Private investigations

20 July, 2008

A great many people dislike the Private Finance Initiative. And yet, says Ian Boughton, the intricacies of PFI project management could be good news for the career-minded FM

The popular horror stories of PFI need little repeating – in theory, private investors pay for public buildings in return for a long-term contract for running them, for which they are paid from the public purse. The contractors finance their building work by borrowing, but it costs more for them to borrow than it would have cost the government, and that increased cost is also passed on to the taxpayer.

What has caused most anger is clever refinancing deals which have allowed those investors to pocket big profits – it has been alleged that the company which built the UK's first PFI hospital played the game shrewdly enough to make a profit which would have paid for an entire second new hospital.

Recently the Sunday Herald quoted a statistical team which has been investigating individual projects, who said that a £100 investment in a hospital at East Kilbride could conceivably turn into a return of £89m in 30 years; while £42m of 'subordinate debt' invested by the contractors building six PFI schemes was predicted to return them a yield of £517m.

The researchers added that the projects could all have been built for half the cost if the money had been borrowed in the normal way from the government's national loan fund.

The criticism continues. A report on 21 April from the House of Commons Liaison Committee concluded that the House has too little means to carry out financial scrutiny effectively, and that select committees should be able to find out more about the inner details of PFI contracts. The UNISON union claims that over 80 per cent of people are against the use of private companies to run public services, that PFI schemes cost much more than conventionally funded projects, and that the National Audit Office, no less, had called the value-for-money calculation 'pseudo-scientific mumbo-jumbo where the financial modelling takes over from thinking'.

In May last year Edward Leigh MP, chairman of the committee of public accounts, was reported as saying: 'The public sector have to be a lot more streetwise and must not allow themselves to be taken for a ride', and that 'local public sector officials are often painfully lacking in commercial experience. Staff must be trained so that they are not outwitted by their commercially sophisticated private sector counterparts.'

It's not only the tabloids which have jumped on this – it was the British Medical Journal, no less, which reported that changing a light switch in a hospital had cost £333, that hanging a mirror had cost £200, and the fitting of a plug socket £420.

The curious thing about the words of the accounts committee chairman is that he seems to be saying that professional purchasers don't know how to buy, and that private sector suppliers are leading poor innocent corporate purchasers up the garden path. And as PFI is going to get bigger, maybe accounting for 10-15 per cent of gross public investment in the next few years, this criticism of alleged profiteering is probably going to run and run.

PFI positives

However, a new philosophy has recently appeared, and it comes from the supposedly outwitted purchasers. The Chartered Institute of Purchasing and Supply (CIPS) has said that PFI gives qualified buyers an opportunity to raise their profile, by taking the initiative and bringing order to a key area of public sector expenditure. The alternative, it adds, is the danger of being left behind to act as minor administrators. Several other players have now spoken up for the FM parallel, arguing that understanding PFI can be an extremely good career opportunity for the facilities manager.

David Archer of Socia is a 'partnering specialist' – he trains senior staff and board-level decision-makers to develop 'collaborative leadership', which means knowing how to work successfully with other people. You might think this a standard skill for board-level management, but that is not so – Archer says that many PFI deals are doomed from the start because the public authorities and contractors are simply incompatible at the most senior level.

'This is because they operate so differently,' he explains. 'Contractors have to satisfy share-holders, work to targets, and show profitability. Public authorities have very different lines of responsibility – they may be a bureaucratic, as opposed to an enterprise, culture. So there can be a mismatch. Each may be suspicious of the intentions of the other party, which is why there is a tendency to rely on lawyers to define exact terms, which in turn is clearly not helpful to forming a relationship based upon trust and mutual understanding!'

It is mistrust, says Socia, that makes long-term PFI contracts break down: typically, if the original terms are insufficiently flexible, any change in requirements can cause chaos. These mid-term changes are regular – back in 2003 the Treasury said that the deals which went over budget were those where the public sector had changed their minds mid-project.

In such a case, the public side brings in a major consultancy to sort the private contractor out, the newcomer asserts itself by rewriting the terms for an even tighter, more inflexible contract, the project fails again and costs shoot up beyond all expectations.

This costs millions, says Socia. More than £180m of taxpayers' money was spent on changes to PFI deals in 2006, and when Socia surveyed top businessmen to find out why, nine out of 10 directors acknowledged that they had been unable to work with the other side, and that when the disagreements began, they defaulted to the combative basis with which they felt more at home.

Socia now works to advise each side in a PFI contract to determine in advance how future problems and changes will be resolved, and to make sure that 'impossible clauses written by civil servants' are edited out at the beginning of a project.

This service, the bridging of differences between cultures, is not, of course, a new skill – it is one of the existing skills of the good facilities manager. 'Absolutely,' agrees David Archer. 'It is critical that a facilities manager should understand how the supplier operation works and be able to communicate what the client's expectations are – that is what defines a "partnership".'

Career opportunities

The specialist recruitment agencies have seen the value of the FM, too; Ian Wolter, CEO of the Eden Brown agency, says that he is being asked more for facilities managers with PFI experience, and maintains there is a shortage of suitable candidates. This, he says, is because the PFI job requires certain additional skills.

'They need to be very flexible – PFI is a difficult sector to manage sometimes, with the client, the local authorities, contractors and the services provider all to consider. Candidates also need to have exceptional customer service skills, as technically there is more than one client. They need to be extremely commercially aware – there are penalties involved should the service provider fail on the agreed SLAs and KPIs, so the FM needs to be very organised and aware.'

An interesting aspect that Ian Wolter has observed is a greater interest in candidates whose previous experience is in working for a service provider rather than for a corporate client. It seems that there is a common belief in the PFI chain that 'managing the client' is the essential role.

More agreement comes from Z/Yen, a commercial think-tank that structures risk and reward relationships in facilities management, construction and PFI/PPP, where consultant Michael Mainelli has watched PFI from the very beginning. He says that the FM is well placed to come out of it best. 'PFI is much more about facilities management than construction. Z/Yen has looked at a sample of educational and health projects, and taken together, over three-quarters of the expenditure will fall to the FMs. Most contractors now recognise the importance of facilities and involve FMs at design and build stage; however, the paradox for the FM is how to stick to long-term cost control while remaining flexible in the face of change.

'PFI transfers the risk of delivery to the contractor, and PFI allows the government to fund more infrastructure projects today. These two advantages for government are the source of the FM's risks – FMs must be hypersensitive to long-term costs, and be aware that projects will be judged first and foremost on political grounds. So a key thing to learn is government jargon, because most PFI/PPP talk is just code for normal commercial relationships.'

It is worth it, he says. 'PFI gives FMs a profile and importance they might not have had. Great career opportunities are there for facilities managers who are not afraid to study the slightly more complicated financial and political background to it'.

Further information

www.carillionplc.com

www.cips.org

www.edenbrown.com

www.kajima.co.uk

www.socia.co.uk

www.zyen.com