



# **Analysis of an Industry in Transition**

## Insights for the Operational Phase of Public-Private Partnerships





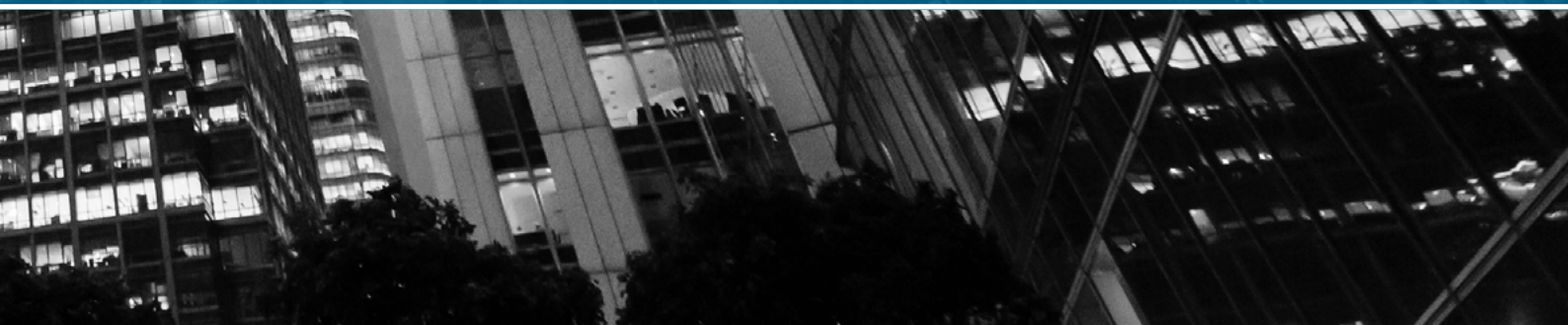






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This white paper draws on the results of an in-depth survey conducted by Service Works Global, O&M PPP software provider, in conjunction with leading journals Partnerships Bulletin and P3 Bulletin, and supported by industry bodies, the Canadian Council for Public-Private Partnerships (CCPPP) and the National Council for Public-Private Partnerships (NCPNP)<sup>1</sup>. It is designed to explore the opportunities and challenges brought about by infrastructure service delivery through public-private partnerships (PPPs). In the paper, we show the extent to which operational management challenges now dominate the working lives of key industry stakeholders, and the pressures they face in protecting their interests during the operational phase.

Many countries have accumulated significant experience on procuring and delivering PPP buildings, but experience of operational management is at an earlier stage. Yet it is a costly mistake to think that procurement and construction are the hard parts of the PPP process. For the public sector client, obtaining effective infrastructure services during the operational phase is key to the economic value of the contract. For the private operator, too, deductions to the unitary charge for unavailability, and penalties for failure to meet key performance indicators can lead to considerable financial losses.

Our survey shows forming robust relationships between public and private sector partners can be challenging, while new pressures are emerging – often linked to increasingly tight government finances – that further threaten the sustainability of many deals.

Reflecting this there is, among the survey respondents, very strong and consistent demand for better information and communication processes to be institutionalised across contracts and markets. This requires a clear definition of mutual responsibilities, a rapid flow of good and objective information between the parties, and transparent procedures for reviewing the relationship so that improvements can be identified.

In the final part of the report, we demonstrate that clear, transparent, and auditable performance information is the crucial foundation for addressing the many operational management challenges that industry professionals are now facing, helping to ensure that the industry's transition to infrastructure service delivery is a smooth one.


And we recommend that public sector clients and service providers recognise that the quality of information required for effective management of the operational phase requires an excellent performance management system, including the use of an integrated payment mechanism.

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<sup>1</sup> Global PPP Survey: Projects in the Operational Phase. Read more <http://www.swg.com/new-survey-reveals-trends-ppp-projects/>







*“ Obtaining effective infrastructure services during the operational phase is key to the economic value of the contract ”*

Building modern, sustainable and reliable infrastructure is critical for meeting the rising aspirations of billions of people across the globe, and public-private partnerships (PPPs, or P3s) are an increasingly important mechanism for delivery. Already, PPPs have transformed the condition of public infrastructure in several countries, delivering hundreds of new hospitals, schools, prisons, roads, bridges, railways, defence systems and government offices. So much so that, in mature markets such as those of Australia, Canada, Western Europe and the United States, the industry's focus has shifted from 'doing deals', or completing construction works, to achieving successful management of the contracted facilities over their entire life-cycle<sup>2</sup>.

This white paper draws on the results of an in-depth survey that was designed to explore the key opportunities and challenges brought about by the operational phase of public private partnerships. The survey, conducted in the spring of 2017, was completed by 216 senior industry professionals, representing every major part of the industry - including central and local government officials, financial and technical advisers, construction and facilities management professionals, and equity and debt investors. Respondents came from all over the world, though the largest groups were from the national markets in which the transition of the industry, from procurement and construction to infrastructure service delivery, is most advanced.

The white paper is structured as follows: overleaf, we draw on our survey data to show the extent to which operational management challenges now dominate the working lives of many industry professionals. We then examine the difficulties that public and private sector partners have to manage in order to form stable and robust relationships with each other, and the emergence of new pressures, related to increasingly tight government finances, that can threaten organisational interests. In the final part of the report, we demonstrate that transparent performance information is the key to addressing many of the operational management challenges identified by the industry, helping to ensure that the industry's transition to the operational phase is a relatively smooth one.

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<sup>2</sup> For the purpose of this white paper, the operational phase is where the construction of the infrastructure is complete and service provision and the payment of service fees to the private sector have commenced.

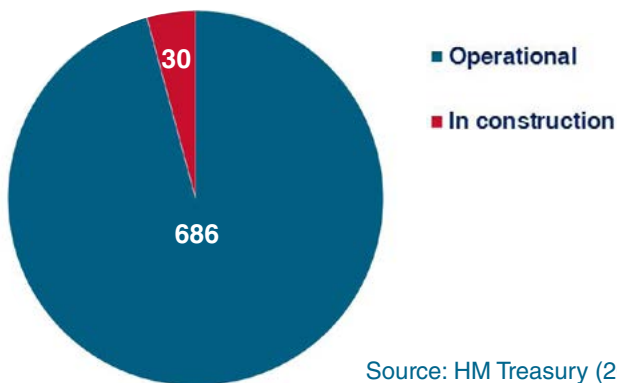




In mature markets, the last few years have seen a tangible change in the industry's workload. The procurement and construction of new facilities is still happening, of course. But for the public and private sectors alike, the focus of attention has shifted to operations, maintenance and service provision. This transition can be seen most starkly in the United Kingdom, where demand for new projects peaked over a decade ago and the pipeline of deals has declined in recent years. Here, there are close to 700 projects in which service provision and the payment of service fees to the private operator have commenced, compared to just 30 in construction (see Chart 1).

**Chart 1. An industry in transition: comparing the number of operational PFI and PF2 projects versus those in construction (United Kingdom)**

As at 31 March 2016, there were 716 PFI and PF2 projects, of which 686 (95.8%) were operational. The total capital value of operational projects was £57.7 billion.



Source: HM Treasury (2016)

Many countries have accumulated significant experience of procuring and delivering PPP buildings, but experience of operational management is at an earlier stage. And, as they are discovering, it is a costly mistake to think that procurement and construction are “the hard parts” of the PPP process.

Operational management of complex PPP buildings is no easy task. For the public sector, obtaining effective infrastructure services in the operational period is key to the economic value of the contract. For this to be achieved, however, the performance

management regime must be extremely robust - to incentivise the private operator to provide an integrated package of maintenance and services to the standard and timetable required under the contract. Any gaps in information flow can weaken the operator's motivation to deliver against the contract, and ultimately threaten value for money.

For the private operator, meanwhile, the consequences of service failures are likewise severe. Deductions to the unitary charge may be made if part of the facility is unavailable, and penalties may be levied if there is failure to meet key performance indicators (KPIs) in service provision. In most cases, the private operator is established as a special purpose vehicle (SPV), largely financed by debt, and with the limited resources to bear risk. Though many risks are transferred to subcontractors (so that they too are exposed to financial losses) the SPV's members' own equity is heavily exposed in cases of sustained service failure.

Our survey highlights the increasing recognition of these challenges across the industry, and their effect on its workload. Overall, more than two-thirds of respondents (67.6%) reported spending at least 20% of their time at work on the operational phase of projects. Over two-fifths (40.1%) reported spending a majority of their time on this phase. It is clear that the full range of stakeholders – incorporating many different branches of the industry – are increasingly being required to recognise and respond to operational management challenges effectively.

As expected, the scale of this transition varies to some degree by geography. In the more mature markets, the proportion of time spent on operational projects is understandably higher. Over 90% of individuals based in Canada and the United Kingdom reported spending more than 20% of their time on operational projects; and in both countries, more than 60% of individuals reported spending an actual majority of their time on such projects. In the United States, which is a far less developed market at this point, the proportions are somewhat lower, at 84% and 45%, respectively.

### 3. What Does the Industry Say?

#### Key Challenges

So, what key challenges of operational management are identified in the survey? It is apparent that, on the public sector side, individuals are increasingly keen to see more transparency in the way that facilities are being operated and many expect service providers to accept a more stringent approach to performance management than was the case historically. Increasingly, too, they seek to ensure that deductions for non-availability, poor service and repeat failures, are made whenever contractually possible. Where contracts and contract management regimes fail to specify adequately what is to be done in many realistic situations, and with what consequences for the service provider, this represents a major risk to the provider's interests and the strength of the partnership.

It is important that the most commonly identified key risks to operational success relate to information - differences in contract interpretation between the parties in particular, and the quality of the contract documentation (see Chart 2). At the outset of the operational phase, significant difficulties for service providers can arise when there is no shared understanding of how terms are to be interpreted and operationalised, or there are uncertainties about how performance is recognised and measured. Managing the process of change was also felt by a significant minority to be a key risk, especially in the United Kingdom, where a high proportion of contracts are have been through value testing and renegotiation processes.

Consistent with this, there is strong support among our respondents for better communication processes to be institutionalised across contracts (some 68% of respondents agreed that this was a critical driver of success).

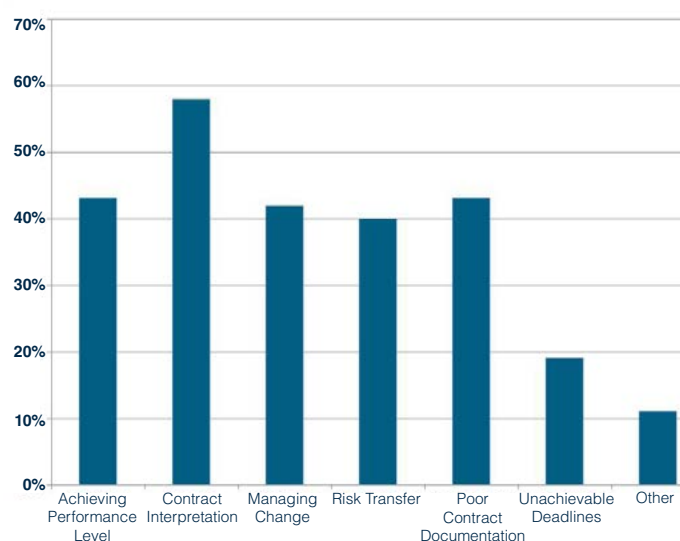
As contracts have matured, relationships have developed, evolved and in some cases deteriorated. Industry professionals have formed strong views – and not always positive views – about the individuals on the other side of the table, and how they are performing during the operational

phase. Our results suggest that, in general, public sector clients are relatively content with their private sector counterparts in terms of their professional behaviour. At a global level, some 63% of public sector respondents regarded their providers as very good or good – though 37% reported satisfactory or poor performance.

But the pattern of results varies considerably between different markets. In countries with more developed programmes in place, the results are much less favourable to the private sector. In Canada and the United Kingdom, in particular, the numbers of respondents rating their private partners as “very good” or “good” performance are roughly equal to those reporting “satisfactory” or “poor performance”. The results are particularly discouraging in the UK, where no respondents at all rated their public sector clients as “very good”.

The picture is bleaker still when the private sector's views of their public sector partners are considered. At a global level, less than a-third of private sector respondents rated the performance of their partners as “very good” (6%) or “good” (25%), with more

**Chart 2. Key risks to the success of operations (0% of respondents)**





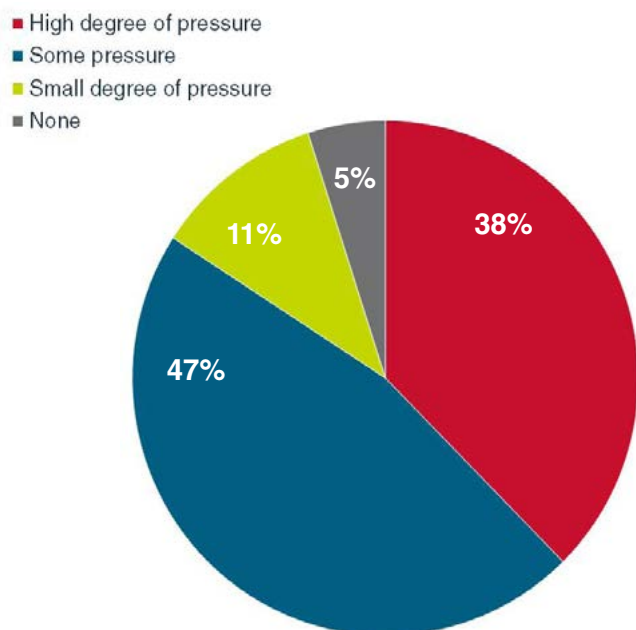
than two-thirds rating them as “satisfactory” (47%) or “poor” (21%). Again, the results show important differences between markets. The starkest distinction is between Canada and the rest.

Canadian service providers were far more likely to rate their public sector partners as “very good” or “good” - 47% of respondents did so - than those in either the United Kingdom (17%) or the United States (30%).

There are, in addition, a large number of cases where these pressures of ever tighter government finances are placing a burden on contractual relationships (see Chart 3).

At a global level, the vast majority of the respondents reported at least some degree of pressure to reduce prices on operational projects. Some 38% of our respondents felt that there was a high degree of pressure to reduce prices, and a further 47% reported some level of pressure. Only a small minority of respondents reported that they perceived either a small degree of pressure (11%) or no pressure (5%).

**Chart 3. Degree of pressure for price reductions**



## Reducing Costs of Existing Contracts

But again, there are differences between the larger markets in this respect. In some countries, such as the United Kingdom, there has been a centralised effort to reduce the ongoing costs of existing contracts, and billions of pounds of savings derived from these efforts have been claimed by governments<sup>3</sup>. More generally, authorities are on the lookout for possible ‘efficiencies’ in service delivery that can reduce their own spending obligations.

There is consistency in the highly developed markets of Canada and the United Kingdom, where a large proportion of PPP contracts are now in their operational phase. In Canada, 88% of respondents felt there was at least some degree of pressure to reduce prices; while in the United Kingdom the proportion was 96% (perhaps reflecting the centralised effort to reduce costs, noted above). In the United States, while a majority of private sector respondents felt there was at least some pressure to reduce prices, this view was slightly less prominent than in other markets, with 20% of respondents reporting only a small degree or no pressure.

Actual price reductions follow a similar pattern. The plurality of respondents in the United Kingdom (some 42%) had experienced price reductions in between 1-19% of contracts on which they are engaged (see Table 1). More than a fifth of respondents reported price reductions on 50-79% of projects. In contrast, in other markets, including Canada (see table overleaf), the largest proportion of respondents (29%) had not seen any reductions.

It may be that the markets will converge over time, as transition to the operational phase proceeds.

<sup>3</sup> As at June 2013, government departments had reported £1.6 billion of formally agreed savings to the Treasury, as well as a pipeline of further expected savings yet to be formally agreed (National Audit Office, 2013).

% of price reductions in contracts	0	1-19%	20-49%	50-79%	80-99%	All
Canada	29%	24%	12%	15%	10%	10%
United Kingdom	17%	42%	8%	21%	4%	8%

Price reductions may be welcome if they stem from the ability of private operators to generate technical efficiencies, and share these savings with payers. As one respondent from the United Kingdom noted: “It [the process of price reduction] shouldn’t be vilified. Performance efficiencies should be a natural part of the contracts like it is in regulated sectors.” However, most questioned whether better value for money would be a common outcome. The most commonly cited targets of price reductions were reductions to the quality of services (68%), which may compromise, rather than enhance, value for money. Changing the profile of planned maintenance and reducing charges or fees for variations were also cited by a majority of the respondents.

Such pressures may also undermine carefully nurtured relationships. Most of the respondents (64%) felt that price reduction efforts had had at least some detrimental effect on the partnership between the public and private sectors in managing the contract – and, interestingly, there were no significant differences between geographical markets in these respects.

### Value Testing

In some jurisdictions, the process of **value testing** is being seen as a key opportunity to cut costs. This may involve comparing information about the current service provider’s provision with

comparable sources (benchmarking) or, as has become more frequent in recent years, inviting other providers to compete with existing providers in terms of the combination of price and quality they can offer (**market testing**). In either case, the financial position of the operator and/or its subcontractors can be threatened.

One respondent from Canada suggested that the only way to cut costs through such processes would be to reduce the scope of work. While this would provide clients with an opportunity to re-evaluate the services, to more closely align with their needs, “the client often has unrealistic expectations of how much money they can save by reducing the scope of services. This often causes a strain in the partnership.” A respondent from the United States expressed a degree of frustration about the process in the context of comparatively impressive private sector cost efficiencies: “We see on average a 35% cost reduction when the projects are being operated by private sector partners, so it is frustrating to have the public partner seek to cut the fees we charge for managing the delivery and long-term management of the projects.”

It may be no surprise, in this context, that half of respondents, globally, have seen 1-19% of contracts falling into dispute. The process of transition is, in some cases, proving to be a fraught one.



### Measuring Performance

A strong theme in the survey results is the extent to which information problems are at the heart of many of the more intractable operational management challenges. Without access to accurate information, the public sector is unable to monitor its private partner's performance, comply with its contractual obligations, or manage the risk to value for money. Such a lack of transparency often results in an erosion of trust. In the current fiscal environment, authorities also need to ensure that the contract management system provides a clear audit trail - so that information about the service provider's performance and deductions can be reviewed and evaluated systematically and that the integrity of the data is assured.

The service provider, too, needs ready access to accurate and up-to-date performance information - so that it can demonstrate the quantity and quality of its activities and mitigate the risk to its revenues. As noted, the financial impact of deductions and penalties for the private operator and its subcontractors may be severe. To monitor, predict and take action to prevent financial losses, the private sector parties need immediate access to contract performance information that is accurate, recorded in real-time, facilitating reliable predictions to be made about impediments to the quality of services and the threat to income.

Our survey shows a general recognition that access to accurate and timely data for effective performance management is fundamental. But there is a lack of understanding as to how this can be achieved - including the use of modern technology. Among the respondents that reported on the performance management software they used, QFM, from Service Works Group, accounted for the largest share. Otherwise, however, demand in this market is heavily fragmented among many different solutions.

More generally, information about this aspect of management seems to be weak, a finding that is more striking given the large proportion of respondents who spend most of their time working on operational schemes.

But most respondents questioned whether better value for money would be a common outcome from price reductions. Our survey has shown a variety of new pressures and opportunities emerging in this key phase of the PPP contract - addressing them fully will require a thoughtful and collegiate approach from all sides of the industry, backed by a clear and effective performance management framework.

It is apparent that many service providers continue to support their payment mechanisms with generic software that is unable to provide the level of functionality required for complex infrastructure services contracts. Whether the issue is providing public authorities with the transparency and auditability they require, or having a clear view of the pattern of service problems and the complex impact of these on the scale of deductions from fees, only a bespoke system that automatically calculates deductions from events in real-time is fit for purpose (see Box 1, overleaf).

In an integrated payment mechanism, the performance of the service provider is monitored in a transparent manner through the use of remote monitoring and the running of abatement and performance reports. This level of functionality is needed to ensure that service providers are able to monitor, forecast and avoid deductions and that public sector authorities have the clarity of data they require. It is a level of functionality that cannot be achieved by generic software.

## Box 1. What's wrong with generic software?

Our survey shows that many companies seek to manage payment mechanisms using generic applications, such as Microsoft Excel or Access. There are four key areas where these are suboptimal:

1. **The complexities** associated with **consequential** or **deemed unavailability** (see Glossary) are difficult to manage without an integrated payment mechanism. The deduction software needs to be able to calculate the exact time that one, two, or three rooms, for instance, have been unavailable and then put back into availability – and then change the availability deduction accordingly. Data is provided in real time to promote complete auditability and transparency to all parties. Generic software cannot do this.

2. As **repeat events** can ratchet over several months, the payment mechanism must be capable of establishing whether another failure in the same area with the same KPI has occurred. Rolling over several months with open events and calculating the associated thresholds with performance points is impossible to manage efficiently in a simple spreadsheet. It is much easier to accurately capture when using a real-time system.

3. As a project develops, some aspects of service provision will occur outside of the formal output specification. Such '**out-of-scope**' elements are often missed out by generic, manual payment mechanisms - but with a real-time system, this activity is securely recorded, giving the service provider clarity about its service costs – and enabling these added value elements to be demonstrated in benchmarking or re-negotiation processes.

4. In mitigation meetings, events may be excluded from the **penalty regime**. This has an impact on all the other deductions so that these deductions need to be re-calculated. Because this is a time-consuming process when conducted manually, the impact is often ignored in practice. Thus, conventional software precludes the ability to be proactive – which is essential delivering a good service rather than one that just meets contract requirements in order to avoid a penalty.



### Integrated Payment Mechanism for New Projects

Our survey findings point to the need for clear and agreed specifications and processes from the outset. For **new projects**, this means translating the legal requirements of the contract into a software application that is operationally relevant to all users. Ideally, this process should start as early as the preferred bidder stage, so that the expectations of both the negotiating parties around the payment mechanism can be discussed, resulting in mutual agreement about expected outcomes, and heading off potential issues and areas of concern before financial close.

In addition, the public authority will gain considerable insight about how the payment mechanism will operate, and the parties can analyse clauses in detail and apply a 'common sense' approach that incorporates the different requirements. The stakeholders can see how events will be fed into the system and with what impacts on deductions, and how the reports will be produced in real-time. This gives authorities reassurance that they'll be able to monitor and obtain information from the software once the contract moves into operation.

One of the most challenging periods of a project's implementation is the long period between the bidding stages (when final negotiations take place) and the point at which the contract moves into operation and service provision begins (when the parties have to make the contract terms agreed in the negotiation, which can be subject to a number of changes over the period, work in practice). Having an agreed interpretation of the contract that is hardwired into the payment mechanism helps to address these challenges. In this sense, the software can play a significant role in avoiding the problems associated with misinterpretation, poor communication and the resulting mistrust between parties.

Once financial close is achieved, a full due diligence analysis of the contract documents, including the payment mechanism, is crucial, and provides an opportunity to analyse contractual clauses in fine detail – picking out the anomalies, grey areas, or elements of the agreement that require further clarification (see Box 2). Where there are key performance indicators that don't make sense in the real world, or ambiguities that add to risk to no-one's benefit, or clauses that need clarification or an agreement on how they'll be operationalised in practice, this can be done.

#### Box 2. Questions addressed through a comprehensive due diligence process

##### For new projects

1. What are the areas where conflicting interpretations may arise?
2. What are the clauses in the contract that do not make operational sense?

##### For existing projects

3. What are the clauses that have become marginalised or neglected over time?
4. How can we get 'back on track' with data (e.g. on the condition of project assets)?
5. How can we formalise local agreements that have been made during project operations?

In the operational phase of the contract, the integrated payment mechanism is underpinned by a comprehensive due diligence process that results in a specification that has been understood, agreed and signed off by all parties before the development of the software. Our survey shows that any ambiguity about expectations, such as when a cleaning audit should take place, can lead to disagreement about deductions. The due diligence process confirms that the expected outcomes of a clause or query are understood and any omissions in the documentation are clearly noted.

Once software development for a payment mechanism begins, sign off points are agreed during the process so that data formats and workflow processes are established. The software development process culminates in User Acceptance Testing (UAT) with the client, using 40 to 50 test scenarios. It is critical that the facilities management company, the commercial manager and the helpdesk manager are able to participate in the UAT process so that a full understanding of how the contract will operate as part of the software can be established. The process is completed with a solutions document which is created for the system administrator, so that they are able to manage the system both now and into the future and are able to train other users.

Many different users of the facilities will expect to access the software on a day-to-day basis to log jobs remotely, run reports, manage assets and track and close jobs. Part of the development process, therefore, is to create classes of user within the system where specific users will have secure access to the parts of the system they require. This can often be categorised by the technical ability of the user as well as their need for access to different areas of the system dependent on their role.

Many sites have multiple skill levels for users from busy nurses, caretakers or handymen to contract and commercial managers and helpdesk users. It is important to tailor the system to these varying skill levels as well as to secure the system to maintain

data integrity. It is useful to hold 'walk in' training sessions on site, where users who will be using the system come in for individual or group training sessions. Once the software is in place, and the contract is operational, it can be used to provide reports, including trend analysis of availability, service quality and failures.

### Retrofitting Existing Projects

But what about **existing projects**, where no integrated payment mechanism is present? Many stakeholders in this position are now considering a retrofit. The benefits of a retrofit – in making use of technology to identify and address problems in the existing operation of the contract, reviewing and cleaning the existing data, creating efficiencies in maintenance and service provision, increasing flexibility and enhancing the quality of the partnership – apply at any point in a project's operation. There are particular moments in a project's life where a retrofit is valuable. For example, where contracts are due to benchmarked and tested (or otherwise re-negotiated), a retrofit can help to ensure that changes and local (mis) practices have not crept in and become the common standard.





In addition, where the public sector client is planning an audit – and the pressure for this is becoming more vociferous in some markets, in which increasing economic and political pressures have resulted in more intensive scrutiny - a retrofit can help to ensure that the payment mechanism demonstrates the scale of contracted activities, the accuracy and security of the performance regime, and the value being produced by the contract. Indeed, however mature the contract, retrofitting an integrated payment mechanism can be transformational for the effectiveness of operations.

It is possible to initiate a retrofit at any point in a contract's operation. By following a sound structure and working with experienced professionals, the process can be low-cost and straightforward. In many ways it is similar to the development and mobilisation of an integrated payment mechanism on a new project, as outlined above.

The software provider will access the original contract documentation and discuss the operation of the contract with the service provider and other stakeholders.

A range of challenges may be identified – the difficulty of capturing information in the existing software, the presence of bad operational practices, a lack of trust between the contractual parties, or the difficulty of demonstrating value for money. All of these need to be addressed, and can be as part of the retrofit process.

### Box 3. Stages of a retrofit

1. **Comprehensive due diligence** of the original contracts resulting in a solutions document that details everything that has been agreed and how it will operate within the payment mechanism system.
2. **Inclusion of agreed local practices** resulting in a requirements document in which agreed changes to the payment mechanism, to reflect real costs of local delivery, are reflected.
3. **Discussion and agreement to highlight problematic areas** which may be working impractically, at a high cost or simply not delivering the expected outcome for the authority.
4. **Review of current data** on the service matrix, selection of priorities, KPIs, the condition of the assets, report suites, technology usage and user profiles and security.
5. **Build the customised payment mechanism in the new database** to give the authority the reassurance that they will be able to monitor and obtain information from the payment mechanism system.
6. **User Acceptance Testing and Training** - involving 40 to 50 test scenarios - for the facilities management company, the commercial manager and the helpdesk manager.
7. **Transfer live data to new system and go live** which can be done rapidly, and practically .

## Stakeholder Benefits

The software provider works with the service provider, or in some cases a public authority, on the best way to proceed. The retrofit client is also encouraged to work with other project stakeholders to secure broad agreement on how the payment mechanism will operate in practice, and what the performance reports need to contain to ensure full transparency. For the authority, the major benefits consist in the additional opportunity to monitor and obtain information from the performance management software. For the private operator, there is an opportunity to use the process as a means of formalising local practices not in the contract, and incorporating activity that is being delivered but is not currently being remunerated.

Whatever motivates the retrofit, the process is an opportunity to breathe new life into the relationship: to review the original contract documentation, the adequacy of current information systems, to decide what can be used and what needs to be discarded, to introduce new technologies and improve workflow. For the private operator, it may be seen as an opportunity not just to save on cost or address risks but to enhance value for money for the authority – to make manifest to all stakeholders the scale of the value it is producing, and to identify additional services that could be delivered to the benefit of both parties. As we have seen, the objectives of the public authority are certain to shift in the scope of a long-term PPP contract, and their successful attainment depends on continuous reflection, renewal and innovation of the operational approach.





Analysis of the survey data reveals an industry in transition – one in which the operational phase of projects is an increasingly important concern among industry practitioners. Many countries have accumulated significant experience on procuring and delivering infrastructure through public-private partnerships, but experience of operational management is at a much earlier stage – and lessons are still being learned. For the public sector client, obtaining effective infrastructure services during the operational phase is key to the economic value of the contract. For the private operator, too, deductions to the unitary charge for unavailability, and penalties for failure to meet key performance indicators can lead to financial losses. The survey shows forming robust relationships between public and private sector partners can be challenging, while new pressures are emerging – often linked to increasingly tight government finances, and the fact that public authorities are constantly on the lookout for possible cost reductions – that further threaten the sustainability of many transactions. Most respondents questioned whether better value for money would be a common outcome from price reductions, and many felt the process would destabilise carefully nurtured relationships. Reflecting this there is, among respondents, very strong and consistent support for better information and communication processes to be institutionalised across contracts wherever possible. This requires a clear definition of mutual responsibilities, a rapid flow of good and objective information between the parties, and transparent procedures for reviewing the relationship so that improvements can be identified.

Achieving this requires a sophisticated approach to performance management that utilises state-of-the-art technology. An integrated payment mechanism is a core foundation of an effective approach. In the UK, there are many contracts where providers are receiving penalties unnecessarily because they are unable to monitor and measure the scale of their activities, while public authorities lack the data they need to demonstrate value for money to auditors and stakeholders. That needs to be being put right. Over the next few years of the industry's transition, the need to shift to sophisticated tools and sources of advice for operational management will only increase.

Availability	The ability of a project to make its service available (e.g. the accommodation required in a PPP); deductions are made from payments to a service provider if availability requirements are not met.
Capex	Capital expenditure – the build cost of the building contractor or supply chain contractor.
Commercial Close	The point at which agreement is reached on all the commercial terms of the project agreement.
Consequential Unavailability	It is sometimes appropriate for the unavailability of one part of a facility to lead automatically to the unavailability of another that is reliant on it. For example, a sports hall in a school is of limited use if changing rooms are unavailable.
Concession Length	The duration of the contract from financial close.
DBFO	The acronym applied to Design, Build, Finance and Operate contracts. This is the technical term used to describe PPPs in the accommodation or transport sectors, where the majority of risk is transferred to the private sector.
Deemed Unavailability	This covers circumstances where a facility may be notionally open for use, but is of a standard where such use is hampered or perhaps unsafe.
Design & Build	The contract to design and build a facility or a piece of infrastructure that delivers the performance specification in the PPP contract.
Due Diligence	The process of assurance / validation of information provided in connection with a PPP, prior to entering into binding agreements, or undertaken prior to a retrofit of performance management software.
Equity	Ordinary share capital invested in the project company by the sponsors and any third party investor, along with loan stock or loans made by shareholders. Equity has the last claim on a project's income, and bears the highest risk.
Facilities Management ("FM")	The provision of services ranging from catering and cleaning (soft FM); to minor repairs, decoration and major maintenance and replacement (e.g. of heating systems) (hard FM).
Financial Close	The point at which all contract documents become legally binding and the financing for the project is available. It is at this point that the main contractual terms for the project are fixed.



Handback	Refers to the return of project assets to the public sector at the end of the contract. Typically, the contract specifies the condition in which the project assets must be in at the point of Handback – and it is the project company’s duty to ensure that the assets meet these conditions.
Hard FM	The maintenance and replacement of building components (e.g. roofs, heating equipment, windows, lamps, doors) when they can no longer provide the performance specified in the contract.
Key Performance Indicators (KPIs)	These are the measures of service standards defined in the PPP contract. Failure to meet these leads to deductions or performance points.
Lifecycle	The replacement of the components of a building so as to ensure asset performance meets required standards over the contract period.
Local Practices	These are practices that have developed during the operational phase of the contract which are not defined in the contract and are therefore not adequately captured by the original performance management regime and payment mechanism.
Migration Meetings	Meetings at which a decision is taken by the contracting parties to exclude certain events from the deduction schedule.
Output Specification	The requirements set out by the authority in terms of what they want to achieve through the project are defined as ‘outputs’, leaving the private partner to decide on how best they will combine ‘inputs’ in order to deliver those requirements. The services detailed in the output specification should be capable of objective assessment so that the performance of the private partner can be accurately monitored.
Payment Mechanism	The means by which payments due under a contractual structure are calculated, including the deductions for sub-standard performance, or non-provision of services. An “integrated” payment mechanism is a software application that automatically calculates deductions from events that have been entered into the system.
Performance Points	Poor service will incur performance points based on KPI weightings. The accumulation of points eventually leads to a unitary charge deduction.
Private Finance Initiative (PFI)	The Private Finance Initiative is the name given to the programme of Design, Build, Finance and Operate (or Maintain) contracts used by the government of the United Kingdom. The PFI is the principal form of PPP applied in that country.

Public-Private Partnership (PPP)	May describe any form of partnership between the public and private sectors for the provision of services. However, in this white paper, the term is used specifically to refer to Design, Build, Finance and Operate (or Maintain) contracts.
Project Agreement	This is the main contractual document in respect of the PPP which requires signature by the authority and project company at financial close.
Public Sector Client (or 'the Client')	The public sector entity that procures the project and acts as the ultimate client through the construction and the operational phases of the deal.
Ratchet	A ratcheting mechanism within the performance management system ensures that more 'performance points' are imposed the longer a problem persists, or if problems are repeated (repeat ratchets).
Retrofit	The process of moving from generic to bespoke, integrated payment mechanism software, usually during the PPP contract's operational phase.
Soft FM	This describes certain services such as cleaning, security, portering, grounds maintenance, catering, litter picking and car park management.
Service Providers (or 'the Provider')	A company set-up solely to carry out a specific project. This allows the operations of the company to be ring-fenced from other activities. It may also refer to a subcontractor – that is, a company that provides services, such as design and build or soft FM, for the main contractor.
Unitary Charge	The payment made by the public sector client, under the terms of a PPP contract, which provides a revenue stream for the service providers for fulfilling its contractual duties.







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Service Works Global is the world's leading provider of operational performance management software to the global PPP (Public-Private Partnership) market. With offices across the globe, Service Works delivers PPP consultancy and O&M technology solutions to improve service delivery and ensure contract auditability in PPP projects, across all industry sectors