

# RIBA



Royal Institute  
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## PFI?

A question of quality

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# PFI?

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**“The PFI process is not an excuse or an occasion for second-rate architecture on key town centre sites.”**

CABE Design Review panel

cover:

Tanbridge House School, West Sussex  
Architecture PLB

Photo: Peter Cook/VIEW

# PFI?

**The Private Finance Initiative, launched in 1992 is one, and the most important, type of Public Private Partnership.**

**The purpose of PPPs is to improve the delivery, quality and value of public services through the involvement of the private sector. Such partnerships are at the heart of the Government's strategy for modernisation and will be used to provide buildings and services in the education, health, justice and public housing sectors, amongst others.**

Most PFIs are versions of Design, Build, Finance and Operate (DBFO) arrangements. The public sector seeks to lease facilities, designed and built to a specific brief, from private sector providers. Alternatively the private sector can be contracted to directly provide services, rather than facilities. In either case the public sector no longer directly manages its estate, enabling it to concentrate resources on improving services to the public.

In relinquishing control over its estate, the direct relationships with those who design for it are lost, as well as many intangible benefits that can result from directly commissioning and managing spaces and buildings. These benefits, which may include landscape and urban quality, civic and community pride, local distinctiveness, and appropriateness to site and locality, are difficult to achieve on the basis of contractual specifications alone, however well drafted.

The Government is promoting the need for good design through its Better Public Buildings initiative and recognises the value that well designed facilities can provide. But we have a long way to go to regularly match the best results achieved here, as well as those attained internationally, and particularly in Europe. The public sector needs to use the best means and skills available, to provide the well designed buildings and environments it requires, for the benefit of the country as a whole.

The RIBA supports forms of Public Private Partnerships that encourage different sectors of the economy to work together, jointly managing risk and supporting innovation. Such partnerships are not quick fixes, as they require commitment, energy and far-sightedness by all parties, but they will provide greater rewards and longer lasting achievements.

**Fig 1. Expenditure on PPP projects**

Average value of completed and signed projects to 2003 = £64.4m. In addition Department of Transport has signed 32 PPP contracts of value £19,675.58m (= 56% of the total PPP projects signed)

Source PPP Forum

**Fig 2. Bundle sizes – no. of contracts within PFI Capital school projects 1997–2003**

Including projects completed, signed and in procurement

**Fig 3. Contract sizes –**

**PFI Capital school projects 1997–2003**

Including projects completed, signed and in procurement

Average contract size = £35.4m Source [teachernet.gov.uk](http://teachernet.gov.uk)

# What?

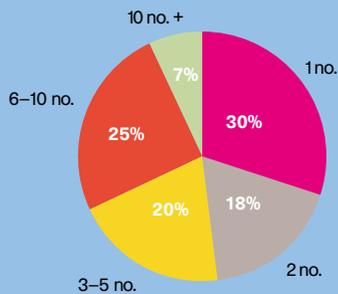
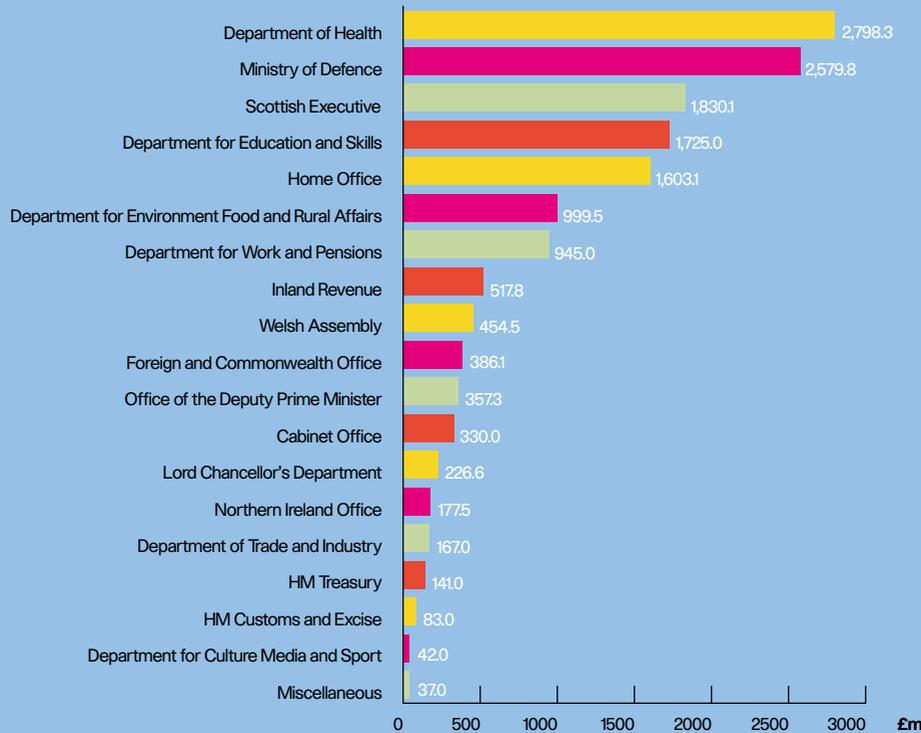
## What must be provided for the public sector, whether by the PFI or by other routes?

- Settings for high quality service provision: environments that help patients recover or children to learn
- Buildings, spaces and environments for public use that are designed and built to the highest quality; embodying the civic values and standards described in the Better Public Buildings initiative
- Buildings and environments that are sustainable and environmentally responsible
- Projects that involve users, stakeholders and local communities in their design and implementation
- Facilities that will be well maintained throughout their life
- Facilities that offer lifetime value for money to the public purse
- Flexible and adaptable facilities that can overcome premature obsolescence
- Buildings and settings that can aid regeneration and engender local ownership and pride
- Innovation and creativity
- Buildings and settings that add to the overall quality of the country's built environment, its cultural richness and diversity.

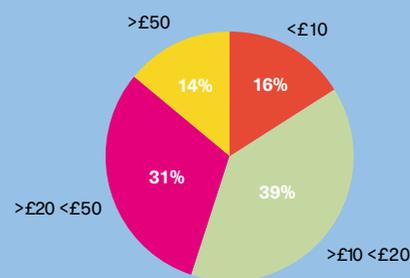
There are many ways that the public sector can achieve these objectives. Public sector clients must have the authority, skill and confidence to select the best procurement route and means of delivery for each service required. Comparison can be made to successful, benchmarked projects, to ensure that the required quality is delivered on all projects, without straight-jacketing decision makers.

The Private Finance Initiative is one way, but it is not always the best way, to procure the right services or facilities.

**Fig1. Expenditure on PPP projects**



**Fig 2. Bundle sizes – projects (PFI schools)**



**Fig 3. Contract sizes – £m (PFI schools)**

# Why?

## Why use the Private Finance Initiative to provide new buildings for the public sector?

Because:

- The Treasury says so – it is one of their three preferred means of procurement (the others being Design & Build and Prime Contracting)
- The PFI may offer Value for Money (VfM). Private sector involvement and the discipline arising from its financial stakeholding can potentially result in more efficient methods and faster delivery
- The PFI offers price and time certainty. Although overall levels may be similar, the price to the public purse and the delivery programme will be known when contracts are signed. Increases in cost and time become the responsibility of the providers
- The PFI can reduce the risks to the public sector resulting from delivery of a project. Risks in projects are, at least in part, transferred to those more able to manage them
- The public sector can choose to contract for only the services it requires. It need not be burdened by infrastructure costs, maintenance and management, which can be provided separately by the private sector
- Requiring service outcomes and not prescriptive facilities should allow the private sector to innovate in the ways it provides for those outcomes
- The PFI provides incentives to look to the long term. Lower maintenance costs become worth the investment if the provider has to both build and maintain the premises for up to 30 years
- The finance available from the private sector may be the only way of filling the shortfall resulting from previous decades of under-investment in infrastructure

## Why use other forms of Public Private Partnership for the delivery of new facilities?

Because in addition to many of the benefits of the PFI:

- Public sector clients can stay part of the team: selecting appropriate design and construction teams; remaining involved in briefing, negotiation and decision making
- Clients, users and other stakeholders in the community can maintain continuous involvement with the project from inception to use, in particular developing a sense of ownership
- The design team can work on behalf of and have access to a much wider client body, allowing them to respond to more far-reaching client needs and to produce better and more appropriate design solutions
- The need for extensive pre-contract negotiations and precise output specifications can be dispensed with, and design and specification issues dealt with instead by agreement at the design development stage
- Wasteful and costly multiple fully-designed bids are unnecessary, allowing a wider range of potential partners to participate in the process
- Shadow consultant teams working for the client, developing comparator schemes and separately monitoring the works are unnecessary
- More flexible solutions can be developed, much later in the process, to ensure needs can continue to be met
- It can potentially offer higher quality and greater Value for Money

**“ ...the purpose of PFI is to bind them [the contractors] in to value for money, so that they – and not the public – bear the costs of flaws, failures, overruns and delays”.**

Rt Hon Gordon Brown MP, Chancellor of the Exchequer,  
30 September 2002

# How?

Public sector procurement has developed complex and costly procedures. These need to be recast to ensure:

- Development of effective output specifications that allow freedom for the creation of better and more effective solutions
- Effective partnerships between clients, users, stakeholders and service providers; sharing in both the risks and the rewards
- Long-term Value for Money being put before short-term cost saving
- Involvement from all those who can offer the best results, both locally and nationally: smaller organisations, voluntary groups and trusts as well as the larger companies and commercial bodies
- Continuity of involvement from the client, design and construction team throughout the design development, construction, occupation, maintenance cycle, possibly including final dismantling
- Further improvements to the management of risk, ensuring it is dealt with appropriately and not simply shifted down the supply chain
- Works are not unreasonably bundled together, effectively excluding small and medium sized companies from direct participation in their provision
- Adequate time, resources and client involvement at the initial stages to allow the early and critical decisions to be intelligently made and thoroughly tested
- Reduction in the waste and redundancy resulting from producing multiple fully-worked up, costed bids and unnecessary legal and management costs

Much of this can be achieved by re-invigorating the role of the well-informed public sector client, working to national guidelines but trusted to take independent decisions to achieve design quality. The supply of appropriate services will only respond to intelligent demand and not to excessive managerial and contractual requirements.

The RIBA is proposing a model procurement process [right] designed to allow for greater client, user and community involvement, continuity for the design and construction team and less waste. Above all it is intended to facilitate higher quality results and better Value for Money.

## Model procurement process

The process uses the Target Cost setting method for allocating funds to projects, (rather than lowest or even best-value bids) and a transparent Quality Based Selection procedure for choosing project teams. The model process is the optimum combination of the tools available to deliver best practice results to both clients and end users

Participants	Steps
Users + stakeholder	→ ↓ Consultation
Client advisors	→ ↓ <b>Feasibility + appraisal</b>
Client + advisors	→ ↓ Preparation of Business Case
Client	→ ↓ <b>Decision on construction project</b>
Client + advisors	→ ↓ Brief + Output specification
Client + advisors	→ ↓ <b>Target Cost set</b>
Integrated supply teams	→ ↓ Expressions of Interest sought
Client + advisors	→ ↓ <b>Quality Based Selection of supply team</b>
Client, designers, constructors + suppliers (Project team)	→ ↓ Partnering agreement
Project team	→ ↓ Consultation
Project team	→ ↓ Development of design proposals
Client + supply team	→ ↓ <b>Agreed scheme design</b>
Local authority	→ ↓ Planning Application
Project team	→ ↓ Whole life based value management
Project team	→ ↓ Agreed final scheme + programme
Client + supply team	→ ↓ <b>Financial close</b>
Project team	→ ↓ Detail design + production specification
Supply team	→ ↓ Construction works
Supply team	→ ↓ <b>Completion + delivery</b>
Users	→ ↓ Occupation + use
Supply team	→ ↓ Maintenance + facilities management
Project team	→ ↑ <b>Post-project evaluation + feedback</b>

# Whom?

**Private finance is available to a wide range of companies and organisations, not only large public limited companies. So who should be providing the new facilities required for the delivery of public sector services?**

- Those who can offer best Value for Money solutions in relation to the requirements of the output specification
- A wide and diverse group of service providers, from multinational companies to local community-based firms or not-for-profit trusts
- Companies that will invest in the long-term success and care of the facilities and take a direct interest in that success
- Providers that can generate innovative and creative solutions that will contribute additional civic and other intangible value to projects and their localities
- Providers who will devise an appropriate solution for the individual requirements of each project and location, integrating it within local masterplans and environments, and achieving an acceptance and 'buy-in' from local communities
- Those who can satisfy pre-qualification requirements that are reasonable and appropriate in relation to the size and risk of each individual project
- Integrated design and construction teams and supply chains able to apply their experience, knowledge and working methods to deliver projects effectively and reliably
- Companies that will contribute to the local economy through use of local supply chains and employees

Though bundling multiple projects together in single contracts may achieve economies through sheer scale, high quantity providers may not always be able to deliver on the other criteria listed above. Projects should be treated individually, whether within a bundle or not, in order to contribute to the spirit of a place and involve community and user-groups. Each project should provide best value.



## Manchester Civil Justice Centre

**Contract:** PPP

**Architect:**

Denton Corker Marshall

**Client:**

Lord Chancellor's Department

**Developer:**

Allied London Property Limited

**Description:**

This is the largest judicial project in the United Kingdom since the development of Royal Courts of Justice in London in the 1870's and the choice of developer and designer was the subject of an open selection process.

Located at the eastern entrance to the city centre, Denton Corker Marshall's competition winning scheme proposes a building articulated in three elements: a twelve storey publicly accessible atrium, a sixteen storey metal clad services and circulation spine, and fifteen storey glazed 'finger' blocks which contain the Court and ancillary office accommodation.

*Image: Denton Corker Marshall*



### Glasgow Schools

**Contract:** PFI  
**Period:** 30 years  
(ICT services 12 years)  
**Dates:**  
Inception: February 1998  
OJEC: 1998  
Contract signed: November 1999  
Commissioning: 2002  
**Value:** Capital £225M  
**Client:** Glasgow City Council  
**Consortia:** 3ED Consortium  
(Miller Group Limited, Amey Ventures Ltd, Halifax Projects Investments Limited)  
**Architect for project illustrated:**  
HLM Design  
**Description:**  
Following a rationalisation of Glasgow's secondary school estate, Project 2002, a £1.2 billion Public Private Partnership provided 12 new build schools and refurbished/extended another 17. HLM Design, one of three architectural practices working on the substantial bundle of projects, was responsible for a range of refurbishment and new-build projects of total value £50M.

The new forms of procurement have tended to be driven by questions of process: how to deliver Value for Money and to generate finance to provide facilities? The Better Public Buildings initiative has separately promoted the need for design quality. These questions need to be linked and joined by the further question of who can and will provide and deliver the greatest improvement to our built environment and architectural heritage.

Those charged with the procurement of the new health centres and schools to be built across the country must ensure that they make bold choices that deliver better outcomes for users, patients and students. They need to have real pride in the outcome. We must not, for example, make do with unimaginative or inappropriate, repetitive bulk-purchased buildings.

As we embark on a major public works programme the opportunity exists to build a new generation of inspiring and effective buildings that truly serve their users and communities. This will involve not only ensuring that designs are of the highest quality but that the procurement process itself is able to produce the best outcomes. The private sector at its best is nimble and effective because it is able to be decisive and take risks but the public sector can, should and must lead the way.

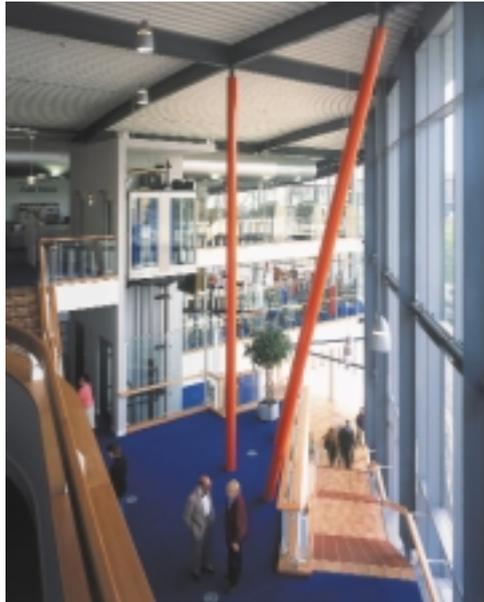
**“The majority of PFI buildings are poorly designed and will fail to meet the changing demands of this and future generations...”**

Sir Stuart Lipton, CABE Chairman, 29 September 2002



### Stretford Fire Station, Greater Manchester

<b>Contract:</b> PFI	<b>Description:</b>
<b>Period:</b> 25 years	A small architects firm (14 staff), Carden Croft, set up an SPV (with 75% ownership of equity) to bid for this single fire station
<b>Dates:</b> Inception: April 1996 OJEC: April 1997	PFI contract, local to them in Manchester, with a view to the long-term investment value.
Contract signed: December 1998 Commissioning: October 1999	The design has an emphasis on durability and low maintenance albeit at higher capital cost.
<b>Value:</b> Capital £3.2m, Whole life £6.7m	
<b>Bid cost to financial close:</b> £250,000	
<b>Client:</b> The Greater Manchester Fire & Civil Defence Authority	
<b>Special Purpose Vehicle:</b> Carden Croft & Co Ltd	



### Bournemouth Library, Dorset

**Contract:** PFI  
**Period:** 30 years  
**Dates:**  
 Inception: 1999  
 OJEC: 1999  
 Contract signed: August 2000  
 Commissioning: June 2002  
**Value:**  
 Capital: £10M  
**Client:**  
 Bournemouth Borough Council  
**Consortia:**  
 Information resources  
 (Bournemouth)  
**Contractor client:**  
 Kier Project Investment  
 (50% equity share)

**Architect:**  
 Building Design Partnership  
**Description:**  
 This first PFI library is one of the Treasury's model 'pathfinder' projects. The mixed-use building includes shopping space at ground floor level with two floors of library above. The projects combines the supply of accommodation with significant IT provision.  
*Photos: Martine Hamilton Knight*

**“Achieving whole life value must mean capturing the benefits of sound and creative design.”**

Rt Hon Paul Boateng MP, Chief Secretary to the Treasury,  
 16 October 2002

### Actions

- Take a personal interest in the successful design and delivery of individual buildings and projects. Demand quality. Demand sustainability
- Champion the use of the innovative models of Public Private Partnership that promote community participation and responsibility for the outcomes required
- Ensure that the procurement route chosen really does offer the best value for money in comparison with other approaches
- Challenge the business case presented for approval to ensure that the cost of services to be procured (including the cost of any long term debt) have been realistically estimated
- Question why a local project has been bundled with others elsewhere
- Make sure that local designers, contractors and suppliers are able to bid for projects
- Ensure your Local Authority has the available skills and resources to be an imaginative and intelligent client and that there is an appointed champion for good design
- Make sure that the Planning Authority encourages high quality and innovative buildings
- Encourage consultation and debate on building proposals
- Promote the development of an architecture centre or a built environment exploratory to serve your area

**“As an addition, not an alternative to public sector capital investment ... PFI is here – and it is here to stay.”**

Rt Hon Alan Milburn MP, Secretary of State for Health,  
 26 November 2002