

Private Finance Initiative (PFI) Contract Expiry Blog #2

Fail to plan, plan to fail – Our five-year, five-point plan to set you up for success.

Imagine that it is one month before a hand-back deal reaches financial close. Perhaps the asset registers are still incomplete, or there are outstanding issues in relation to how the FM services are going to be delivered. Worse still, there could be a backlog of unfunded critical lifecycle or maintenance work.

The hand-back will complete and you and your team will be left to pick up the pieces. If there's a problem with the data or the assets, you will have to live with it, which is why you need to plan and act decisively to get the right outcomes. Nigel Herbert of Arcadis explains what you can do to prepare early, as much as seven years prior to the date of hand-back.

In our first blog, focused on PFI hand-back, we highlighted the importance of an early start to planning for hand-back. In our latest update, we outline the substance of the plan and its role in ensuring that the hand-back transaction meets the basic requirements of delivering an operational asset.

There are many sources of potential risk that need to be mitigated as part of hand-back. Not only might the quality and extent of maintenance work be sub-par, but replacement assets or systems might also be introducing lifecycle performance risks. Data may be incomplete and the ability to measure, diagnose and remedy under-performance may be compromised.

To avoid this situation and to be ready to manage the asset over the long-term you will need to be well equipped with the foundations for good FM, including knowledge of the asset, capability and capacity as well as the development of a plan to move from delivery by the service provider to a future FM delivery model. There are a range of strategies and operating models that may be adopted, which need to be considered early in the process. For some deals, time may already be getting tight.

Ideally you will develop a plan of action at least **five (and up to seven) years** before the transaction expires. We have identified **five key stages** to help you plan.

1. Establish the target outcomes for FM for the transaction and ensure complete team buy-in.

While the FM aspects are only one part of a complex transaction, the FM and Asset Management (AM) voice must be heard as a key part of client needs. The FM / AM team will need to focus not only on their day job but their contribution to the strategic plan. Getting the vision right is critical to ensure constraints, opportunities and risks are identified and managed so that the client gets the most out of the deal.

An example is the need to establish key outcomes that you want to deliver in the post PFI world. This will inform requirements for future asset maintenance and lifecycle replacement, including for example accounting for current and proposed regulation and legislation on the operation of the asset.

2. Get a solid understanding of the contract provisions and processes covering asset condition at hand-back, how effective they are and what protection they afford.

This will include a review of the existing FM strategy and contracts for renewal or extension, together with an audit of Planned Preventative Maintenance (PPM) vs completed work. Progress on asset lifecycle replacement compared to plans and / or benchmarks will also help to build an understanding of the potential level of maintenance backlog.

You may find that the original contract drafting is unclear and is open to interpretation, particularly if your project is one of the early deals. For example, the definition of key criteria including hand-back and condition may not meet current client expectations. Early risk assessment will identify the additional actions required to ensure a successful hand-back. You may also need to consider procurement plans for new service elements alongside the contractual arrangements for legacy services.

3. Review the existing documentation and data in the context of the contract.

At this stage you will need to undertake a comprehensive review of both the availability and the quality of data that will be provided at hand-back, including method statements and service delivery plans, key buildings data, digital models, asset registers, planned and reactive maintenance records and historic FM service data. This review will help provide a snapshot of the condition of the asset and the liabilities being taken on.

Knowledge of contract obligations will not only enable the client organisation to identify an action plan to close the gap between required and actual PPM before hand-over but will also help to determine whether levels of service in future contracts need to change to meet expectations.

4. Undertake the asset survey and agree a plan to reach the FM outcomes with the PFI Contractor

The asset survey is a cornerstone of hand-back, providing the baseline for contractual negotiations and future FM planning. Ideally, the survey should be completed at least 2-3 years before hand-back. Parties involved will include the Special Purpose Vehicle (SPV), existing FM service providers and potentially new investors.

One of the outcomes of the survey will be an estimate of future levels of activity and funding required to operate and maintain the asset. This in turn will inform the design of the Operating Model, arrangements for TUPE and so on.

This level of detail is critical for long-term financial planning, as the client organisation will need to allocate a portion of the retained unitary charge to fund the deployment of the replacement delivery model. Ultimately, the survey and plan play a critical role in setting up the team and asset for future success.

5. Build an intelligent client function that has the necessary competencies to deal with this period of change.

During hand-back, there will be many concurrent demands imposed on the existing team. New development must occur alongside the seamless continuation of 'business as usual' activities, minimising potential disruption.

You will need to build the right level of skills and resources in order to understand the strategic challenges, to manage the PFI hand-back process, to procure and mobilise a new service delivery solution, and to accept the responsibility for future asset operation.

As an example, while operational resources are likely to TUPE transfer to the new provider, you may need to replace the capabilities to take over certain strategic functions which may typically have been delivered centrally by the SPV. This will require organisational design, change management, recruitment and team building.

As you can see, there are many 'trip hazards' associated with the FM basics of PFI hand-back. These can easily get overlooked as client teams grapple with the complexity of the transaction. Early development of an FM service delivery strategy aligned to core organisational objectives, avoiding gaps in building and asset data, and understanding of asset condition obligations are all important considerations if hand-back risks are to be effectively mitigated.

While the FM team's agenda may not be top of the deal agenda, the FM team will need to build its voice and its vision for the hand-back as well as a detailed plan of action. The clock is ticking. With this five-year five-point plan in hand, we hope that you will be better equipped to set-up the future asset for success.

In the next and third blog in this series we will look in more detail at the strategic opportunity that PFI hand-back can create.... Yes, there are opportunities!