

Design quality and the private finance initiative

This paper sets out CABE's perspective on the ability of the private finance initiative (PFI) to deliver well-designed public buildings, and considers what policy interventions are needed to remove the barriers to the delivery of design quality.

Published in 2005 by the Commission
for Architecture and the Built Environment.

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Introduction

There has been endless controversy about whether or not using PFI makes it more difficult to achieve good design. CABE believes that PFI as a financing system can deliver good design. However, much depends on the details of the procurement process through which PFI is operated. As with any procurement route, quality depends on the client doing its homework, leading to a clear brief, and the private sector design teams and consortia responding to that brief in a creative and innovative way that sustains the vision behind the brief right through to the operational phase.

Where this does happen, PFI can deliver good design. Over the last five years a number of PFI buildings have been shortlisted for the annual Prime Minister's Better Public Building Award including: Jubilee Library, Brighton (the 2005 winner); the Home Office, London; the refurbished GOGGS East and HM Treasury; and the headquarters of GCHQ, Cheltenham.

These success stories, however, remain the exception. CABE's experience is that the vast majority of PFI buildings commissioned to date have not been designed and built to a high enough standard and public service delivery suffers as a result.

In many ways the PFI procurement process – or more correctly, the design, build, finance and operate process (DBFO) within PFI – has matured in recent years. The successful players in the market have understood how to make the most of the opportunities for joining up a notoriously fragmented design and construction process (and indeed the design and construction industries) to deliver buildings to cost and on time to the clients stated requirements. The public sector for its part has adopted standardised and better compiled tender documentation and evaluation methodologies.

But we believe that further qualitative improvement is urgently needed. Our proposals are summarised in the seven recommendations set out in this paper. Implementing these changes will first require changes to overall PFI policy, which in turn will need to be reflected in the policy and procedures of individual departments. We believe that implementing policy interventions 1–4 (below) should be a priority, and that these could be implemented with only minor changes to the policy framework; 5–7 are longer-term interventions that will require further discussion with the architectural community and the construction industry, as well as individual departments and client bodies.

Background

The UK is witnessing the largest public sector construction programme for a generation. This programme is being delivered through the use of three preferred procurement routes: PFI, prime contracting and design and build. PFI provides approximately 15 per cent of total capital investment and is currently limited to use on projects with a capital value in excess of £20 million.

The PFI process involves competing private sector consortia, often joint ventures created for the purpose, with their supply chains: construction contractors, facilities management contractors, architects and design teams as well as construction, legal and financial advisors. They submit bids to design, build, finance and manage public buildings, usually on a 25-year contract in return for an annualised or 'unitary' charge (a DBFO contract). They invest typically around 10 per cent of the project value as equity and secure backing from funders for the remainder.

The advantages of PFI to government are that:

- it transfers risk from the public to private sector preventing cost over-runs from being passed on to clients
- it guarantees maintenance over the building's lifetime
- it offers increased speed of construction and increased likelihood that projects will be completed on time
- it promotes the consideration of whole-life.

Over the last three to four years, new ways of harnessing private finance to build public infrastructure have been initiated in primary health care and secondary education. These have taken the form of LIFT (Local Improvement Finance Trust) and the BSF (Building Schools for the Future) programmes respectively. These public private partnerships can be seen as 'serial PFI': after the selection of the private sector partner (PSP) by a method based on the PFI selection process, a long term contract is signed between the public sector client body and the PSP for delivery of as-yet unidentified projects. This creates a chance for fuller collaboration between the private and public sectors, unfettered by the constraints of the competitive process. In their post-contract stages, PPPs avoid some of the problems with the PFI identified in this paper. However, similar issues attend the bid process.

Does PFI deliver design quality?

One potential advantage of PFI, especially for large, complex capital projects with significant maintenance or management requirements, exists because responsibility for the long-term maintenance of the facility rests with the contracting consortium. This should provide an incentive for the PFI consortium to provide a building that is easy and efficient to maintain and manage, built using materials and techniques that will stand the test of time, and that offers good value for money throughout its life.

In practice such a virtuous feedback loop to inform the design and specification is far from the norm in PFI projects. This is partly the result of the PFI process itself and partly because of the limited capacity shown by the facilities management industry to participate fully in the design phases of projects.

The increased complexity of the PFI process brings together a range of issues that are generally separated in more traditional forms of procurement. Furthermore, these issues all have to be addressed within a very short bidding period. The bidding consortia's design teams are only given limited time – typically 10 weeks – to work with the client during the bid stages of the PFI process. This limits their ability to explore different solutions to the clients' service requirements, and directly inhibits the performance of PFI.

Barriers to the delivery of design quality in PFI

- 1** Many public sector clients are inexperienced and have never procured a building before. As a result they are unprepared for the complexities of PFI and often lack both an understanding of the need for high-quality design and the skills necessary to ensure quality is delivered.
- 2** The nature of the PFI process and the make-up of the consortia means that contractors dominate in discussions with the client. As a result, and in particular because of the limitation of time, bidding consortia's design teams have only limited opportunities to work closely with the client during the bid stages of the PFI process and to explore different solutions to the clients' service requirements. This happens despite the rhetoric of consultation that appears in bid documentation.

- 3** Clients frequently set unrealistic budgets, based on historic data fixed in the outline business case, which is often over-optimistic. Despite revised guidance, clients can fail to invest properly in feasibility and option studies, while value for money considerations remain desk-top exercises that take little account of site constraints, surveys, planning constraints and other qualitative issues.
- 4** There is little or no incentive for the private sector to innovate or take risks on issues regarding service delivery (the cost of which continues to be carried exclusively by the public sector). As a result, quality of life issues and service efficiency do not form part of the discussion, though this is where public sector outcomes are most likely to be improved. The result is at best 'value for budget' rather than real value for money for the public purse.
- 5** The PFI process fails to take account of how service delivery, and therefore the way in which buildings are used, will change over the course of a PFI contract and beyond. This often results in inflexible and unsustainable buildings that may become redundant long before the contract expires.
- 6** Design is still often under-weighted in the evaluation process which determines what constitutes best value. Only when a market settles in a relatively narrow band in terms of financial and competency issues, can the design emerge as a differentiator. So far, high-quality designs promising better whole life value have only rarely outweighed cost differentials.
- 7** The stop-start nature of the PFI process requires architectural practices to assemble large teams to prepare bids; these teams then need to be re-assembled at each stage during the bidding process and again at the start of the construction phase. This makes it difficult to have continuity of designers throughout the project.
- 8** The complex nature of PFI means that the initial stages of the process are extremely protracted. During these stages all private sector bidders are working at risk, creating barriers to entry to market and reducing the pool of talent from which the public sector could benefit.
- 9** Once contract signature has been reached design teams are under pressure to produce detailed designs for an early start on construction, thereby minimising financing costs for the consortia prior to occupation. Combined with the pressure of 'value engineering' after financial close has been reached, this regularly compromises overall quality.

Improving the quality of PFI procured buildings

A wide range of guidance on delivering design quality is already available from both CABE (*Creating excellent buildings*) and central government through the Office of Government Commerce (*Achieving excellence 9*). In addition the joint CABE/OGC publication *Improving standards of design in the procurement of public buildings* provides a series of recommendations for individual departments on implementing policies for the delivery of design quality.

However, to make the most of the advantages offered by PFI and address the issues outlined above, CABE believes a series of policy interventions are now necessary to ensure that PFI delivers design quality on every single project. In particular:

- 1** The realisation by public sector clients of the importance of investing properly in the preparation stages of a project, before going to the market for construction and associated design services. This as a minimum must involve feasibility studies and options appraisals including studies of alternative locations, urban design, and urban infrastructure implications. Often the production of a design exemplar or reference scheme will more than pay for itself in providing a robust brief and a level playing field for the bidders.
- 2** The production of guidelines and standards that will enable clients to set down criteria within output specifications and contracts to ensure that building design contributes to the efficient operation of public service, as well as facilities management.
- 3** The awarding of PFI credits should be dependent on the client team appointing a client design adviser (CDA) with appropriate experience. CDA's should be an architect or other construction professional who can assist the client with design issues through the early stages of the design and construction process.
- 4** Post-occupancy analysis is a requirement of OGC Gateway 5, but in reality is rarely undertaken. All projects should be subject to mandatory post-occupancy analysis, at regular intervals after handover, and the need for this analysis should be reflected in the project budget. The results should be collected centrally and fed back to future clients to inform the development of their business case, output specification and design brief.
- 5** This knowledge should also be used to develop a more robust value for money assessment and benchmarks that will enable Project and Gateway reviews to evaluate the ability of the

proposed design to meet service delivery requirements. Where necessary projects that do not meet the required quality should be stopped while design issues are addressed.

- 6** More experimentation with rolling, rather than bundled, PFI programmes and strategic partnerships, such as Building Schools for the Future. This would allow a limited number of sample schemes to be designed as part of the bidding process while the majority of schemes would be designed at a slower pace, with a one-to-one relationship between client and design team.
- 7** Well considered innovations in the PFI process to better engage the client and users in the design; to reduce bid costs; and to remove barriers to entry to the PFI market by some of the smaller and medium-sized design firms that are currently excluded.