compulsory competitive tendering (CCT) of local services introduced by the Conservative government.

As it requires a cultural change, the adoption of a BV regime is a gradual, long-term process. The success depends on a number of attributes, including the ability to adopt a critical attitude and to identify problem areas accessing and acquisition of advanced knowledge for cost-effective solutions, the establishment of proper lines of communication, sharing knowledge internally and externally, and setting new targets.

The Society of Local Authority Chief Executives refers to BV as 'the continuous search by a Council to improve quality, efficiency and effectiveness of all its activities for the public' (Filkin, 1997). A more systematic approach classified three possible types of definitions related to: organizational performance, organizational process and the relationship between the performance and process (Boyne, 1999). The first aspect, which is associated with the organizational performance, emphasizes the level of service provided by a council to the public. It concentrates on five major criteria namely cost, efficiency, effectiveness, quality and fair access (DETR, 1998). The second aspect relates to the organizational process and the extent to which this process complies with approved standard procedures. The third aspect combines the previous two by requiring certain standards in both organizational performance and organizational process.

Four fundamental principles that facilitate the implementation of BV are accountability, transparency, continuous improvement and ownership (DETR, 1999). In this context, accountability and transparency require personal responsibility, answerability and an open approach to decision making. Continuous improvement means that councils need to embrace the ideas of experiment and change, planning and budgeting in the long run. They have to establish a dynamic framework of planning for sustainable future improvements, cost reductions and competition. The principle of ownership

entails wide community consultations, surveys of service users, open forums, focus groups, etc. (Spencer, 1997). It is aimed at promoting democratic involvement in a council's activities between the council officials and the community members.

The Local Government Act (1999) imposed the duty of BV on councils in England and Wales requiring them to 'secure continuous improvement in the way their functions are exercised, having regard to a combination of economy, efficiency and effectiveness' (HMSO, 1999). In May 1997, a best value task force (BVTF) was set up in Scotland to develop the essential elements of BV and long-term arrangements for achieving it. The BVTF had to consider the changes to existing legislation which were necessary to facilitate the process. It produced three reports between 1997 and 1999, which laid the foundations for the BV practice: main principles and elements of best value; best value system – performance management and planning framework; and the long-term arrangements for further development of the best value framework.

The BV approach emphasizes efficiency, value for money and exact quantitative performance standards. It necessitates new and creative partnerships with the private sector. BV requires public sector organizations to serve the public in the best possible way in all aspects of service provision. It obliges them to establish best practice in each area, develop verifiable standards and adjust their practices in line with it. It goes beyond implementing contemporary knowledge to incorporating creative projections for future risks and opportunities. The BV approach is closely related to issues of organizational risk management in the sense that they both share similar features, such as quality management, proactive approach, co-ordinated functions across all corporate activities and a high level of personal involvement.

Best value through PFI

The UK government's commitment to BV in the provision of public service is evident in its implementation of the PFI form of procurement, which is aimed at the prioritization of high standard of service at optimum cost (HM Treasury, 1999). While BV and PFI are clearly connected, they have different parameters. BV is the long-term objective of, say, a local authority, while PFI is one of the means for achieving it (Arthur, 1999).

One of the two major requirements for a PFI project is the achievement of value for money (VFM), which apparently is one of the elements of BV. According to UK government guidance, the PFI option is recommended if after 'a robust assessment of the options in each set of circumstances' (HMSO, 1998) the private sector proposal can demonstrate considerable advantages over the Public Sector Comparator (PSC). Thus the PSC is used as a benchmark for establishing best value. According to the Treasury Taskforce (TTF) (1997): 'PFI solutions should be pursued where they are likely to deliver better VFM'. However, the PFI solution also has to be in line with the wider government objectives of sustainable economic development and fair employment opportunities.

VFM is used to ensure that a particular project will achieve BV. In practice, this is accomplished by combining a competitive tendering process with an appropriate risk transfer. The client, in this context, is expected to select the most cost-efficient bid, which may include innovative solutions, additional benefits or an element of income generation. As a major tool for demonstrating VFM, the PFI compares the cost estimates from the private sector bids with an independent public sector comparator (PSC). The PSC describes in detail all costs to the public sector, if the project were developed in a traditional way. A team of experts from the public sector client in conjunction with specialist advisors prepare the base case PSC and subsequently adjusts it to take into account the dynamic risk factors. The PSC is designed under the assumption of a high level of involvement by the public sector in terms of financing or management, and used as a milestone for benchmarking bids (TTF, 1998). As a clearer picture of the project risks emerges during the selection and negotiation processes, the PSC is reviewed and updated.

The government recommends two major VFM exercises during PFI procurement. An initial VFM assessment has to be conducted at the stage of identifying the business need, to estimate the potential savings of each PFI project, and in order to consider the prospective likelihood for achieving them (TTF, 1997). Thus, on the basis of initial conditions, the public sector client is expected to identify the project conditions, which lend themselves to the PFI solution. These conditions include three main points of a clear operational need, scope for sufficient risk transfer and sufficient market interest from potential private sector bidders to ensure genuine competition. A complete assessment of whether a particular project fulfils this requirement has to be made much later, on the basis of the full business case, the bids received and the outcome of the negotiations.

The TTF recommended that 'whilst a comparator can be a very important aid to forming a judgement regarding VFM it should never be the only factor considered, and lowest cost should not automatically be equated with best VFM' (TTF, 1998). Therefore, a pragmatic, rather than a dogmatic, commercial approach is encouraged (HM Treasury, 1997). The achievement of best value should thus be assessed in conjunction with other project aspects such as service quality, risk transfer, and wider policy objectives. Process costs should be considered as

a part of the total costs, because higher process costs have a negative impact on VFM.

Clearly, PFI procurement places a very high demand on the commercial capability of the public sector team, which has to play a leading role through the whole process. The overall project success is to a very large extent determined by the ability of the client to adopt and sustain the BV regime throughout the project life. The unambiguous successes of PFI schemes in sectors like roads and prisons can be attributed to the high level of competence developed by public sector project teams in these sectors. However, other sectors, such as healthcare and education, have yielded mixed results and skills shortages have been identified in them in areas such as contract negotiation and project risk management (HM Treasury, 1999). Further training of public sector representatives should improve successes in the under-performing sectors. The reported research considered, among other things, the achievement of BV in contemporary PFI schemes.

Study methodology

The study reported in this paper relied on the 'grounded theory' qualitative research method in designing the survey component. Grounded theory uses inductive reasoning as opposed to deductive principles, and is aimed at generating, not proving, theory (Strauss, 1998). By adopting grounded theory, and in the early stages of this project, organizations involved in PFI project delivery were approached regarding participation in the research. The PFI journal and a database of a leading UK financial establishment involved in PFI project delivery provided sources for identifying organizations involved in PFI procurement.

In all, 130 organizations were approached to participate in the project. Ultimately, 59 organizations (45% of the sample) were interviewed, as shown in Table 1. Most of the interviews lasted between 1.5 and 2 hours. To facilitate the interview process, a checklist of questions was developed that focused on risk assessment and management practices. The literature review informed the formulation of the survey instrument, which was piloted with leading organizations involved in PFI project delivery. The checklist used for the interview dealt with various project specific and non-project specific issues relevant to PPP/PFI practice in the UK (e.g. definition of risk, PFI procurement and best value problems, risk identification, evaluation, mitigation and reporting, etc.). However, this paper only documents the best value aspects of the broader research project.

Table 1 PFI risk assessment framework research interviews

Organization type	Approached for interview	Interviewed
Clients	23	12
Construction companies	14	12
Consultants	54	15
Facilities management companies	14	6
Financing organizations	25	14
Total	130	59

A second phase of interviews was conducted with PFI participants to check if the findings from the first set of interviews would be corroborated. This involved a project-specific case study of eight PFI projects, which consolidated the findings. In all, 32 individuals (including clients, contractors, banks, facility managers, etc.) were interviewed in respect of the eight case studies.

The *Atlas.ti* software is a powerful workbench for the analysis of qualitative data. It is also useful for the management and model building of textual, graphical and audio data. It offers tools that can manage, extract, compare, explore, and reassemble meaningful pieces of data in a creative, flexible and systematic way. Given this versatility, *Atlas.ti* was used for collating, storing, analysis and comparison of data from different PFI sectors and project participants. This, in part, enhanced and hastened the verification and analysis of the responses provided by the interviewees in the study for consistency. The software was also used to facilitate the presentation of figures and reports.

To generate textual data, the interviews were first audio-recorded and later transcribed. The transcripts were input into the *Atlas.ti* environment, where sections could be culled for different purposes. About 5–10 interviews were conducted at a time. Each set of interviews was transcribed, and subjected to preliminary analysis before embarking on the next set. Progressive findings emerged, and were fed into subsequent interviews for the purpose of corroboration. Streams of best practice tools and procedures were gradually identified and confirmed in subsequent interviews.

To facilitate the extraction of relevant themes in the interview data, keywords and themes were coded in *Atlas.ti*. This involved the selection of such word(s) and assigning a name (code) to it/them. The same code could be used several times. It was thus easy to track the communality of themes within and across sectors. For instance, by submitting a 'query' on 'risk identification', *Atlas.ti* could extract and array what each individual and/or PFI sector said about this subject. In retrospect, the software could indicate the personnel or PFI sectors that proffered an opinion on a certain subject. The relationships between different themes, within and across different sectors, could also be built by means of the software.

Achieving best value in PFIs

According to the analysis of the interviews, the achievement of BV is a project-specific affair. The solution that may offer best value in one hospital PFI scheme may fail to do so in another hospital project. The achievement of BV in each PFI project is thus approached circumspectly. A study of how organizations quest for BV indicated that, at least two factors underpin the drive for the achievement of optimum BV. One is the competitive environment of PFI, while the other is the client's affordability.

PFI projects are advertised in the *Official Journal of the European Community (OJEC)*. It is not unusual for an OJEC call to generate 10–20 expressions of interest, or even more. On the part of private sector participants, a lot of energy and effort is spent in putting up and maintaining a consortium. A high cost is equally incurred in putting up a PFI bid. Given the usual efficient use of resources by the private sector, consortia are wary of putting up unattractive bids. There is usually a high aim to win each bid, in view of the attractive benefits of PFI, such as more detailed risk analysis, proper risk allocation, advancement of FM services, faster project completions, curtailing of project cost escalations, high promotion of innovation and full accounting for maintenance costs up-front.

In conjunction with the foregoing benefits, the general consideration is the high opportunity costs of tendering for PFI projects. Consortia thus endeavour to generate and propose innovative, qualitative and cost-effective solutions while bidding for PFI schemes. Greater efforts and resources are usually committed to PFI bidding, in a bid to improve the chances of success.

Having passed through the learning curve, and with many more service providers in the market, profit margins are now kept lean. In addition, in an attempt to outwit competitors and gain the preference of the client, consortia would offer any concessions that are possible. For instance, a consortium offered to provide *en suite* facilities at no extra expense, when the client had not requested for such. The PFI market is very competitive, and bidders are keen to deliver on quality, effective risk management, innovative and state of the art facilities, price, etc. All these efforts by the private sector contribute towards a better value outcome for the client.

Clients do specify their affordability thresholds, which act as price targets for the private sector bidders. Consortia evolve service delivery solutions that fall within the client's affordability. The overall price of a PFI project is usually high when compared with traditional projects. In addition, a PFI project contains a long-term service delivery component. In essence, PFI contracts offer long-term work to the private sector. These prospects are too high to be overlooked or missed. Therefore, private sector participants are always keen to bid for PFI schemes and, in the process, they cautiously ensure that their solutions do not exceed the client's affordability. A consortium that exceeds the client's affordability criterion will surely lose ground, and almost certainly be dropped in the selection process. Therefore, keeping within this affordability criterion forces consortia to devise other ways of impressing the client. Innovation is invoked heavily by consortia in an attempt to provide solutions that surpass the other competitors, yet meeting the client's affordability limit.

Towards the achievement of BV, the affordability criterion works like a two-edged sword. On the part of clients, it moves their attention concerning consortium selection away from lowest price to other issues, one of which is value for money. On the part of private sector consortia, criteria other than price are used to endear the client, of which innovation is prime. Each consortium would seek for innovative solutions that would impress the client. In PFI, therefore, the two sides are always poised to maximize the achievement of BV.

BV is not pursued as an independent objective, as it is linked with other considerations. Holistic assessments are usually made by both sides. In this regard, the benefits and downsides of each scheme are always critically weighed against each other. Against this background, some interviewees pointed out that the achievement of BV across the board was not yet optimal. Not all interviewees were willing to talk of the impediments. While all interviewees approached the discussions from a positive perspective, some of them volunteered information on the difficulties, pertaining to the achievement of BV. Their views are reflected in the following sections.

Public sector's appraisal

The public sector representatives interviewed included local authorities, NHS trusts, prison authorities, and police officials. This section presents their views regarding the problems encountered in the achievement of BV and possible improvements that can be made to current practice.

Most clients, excluding the central government departments, reported being involved in only one PFI project. One-off PFI clients often start the process without adequate experience to carry them through, which has an eroding effect on the VFM. A group of clients noted an inadequacy in the mutual understanding between clients and their advisory teams, leading to a lot of time being spent in resolving issues. In some instances, clients found the language of consultants 'too technical' and, therefore, communication difficult.

Some public sector interviewees experienced difficulties in finding suitably qualified IT and other technical

consultants for assessing engineering risks, especially when considering the risks of the innovations that concessionaires can bring. One interviewee noted that he had problems explaining certain risk details to his superiors, who were responsible for the final decision making. Another admitted that in his organization there was no full understanding of the risk issues as reflected in the PSC. Most of the respondents see the whole process of PFI risk assessment and management as a fairly loose system, which has evolved rather than being a formalized process.

According to the clients, the full potential of PFI is still to be achieved. A project manager of a hospital trust explained that more VFM could be extracted, not necessarily by transferring more risks to the private sector, but by asking concessionaires to think more about the way that hospital services are provided and priced.

In view of the problems flagged-up by some of the public sector interviewees, recommendations were made by some of them, regarding the improvement of PFI to deliver best value. A total of 92% of the respondents (clients) believe that the way to improve the PFI process and achieve best value requirements was through further standardization of the process. For instance, an interviewee remarked, 'I would like to see a reliable standard on how to deal with risk, because we have to invent our own criteria all the time. This is time consuming and very costly in terms of the professional fees'. A manager suggested that a means should be found of providing impartial risk advice in relation to sectors where there was a lack of sufficiently qualified specialists.

Some interviewees believed that the quality of PFI risk assessments could be improved if historic statistical data on PFI risks were available, especially a risk library for different types of projects. Other suggestions made concerned: the allocation of sufficient time for risk assessment in order to avoid rushed risk assessment; establishment of teams of experts in PFI that can move from one project to another; measures to assure that the risk management is an ongoing process, which does not finish at the initial risk assessment stage; a speeding-up of the PFI process; and, maintaining competitive tension in the process until the 'best and final offer' stage is reached.

Private sector's appraisal

The private sector interviewees (contractors, financial institutions and facilities management) saw PFI as a continuation of their traditional commercial activities. They were enthusiastic about the new business and long-term opportunities offered by PFIs. Most private sector respondents, however, also recognized that in PFIs, risk assessment and management is much more important than in the general contracting. One interviewee commented: 'The risks are greater, but the rewards are greater, if we get it right'.

Other problems identified by this set of PFI participants as affecting BV are:

- lack of relevant experience in PFI, on the part of clients, who were seen to be 'walking in the dark';
- unclear client priorities and objectives;
- provision of incomprehensive up-front project information by clients, leading to unnecessary delays and mistakes;
- demands of clients being 'wish lists', instead of sensible;
- slow negotiations;
- less open communication with the client, especially on the pricing of specific risks;
- inconsistent risk assessment and management across different organizations of a consortium. According to one executive, 'there are certain risks that we will insist on quantifying and pricing that another partner will choose not to, or may even not be aware of'; and
- high bidding costs, mainly attributed to the cost of consultancy services, of which the legal services are usually the most expensive.

As with the public sector clients, 22 private sector respondents provided recommendations for improving the PFI risk management process, viz.:

(1) improving clients' expertise;
(2) further standardization of the PFI risk assessment and management; and
(3) developing a national database for historical records.

Of all private sector interviewees, 18% noted that the PFI process would be helped by greater client expertise. According to a representative from the financial sector, 'clients should train their staff on how to procure projects in a better way'. Another banker corroborated: 'If the government agencies had a better understanding of the role of the private sector, they might be more willing to recognize that there are risks that they are better placed to take than the private sector'.

One possibility for the public sector to capture the existing PFI know-how is to set up a body/team, which will move from one project to the next. A private sector respondent noted that this was not currently happening and that:

> currently each NHS Trust is doing their PFI deal, and each of the management of these Trusts will not have done a PFI project before, and will probably never do it again. It seems sensible that the NHS have one body

> or division, solely set-up to negotiate PFI schemes on behalf of the individual Trusts. That division should also be advised by the same set of professional advisers, who again will have an on going experience of PFI deals. That way, you are locking the experience within the NHS, knowing all the problems at the beginning of the negotiations. Also, the private sector would be able to react to any timetable. As at now, the public sector takes its time in reaching decisions.

Many of the interviewees thought that a more standardized approach to the PFI risk assessment and management was desirable, even if they had to adjust some standard conditions to suit specific project requirements. One financial sector respondent emphasized that:

> For the concession agreements greater standardization would be very welcome, because that would make the risk analysis a lot easier. If Government could reach a position on those risks it is happy to take and those risks it would like the private sector to take and not try and re-negotiate the contract and the risk allocation every time, that would make life a lot easier. It would ensure that we understand the risk involved and would save time. It would speed-up the whole process of entering into a concession agreement and therefore would make it easier for us to offer more competitive terms.

It was clarified that, ideally, the standardization should be taken to a point where the risks are pre-identified and pre-packaged, which would keep the bidding and development costs to a minimum level.

The other opinions and recommendations of the interviewees in order to meet best value demands of the government as it relates to risk assessment refer to a variety of points such as:

- the availability of a national or departmental database with historic records to help with the risk assessment of PFI projects;
- improved brainstorming and workshops for risk identification;
- staff training on risk awareness;
- involving operating companies at the initial design stage;
- provision of sufficient time for preparing bids;
- closer communication with funders as early as possible;
- standardization to include the payment mechanism; and
- provision of assistance to small companies to cope with the PFI market conditions.

There was a suggestion that 'a joint appointment of advisers would be a more cost-effective solution, but a proper mechanism for this has yet to be designed'. A construction company manager buttressed this point with the following suggestion: 'the legal red tape in PFI must be cut out. A common legal adviser for all parties would contribute in this direction'. Consortia try to mitigate the problem of high bidding costs by employing most of the consultants quite late in the process, and thus incurring higher expenses after the short-listing stage, when they have a higher chance for winning the project.

Consultants' appraisal

Due to the multi-disciplinary nature of PFI contracts, all participating parties rely to some extent on advice outside their core expertise, which is provided by external consultants. These consultants perform different tasks such as supporting the legal and technical review of the project documentation, risk assessment and assistance in the negotiations. Typically, all parties involve financial, legal and technical experts. Figure 1 shows a listing of the types of consultants engaged by both the public sector and private sector participants in PFI project delivery. Most of the consulting firms selected and interviewed in this research had considerable experience across industry sectors and aspects of the PFI contracts.

The problems, which can impact the best value requirements of a PFI project, according to the consultants, could emanate from the client, the private sector or both sides. A number of interviewees noted difficulties, on the part of clients, which are caused by insufficient experience in the making of commercial deals. For instance, one consultant explained that 'we often start a scheme by educating other participants, especially the public sector, as to how these things work'. Although, there is improvement on the part of clients, it was explained that still some project team members do not understand the project risks and what a realistic risk transfer was.

An area of grave concern, which also impacts on the best value requirement, relates to the lack of transparency (or the so-called 'black box' approach) in PFI risk allocation and evaluation. The bids of PFI consortia are normally assessed against a risk-adjusted PSC, which is prepared by the client with the help of consultants. If the 'black box' approach is adopted in the preparation of the PSC estimates and the ensuing negotiations, ambiguity is introduced into the process. This is a great danger in PFI, which, according to one consultant, 'is unprofessional, unhelpful and provides an appearance of rigour but it is quite unjustified. It is important that the key assumptions about risk-transfer, are spelled out, open to challenge and dialogue. The "black box" approach does not allow for any dialogue.'

Uncertainty of project funding was another issue raised by some consultants. Private sector companies are not willing to commit resources only to find out later in the process that funding was unavailable. Meanwhile, the

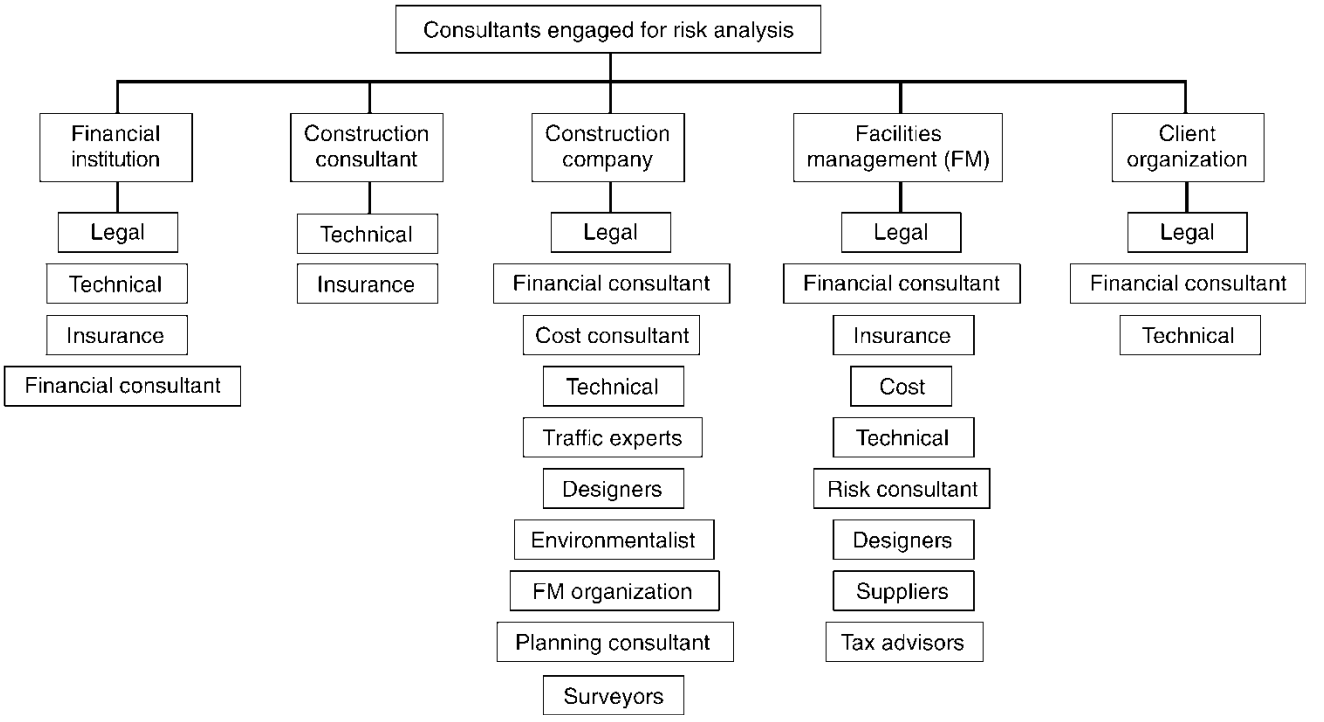

Figure 1 External consultants involved in PFI project process by PFI participants

general level of commitment of the public sector to each project is also difficult to predict, because priorities and political doctrines may change sometimes in a short run.

PFI schemes require both broad PFI expertise and specialized knowledge in particular fields. One difficulty, according to some consultants, concerns the fact that professional advice is expensive and the fee-budget cannot be accurately predicted. Subsequently, reaching an agreement regarding the fees may also be problematic.

The overall negotiation time, which can last more than two years, for instance, was considered to be unnecessarily long and sometimes de-motivating. Some delays are also introduced by the public sector's bureaucracy, which slows the decision-making process. In some instances, clients make alterations quite late in the project, requiring the re-assessment of contractual issues. This results in a complex and expensive negotiation process.

Problems with complex negotiations and conflict of interests affect both the public and private sector parties. The possibility for conflict of interest is obvious in the light of the different aims, objectives and cultures between the contractual parties. A consultant described this practical PFI scenario: 'the Treasury, the Scottish Office and the Health Board were looking at different aspects of a scheme. The Treasury was interested in the economics and the VFM, the Health Board at the affordability, and the Scottish Office was interested in both, but wanted to add some politics as well, while the local people just needed the facility'.

Overview of best value hindrances in PFI

The foregoing sections have catalogued the concerns of the different PFI participants concerning the optimal attainment of BV in PFI projects. Most interviewees in the study agree that in general:

(1) Risk management could demonstrate considerable advantages for both the public and private sector partners, if conducted adequately in the PFI process in view of BV expectations.
(2) The cost of PFI procurement is high: private companies have reported spending millions in putting up bids that they are not guaranteed to win. Clients too often have to rely heavily on professional advisers and their attendant high charges.
(3) The negotiations are lengthy and complex. These can stretch into several months, and at times years. They also involve a great number of parties, sometimes resulting in 'bidding fatigue'.
(4) There is difficulty in specifying the quality of a service compared to specifying a tangible asset. Sometimes the precise definition of a high quality service may be elusive, which allows different interpretations and can result in post-contract disputes.
(5) Pricing the FM services in a vacuum during the bidding stage. This can be due to the very fluid

design and absence of information required in pricing the operational and maintenance aspects.

(6) There are potential conflicts of interest. These could arise between different participants as they are looking at the scheme from different perspectives.

(7) Clients are unable to manage PFI projects properly, especially the consultants. The client needs to take advice from a number of consultants such as legal, technical, financial, and educational. If the consultants are not managed properly, it can be difficult for the client to achieve BV.

Although PFI is generally assessed positively by its users, the foregoing problems are seen to be loose ends that need patching up. Instead of discrediting PFI, the participants feel that the process can be improved. PFI was acknowledged to have several benefits that cannot be ignored, and indeed, its benefits were seen to outweigh the problems by far. Therefore, participants are keen to see the evolution of a more efficient form of PFI that will avoid or at least, minimize the highlighted problems, and yield BV.

Among other issues, all PFI sectors indicated that inadequate risk management had a diminishing impact on BV. In line with its main aim, the investigation being reported culminated in the development of a framework for the risk management of PFI projects (Akintoye *et al.*, 2002). This framework, has structured and firmed-up some of the current risk management practices in the PFI domain, by recommending leading edge procedures and best practice tools. It has adopted some of the recommendations proffered by the interviewees. Its implementation will therefore improve the achievement of BV in PFI projects.

Conclusion

The BV requirement was introduced by the Labour government in order to redefine the primary objectives of public sector organizations in relation to the efficiency and quality of public services. PFI procurement currently forms a part of the drive for BV achievement.

This paper has identified the desire of PFI participants to achieve maximum BV in each scheme. However, their quest is often met by long and expensive negotiations, perceived lack of commercial skills, and other problems. Considering the backlog of capital investments in some public services, the PFI option still provides opportunities for substantial facility renewal and service improvement in a relatively short time scale. The majority of the public sector respondents believe that the PFI process has to be further standardized, in order to reduce time delays and professional fees. Other ways to improve the PFI include better understanding of the risk issues among the public sector representatives and sometimes among their advisers, staff training and increased risk awareness, as well as the development of databases (of historic statistical data) for different project types. To improve the achievement of BV in PFI, the benchmark for the public sector can be summarized as adoption of a commercialized approach, in line with the best value practice in the private sector.

The private sector participants in PFI project delivery have welcomed the new business prospects offered by the PFI form of procurement, but have equally identified some pitfalls such as slow negotiation progress and inconsistent deal flow. Some of them would like to see the PFI process further standardized. The private companies anticipate that a more harmonized approach will avoid inefficient time and resource allocation. In some cases, private sector PFI project participants have found it difficult to conduct project negotiations with the client's project team, which is not sufficiently experienced.

Obviously, a collection of historic data would improve the PFI project participants' risk assessment and therefore the whole process of PFI development. A significant problem for the private sector companies still relates to the high bidding costs, which can lead to substantial losses for the unsuccessful companies.

Due to the complexity of the PFI process and lack of appropriate expertise, both public and private sector project teams rely on external advice. Most of the well-established advisers have gathered extensive knowledge of PFI projects.

Given the problems highlighted in this paper and considering that learning is still taking place among the public and private sectors involved in PFI project delivery, the full potential of PFI in terms of BV has not been achieved yet, and there is room for improvement. Many public organizations are still 'on the learning curve'. While the private companies are consolidating their approach, the public sector clients need to find ways to capture sufficient knowledge and expertise.

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