

# Importance of Early End of Contract Management (PPP)

Thursday  
4 November 2022

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End of Contract Manager

- End of Contract Guidance
- Over view of Specialist Support Team (SST)
- NHS Scotland - PPP Projects
- SST Programme Approach to End of Contract
- 4 Core Elements of End of Contract
- Summary
- Questions



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Scottish Futures Trust  
PPP PROJECTS NEARING THE END OF CONTRACT: A PROGRAMME APPROACH  
15 April 2020



Infrastructure and Projects Authority

Reporting to Cabinet Office and HM Treasury

### Preparing for PFI contract expiry

Practical guidance for contracting authorities on managing expiry and service transition

Report  
by the Comptroller and Auditor General

Cabinet Office, HM Treasury



National Audit Office

## Recommendations

15 Only a small number of PFI contracts have expired so far and the public sector's preparedness and understanding of the risks varies greatly between the many authorities responsible for these contracts. Our findings suggest there is a lack of a consistent approach across these authorities, with no strategic central support on managing the end of contracts. Authorities also risk underestimating the time, resourcing and complexity involved in the expiry process. Progress is being made and there is still time remaining to make changes that will benefit the bulk of the contracts expiring from 2025 onwards. Many of these issues may become less prevalent in the longer term as the later PFI contracts benefit from better defined and clearer contractual terms.

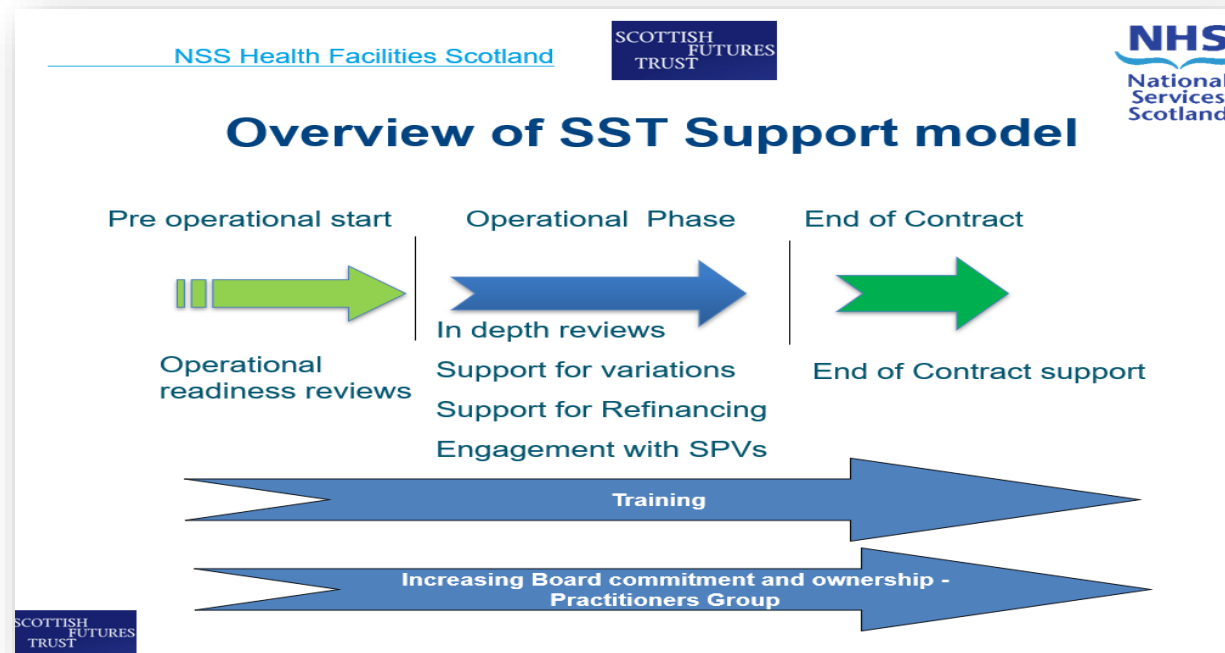
Managing PFI assets and services as contracts end

# Specialist Support Team (SST)

## Overview

- SST formed in 2014 to support NHS Boards in their management of PPP Contracts
- Collaboration between Health Facilities Scotland (HFS) and Scottish Futures Trust (SFT) – reporting to PPP Joint Board
- During 2020-21, PPP Joint Board and NHS Boards recognised a requirement for a focused End of Contract role within the SST
- Stuart Farquharson - End of Contract Manager appointed April 2022

SFT Guidance and other industry guidance recommend that the End of Contract process should begin at least 7 years out from the expiry date



## Why start 7 + years out?

- Ensure good contract management is in place and services provided are contractually compliant
- Allow End of Contract readiness assessment to be completed, and give time to make any changes or improvements
- Strategic decisions required to inform End of Contract approach
- Resource, project management and governance arrangements required
- PPP Investors should have financial incentives to seek mutually beneficial outcomes
- Significant Project Debt outstanding – Lenders should have interest in, and influence over Project Co meeting their contractual obligations



## Overview

- 3 Broad types of PPP Projects in Scotland that have commercial, financial and operational differences:
  - Early bespoke PFI Projects
  - Projects based on Standard Form Contracts
  - NPD and Hub Projects
  
- Early PFI Projects typically include:
  - Expiry date related to services commencement
  - Options on expiry, therefore no automatic handback to NHS Boards
  - Residual / Market Value Payments
  
- 45 Health PPP Contracts in Scotland, providing essential services in 59 Facilities
  
- First contract expires July 2025, final contract expires June 2045
  
- SST currently supporting 9 Contracts across 6 NHS Boards, increasing to 11 Contracts in 2023

SST has adopted a programme approach to End of Contract due to the importance of these facilities, the need to mitigate the risk of facilities being handed back to NHS Boards with large liabilities, as well as ensuring continuity of services

# SST Programme Approach – Work Completed

## Summary

- PPP Database – holds key information on each contract
- Produced template Risk Register, Roles & Responsibilities Matrix and Project Plan
- Commissioned Condition Surveys and Health & Safety Audits
- Engaged with NHS Boards, SPV's and Service Providers
- Completed site visits with NHS Boards
- Supporting NHS Boards in producing project specific documents and plans
- Assisting NHS Boards in ensuring robust governance and project management is in place

SST envisage that future work will include End of Contract training and lessons learned workshops

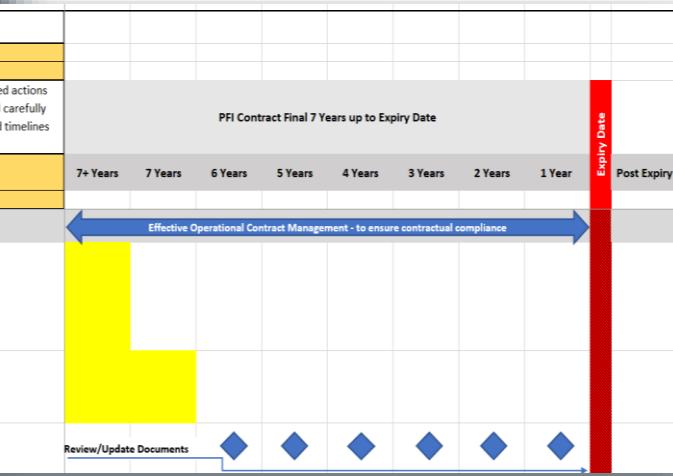
## Handback Process - Responsibility Assignment Matrix (RACI)

<b>Project: -</b>	<b>C</b>	C - Person/role creates/owns the deliverable.
<b>Version: -</b>	<b>I</b>	I - Person/role provides input /contributes.
<b>Draft dated -</b>	<b>R</b>	R - Person/role reviews the deliverable.
<b>Owner: -</b>	<b>S</b>	S - Person/role provides support/advisory function
	<b>A</b>	A - Person/role approves the deliverable.
<b>Relevant Handback Stage</b>		<b>Activity</b>
1- Hand Back Project Management	1.01	Leadership –SRO/Primary lead from each significant party
	1.02	Governance and interaction with organisation governance/project board
	1.03	Roles and Responsibilities - clarity of roles and "Who's doing what"
	1.04	Resourcing – Plan, FTE commitments including external advisory support if req.
	1.05	Protocols, communication - single point of contact
	1.06	Planning / reporting and timelines – "end to end" programme/management
	1.07	Risk management and contingency planning - risk workshop and register refresh
	1.08	
	1.09	
	1.10	
2- Financial	2.01	Budgeting for hand back project and spend profile
	2.02	Budgeting for any one-off hand back payments (residual/market values etc)
	2.03	Managing unitary charge retentions and retention funds (if relevant)
	2.04	Budgetary treatment of asset on hand back and future asset budgets
	2.05	Budgeting for post-hand back service costs in-house or outsourced
	2.06	

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Key Delivery Role	Supporting Role/Other Inputs	Instruction - Type either C,R,I,S,A or change status of RACI
a	b	c

Template End of Contract Plan	
Plan Version: -	
Initiation Date	
Plan Context	This Template End of Contract Plan provides a high-level summary of the activity-based actions linked to the End of Contract process. The timing is indicative, each NHS Board should carefully consider the specific features of each PFI contract when considering the activities and timelines that will apply.
Project Details: -	
Expiry Date: -	
<b>1 Contract Awareness and Management</b>	
Governance, Resourcing, Protocols and Planning - Identify and confirm Senior Responsible Owner (SRO). The SRO to appoint a handback Project Manager (PM) with delegated responsibility to assemble a flexible, proportionate and appropriate multi-disciplinary team to reflect the scale and complexity of any handback requirements.	
1.01	
Governance, Resourcing, Protocols and Planning - Project Plan, Risk Register, Resources and Governance - Develop Template Project Plan, Risk Register, RACI Matrix etc into project specific documents. Review and update Risk Register etc.	
1.02	
Governance - Review and refresh Project Plan, Risk Register, RACI Matrix, Gaps List as issues emerge and knowledge increases.	
1.03	



# Condition Surveys – Overall Summary & Main Findings

## Surveys generally report facilities are –

- In a condition commensurate with their age
- Subject to an appropriate maintenance regime, and
- Project Co's & Service Providers are maintaining and undertaking Life Cycle Maintenance in line with overall expectations

*“However”*

## Number of themes and risks have emerged that will need to be assessed, validated, prioritised and actioned by NHS Boards -

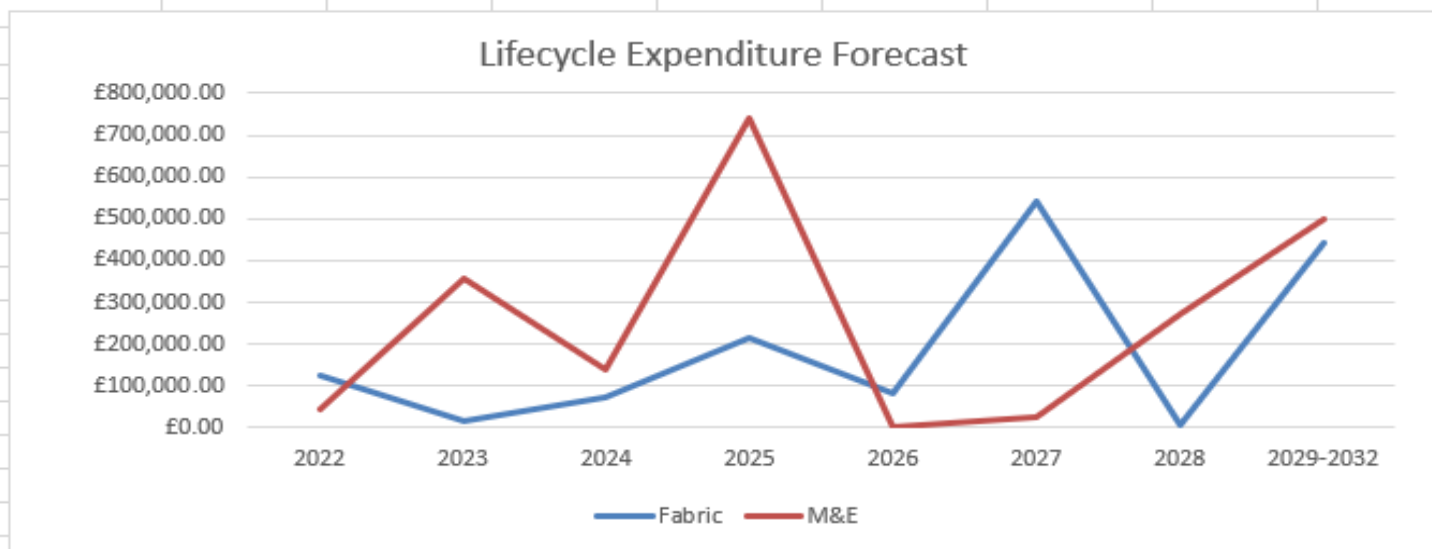
- Obsolescence of equipment and systems
- Exceeded life expectancy or “sweating of assets” represents a significant risk and could result in NHS Boards facing significant financial liabilities going forward
- Impact of changes in legislation and NHS Requirements
- Condition of exterior fabric, roof, rainwater goods
- Fire door condition and maintenance
- Access issues for maintenance
- Availability of robust asset registers
- Fire stopping an issue in some buildings



## Lifecycle Expenditure Forecasts

- Costs forecasted typically for 10 Years – up to and beyond the expiry date
- Costs identified on asset by asset basis & summary for building fabric as well as M&E
- Peaks and troughs in expenditure, particularly M&E
- Forecasts recognise “sweating of assets”

	2022	2023	2024	2025	2026	2027	2028	2029-2032
<b>Fabric</b>	£124,340.00	£18,360.00	£75,270.00	£216,410.00	£80,260.00	£543,070.00	£7,070.00	£443,330.00
<b>M&amp;E</b>	£44,000.00	£354,847.60	£137,621.40	£739,280.60	£0.00	£27,064.00	£271,930.00	£498,692.64



# Condition Surveys – Lifecycle Expenditure Forecast Database

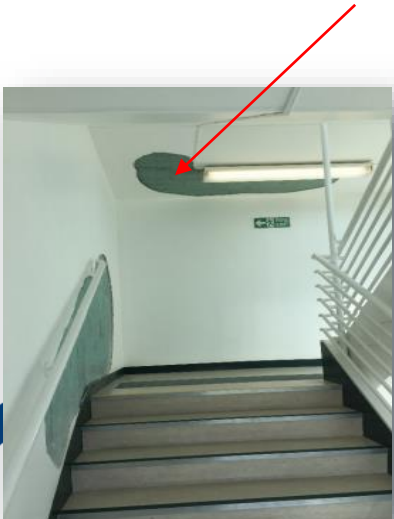
## Key Points

- Information taken from all Condition Surveys
- Database allows for benchmarking of costs
- Costs set out for Building Fabric and Mechanical & Electrical assets
- Overall costs provided for pre & post expiry date & Costs/m<sup>2</sup>/year calculated for pre & post expiry date

Boards need to understand their potential financial exposure, future maintenance liabilities & budget accordingly

	Overall Costs			£/m <sup>2</sup> /Year		
	2022-2032	Pre Expiry 2022-2029	Post Expiry 2030-2032	11 Years 2022-2032	Pre Expiry 2022-2029	Post Expiry 2030-2032
	<b>Total</b>	<b>Total Pre-Expiry Date</b>	<b>Total Post Expiry Date</b>	<b>£/m<sup>2</sup>/Year</b>	<b>£/m<sup>2</sup>/Year</b>	<b>£/m<sup>2</sup>/Year</b>
<b>Fabric</b>	£514,790.00	£495,160.00	£19,630.00	£28.54	£37.74	£3.99
<b>M&amp;E</b>	£454,876.00	£292,501.00	£162,375.00	£25.21	£22.29	£33.00
<b>Total</b>	£969,666.00	£787,661.00	£182,005.00	£53.75	£60.04	£36.99
	<b>Total</b>	<b>Total Pre-Expiry Date</b>	<b>Total Post Expiry Date</b>	<b>£/m<sup>2</sup>/Year</b>	<b>£/m<sup>2</sup>/Year</b>	<b>£/m<sup>2</sup>/Year</b>
<b>Fabric</b>	£1,508,110.00	£1,212,930.00	£295,180.00	£17.04	£18.85	£12.23
<b>M&amp;E</b>	£2,073,436.24	£1,574,743.60	£498,692.64	£23.43	£24.47	£20.66
<b>Total</b>	£3,581,546.24	£2,787,673.60	£793,872.64	£40.47	£43.31	£32.89
	<b>Total</b>	<b>Total Pre-Expiry Date</b>	<b>Total Post Expiry Date</b>	<b>£/m<sup>2</sup>/Year</b>	<b>£/m<sup>2</sup>/Year</b>	<b>£/m<sup>2</sup>/Year</b>
<b>Fabric</b>	£704,790.00	£360,560.00	£344,230.00	£23.73	£33.39	£18.21
<b>M&amp;E</b>	£947,488.00	£411,375.00	£536,113.00	£31.90	£38.09	£28.37
<b>Total</b>	£1,652,278.00	£771,935.00	£880,343.00	£55.63	£71.48	£46.58

# Examples of failures noted during Condition Surveys



## Important that issues are addressed with Project Co's

- Meet with Project Co and Service provider to discuss surveys observations and findings
- Understand the performance or availability failure
- Ensure failures are recorded on the helpdesk
- Agree an Action Plan that prioritises the works
- Implement a process of validation and review, to monitor and track progress on rectification works
- Use contractual incentivisation mechanisms, if required

“Early” condition survey will confirm the extent Project Co is meeting its asset condition & performance obligations. It also allows time for remedial works to be completed before joint handback inspection, reducing the risk of significant rectification works being required at the end of the contract



### **Lesson Learned: Common Themes from work completed to date**

- Assets – age, condition and performance
- Availability of Decant space / facilities
- Resource for effective contract management and End of Contract
- Availability of up to date Project Data, asset registers, O&M Manuals etc
- Internal tensions between Project Co and FM Contractor
- Relationships between Board and Project Co / FM Contractor
- Variation of knowledge on contractual requirements
- Self monitoring vs assurance / validation
- Lack of involvement from Project Co / MSA Providers



## Core Elements to End of Contract

### Manage End of Contract as a project with 4 Core Elements

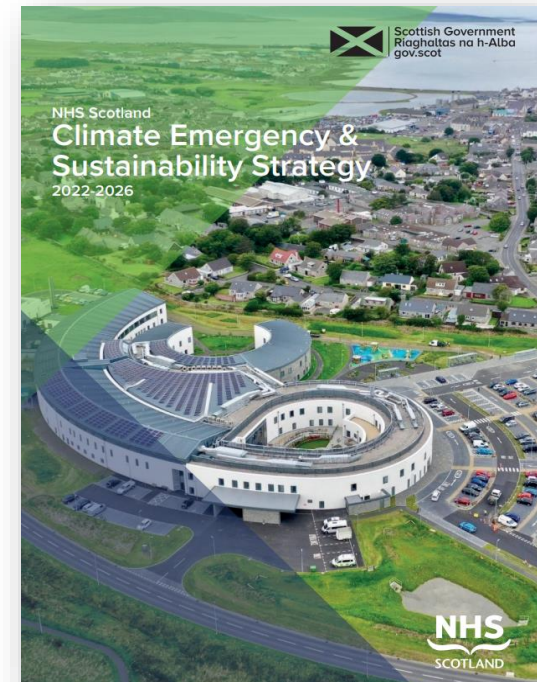
- Operational Contract Management / Business as Usual
- End of Contract
- Post PPP Service Delivery Model, and
- Pathway to Net Zero

### Benefits of this approach

- Contract Managers allowed to focus on day to day contractual performance
- Focused specialist support can be utilised effectively on each core element

### This will require

- Strategic Leadership – vision for future services
- Governance Arrangements and good Project Management
- Appointment of Senior Responsible Officer (SRO)
- Additional resource (technical, property, commercial and legal)
- Budgetary implications



## Focus on day-to-day performance and metrics, ensuring:

- Complete suite / bible of contractual documents are available
- Appropriate resources are applied to provide effective contract management
- Certification confirming services commencement date is to hand
- Project Co are fulfilling all contractual obligations
- Regular monitoring is undertaken to evidence Statutory Compliance
- Project Co's financial performance is tracked
- All contractual rights to information are proactively utilised
- The completeness and accuracy of self reported information from Project Co is reviewed and challenged
- Change / Variation Procedure is followed and records available
- Project and asset data / information is available, complete and validated
- Performance is incentivised by appropriate use of the payment mechanism

Objective is for a constructive and collaborative relationship with Project Co, founded on contractual compliance and backed by detailed contract awareness and sound knowledge of the available commercial levers



### Forward focused activity to ensure

- Additional processes are in place to gather, assess and track contract information required to support End of Contract
- Contractual rights to make retentions or withhold unitary charge payments are known and how these compare to the anticipated scale of rectification works
- All contractual relationships are ended efficiently
- Condition of assets meets contractual requirements on expiry
- Contractual obligations relating to End of Contract are fulfilled
- All information required to support the future operation of assets and services is available and transferred timeously
- Smooth transition to the post PPP service delivery model is achieved

Contract Management review and refresh may be required to ascertain if processes need to evolve to reflect the needs of End of Contract management – more extensive monitoring of maintenance and lifecycle works during the End of Contract phase may be required





### Key Points to mitigate risks of service disruption

- Establish a Future Services Strategy - to which the PPP contract expiry and transition process can be aligned
- Identify and collect the data required to support business case, procurement processes and future service delivery
- Obtain specialist HR / TUPE / pensions support – information is highly sensitive in GDPR terms
- Competitive procurement of future services
- Contracts signed well in advance of PPP expiry date
- Mobilisation, familiarisation and training is completed
- Readiness reviews completed across all transition workstreams
- Communication to all stakeholders about forthcoming changes
- Day of expiry is fully “mapped out”
- “Back Office” systems and costs are in place
- Robust future forward maintenance plans are available

Support and collaboration of Project Co, Service Provider and sub contractors will be needed to ensure required information and data is provided timeously



### Pathways to Net Zero will require

- Formation of a specialist Net Zero team
- Baseline energy & carbon performance
- Robust Asset Register of all assets and systems
- Condition Survey - asset age, condition & performance
- External expertise to complete Decarbonisation Options Assessment
- Demonstration of Value for Money by quantitative & qualitative options appraisal assessments
- Use of SFT's 'Energy Conservation Measures (ECM) Whole Life Cost Tool' to determine the impact on the financial model of the technology options across the remainder of the project's concession period
- Use of the Change / Variation Procedure
- Influence Lifecycle Maintenance expenditure – move away from “like for like” replacement to Net Zero alternatives

2 Net Zero Pilot Projects underway at PPP Facilities - East Ayrshire Community Hospital, and St Andrews Hospital, findings will be disseminated to all NHS Boards to inform net zero options and lifecycle replacement strategy



## End of Contract

- Should be managed and organised as a project in its own right
- Requires a governance structure with an SRO & a clear pathway for decision-making, approvals & assurance
- An appropriate project team, programme and workstream structure is in place
- Founded on good effective day-to-day operational contract management
- Inaction will present a real risk of facilities being handed back to NHS Boards with significant liabilities
- Early engagement, intervention and support across both public and private sector stakeholders is critical to help NHS Boards manage and plan their journey through the End of Contract process

PPP contract expiry is like a cliff-edge, required follow-on services must be in place in advance of PPP services ending. Its imperative that early strategic actions and decisions are taken, allowing post PPP services to be scoped and procured



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Thank you for your time

Any questions?

