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PRG Evaluation Framework – Guidance to Reviewers

Purpose

The objective of this evaluation framework is to formalise the methodology used to review business cases for PRG, so that a degree of consistency and rigour is maintained across all its review work. The evaluation framework works off the set of published PRG deliverability criteria along which all business cases are evaluated, and sets out for each criterion:

- ⌘# What needs to be established by the reviewer in relation to the criterion;
- ⌘# What questions are the most common ones to ask for each criterion;
- ⌘# What sort of documentation / response constitutes acceptable evidence of the criterion having been satisfied.

Inevitably, the framework is generic, and primarily oriented towards the evaluation of Outline Business Cases. More detailed, possibly different questions and more intensive scrutiny may be required of business cases that come back to PRG for increased credits – typically such projects are much further advanced in the procurement programme, and so many of the initial deliverability criteria are less relevant.

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General Approach to PRG reviews

PRG reviews seek to establish that the project being reviewed has every chance of proceeding to a successful procurement, and if any potential procurement obstacles/hurdles can be identified at the outset, then a proper plan is put in place to deal with them. The result is a high-level health check, rather than a detailed audit. The key assumptions in the procurement are almost always queried, but the review rarely delves into the details of how the numbers have been derived or how the project has been scoped. The general approach therefore is to presume in favour of the procurement – i.e. if no specific problems can be foreseen, then the run of procurement is likely to be smooth. The important thing is to ensure that all the different elements of the procurement link well together. This is done through the PRG criteria by ensuring that:

- €# The project has been appropriately scoped into a set of desired outputs;
- €# The procuring Authority understands and applies the principles of output-based contracting;
- €# The risk register, payment mechanism and outline contract are consistent with the transfer of the main design, build, finance and operating risks;
- €# There is some assurance of market interest in bidding for the project as it is scoped;
- €# The likely cost of bids coming in will be affordable to the Council;
- €# All stakeholders are fully committed to the project (including the sponsoring Department); and
- €# Appropriate project management arrangements are in place to take the procurement forward.

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| No. | PRG Criteria | What to look for | Common Questions to ask | Documentation | Ensure consistency with |
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| 1 | Affordability | <ul style="list-style-type: none"> # Projected PFI service payments identified # Affordable over the whole life of the contract, taking into account all sources of existing LA resources, projected additional revenue support and additional income from capital receipts or third party income # Affordability analysis, and impact on budgets, accepted by Members, Senior Management and budget holders | <ul style="list-style-type: none"> # Is Unitary Charge properly estimated in terms of: <ul style="list-style-type: none"> 3 · Cost inputs prepared to an outline output specification and signed off by technical advisors 3 · Construction cost inflation between estimate date and start of construction allowed for 3 · Appropriate margin on debt and return on equity allowed for the private sector 3 · Appropriate allowances made for risk in the funding structure – i.e. maintenance and debt service reserves, insurances etc. # Have all funding sources been included in the affordability analysis: <ul style="list-style-type: none"> Ø · PFI credit at relevant Pool rate Ø · Authority budgets Ø · Any anticipated savings Ø · Additional Authority contributions # Is the Project affordable in each year of the contract on a year-by-year basis, taking into account interest at conservative deposit rate on any surpluses in the early years of the contract # Has sensitivity analysis been done on the key model variables (Unitary Charge, Pool Rate, savings estimate etc) to test impact on affordability? # Have Council members signed off on their total contribution to the project? [Important to document] | <ul style="list-style-type: none"> # Shadow bid model constructed by Authority advisors # Affordability analysis evidencing sufficient funding available to cover payments under PFI contract # Minutes of Council Cabinet Committee approving financial support for the project. This should be sought for any additional contribution required from the Council that arises out of the affordability analysis in the PRG review. | <ul style="list-style-type: none"> Output specification Risk transfer Stakeholder commitment |

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| 2 | Output Specification | <ul style="list-style-type: none"> ## Requirement specified in terms of service outputs required, rather than particular assets or solutions ## Range of on-going services included in the requirement defined broadly, to offer scope for efficiencies and innovation ## Specification pitched at a level appropriate for Authority requirement (not gold-plated or aspirational) | <ul style="list-style-type: none"> ## Does the Outline Output Specification appear reasonable in terms of scope of services? ## Is there an outline Payments Mechanism that links the Unitary Charge with availability and performance standards? ## Are most of the outputs capable of being specified in a reasonably measurable manner? ## Is the output specification reasonable in relation to standards expected from the Authority in terms of its Best Value duty? ## Does the Output specification allow sufficient scope for good design, taking into account core services being delivered beyond the scope of the PFI contract i.e teaching or healthcare services? | <ul style="list-style-type: none"> ## Outline Output Specification ## Outline Payments Mechanism ## Understanding of availability and performance concepts ## Design statement | <ul style="list-style-type: none"> Affordability Risk Allocation Key Terms and Conditions Bankability Design Quality |
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| 3 | Design Quality | <p>€# Project to demonstrate how they intend to meet key objectives of the Egan Report (for example safety, minimising waste, supply chain management, etc)</p> <p>€# Authorities are expected to take account of the guidance on design quality included in the DCMS publication <i>Better Public Buildings</i>, the OGC/CABE guidance and the 4ps <i>'Achieving Quality in Local Authority PFI Building Projects</i>.</p> | <p>€# Is the project team committed to good design principles and is there a plan to make sure these will be delivered through the project?</p> <p>€# Have the issues raised in and the 4ps' <i>Achieving Quality in Local Authority PFI Building Projects</i> been addressed?</p> <p>€# Are they accessible to the involvement of CABE (Commission for Architecture and the Built Environment)</p> | <p>€# Awareness of good design principles</p> <p>€# Commitment to following guidance and statement setting out how the checklist in the 4ps' <i>Achieving Quality in Local Authority PFI Building Projects</i> has been addressed.</p> | Output Specification |
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| 4 | Risk Allocation | <p>⊘# A risk register has been prepared, identifying all the foreseeable risks associated with the scheme, and making a preliminary risk allocation</p> <p>⊘# The preliminary allocation, as a minimum, transfers the principal risks associated with design, build finance and operation of the facilities, and considers the allocation of risks associated with levels of usage, residual values, technology and obsolescence and changes in legislation or regulation</p> | <p>⊘# Has an initial risk register allocating the main project risks between the Authority and the Contractor been prepared?</p> <p>⊘# Is the risk allocation consistent with the output specification?</p> <p>⊘# Are there any unusual risk allocation issues? Have these been tested in the market?</p> <p>⊘# Does the risk allocation comply with the principles in OGC Guidance?</p> <p>⊘# Is an Initial View on Accounting Treatment in place? Does it indicate balance of risks lies with private sector?</p> <p>⊘# Is the treatment likely to be off-balance sheet?</p> <p>⊘# Has District Auditor issued a no-objections view on it?</p> | <p>⊘# Draft Risk Register</p> <p>⊘# Initial View on Accounting Treatment</p> <p>⊘# District Auditor's view on Initial View [highly desirable, but not mandatory].</p> | <p>Affordability Output Specification Key Terms and Conditions Bankability</p> |
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| 5 | Bankability | <ul style="list-style-type: none"> €# Evidence of commercial interest €# Certainty of income stream to meet contract payments €# Willingness to consider all opportunities for generation of other revenues, either from sales of assets or third party use of assets and services | <ul style="list-style-type: none"> €# Have the authority/advisers undertaken market testing? €# Has the private sector shown any interest in the project? Have both contractors and banks been targeted? €# Is the project in a mature PFI sector where previous deals have been completed? €# Is it clear that there is funding available for the project on the public sector side (links in with affordability and sponsors' support)? €# Has the Soft Market Testing (SMT) process followed best practice? [Reviewers could refer to the 4Ps guidance to LAs on SMT – see http://www.4ps.co.uk/news/StokeBentileevfinal.pdf] | <ul style="list-style-type: none"> €# Soft Market Testing report with clear expression on interest from potential bidders €# Availability of precedents €# Minutes of Council meeting evidencing financial contribution to the project. | <p>Affordability Output Specification Key Terms and Conditions Bankability</p> |
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| 6 | Key Terms & Conditions | <ul style="list-style-type: none"> €# Following a template for commercial and legal terms €# Heads of terms or outline contract prepared €# Proposed payment mechanism that reflects risk allocation | <ul style="list-style-type: none"> €# Is there a commitment to use standard terms and conditions? €# Have the authority/advisers produced a draft project agreement – does this comply with standard terms and conditions? €# If applying for increased PFI credits, does the agreed Project Agreement follow standard terms and conditions? €# Are any terms and conditions proposed likely to prove unbankable? | <ul style="list-style-type: none"> €# Commitment from authority and advisers to follow guidance €# Legal advisors report on any deviations from Guidance, and justifications for this. €# For resubmissions, evidence that Departments (and PRG) consulted on any deviations from <i>Standardisation of PFI Contracts</i>. | <p>Affordability Output Specification Risk Allocation Bankability</p> |
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| 7 | <p>Use of Appropriate Comparators</p> | <p>≠# Need for a full Public Sector Comparator, to achieve same outputs as PFI specification, assessed</p> <p>≠# If PSC to be prepared, 3 · base case and level of direct costs identified</p> <p>3 · approach to valuing risks to be transferred identified</p> <p>If PSC not required:</p> <p>Ø · an approach to demonstrating VFM has been identified, including competition and other comparators (such as previous similar deals)</p> <p>Ø · the whole life costs of not carrying out the scheme have been identified</p> | <p>≠# Has a risk-adjusted PSC been prepared in line with Green Book guidance? Has a corresponding shadow PFI solution been prepared?</p> <p>≠# Does the comparison of the PSC with the PFI shadow bid demonstrate value for money?</p> <p>≠# Does PSC address the same output standards as the shadow PFI solution?</p> <p>≠# Have any assumptions been used in favour of the PFI Option (such as cost efficiencies)? Are these fully justified?</p> <p>≠# Has sensitivity analysis been done on key factors (such as construction costs, costs of private finance) to test impact on value for money?</p> | <p>≠# PSC Model (from advisors)</p> <p>≠# Shadow PFI Bid Model (from advisors)</p> | <p>Affordability Output Specification Risk Allocation Key Terms and Conditions</p> |
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| 8 | Suitability of Advisors | <ul style="list-style-type: none"> ⊘# Arrangements for obtaining legal, financial and technical advisers, with appropriate experience, and demonstrating VFM from advisers ⊘# Willingness of advisers to share lessons and approaches, without undue confidentiality and copyright constraints ⊘# Arrangements for periodic review of performance of advisers | <ul style="list-style-type: none"> ⊘# Have external advisers been appointed? If not is there a timetable to make these appointments (also if not who assisted with/wrote the business case)? ⊘# Are the authority appointing the right advisers to ensure that the project team is suitably skilled (legal, financial, technical, any other)? ⊘# Are the advisers suitably skilled/qualified? ⊘# Are nominated advisers committed to the project and their time commitment recorded? ⊘# Does the Project Team appear able to manage the advisers properly? ⊘# Has the authority set a realistic budget for advisory fees to cover the whole procurement period? ⊘# Has the authority established a mechanism to review the quality of the advisers work? ⊘# Are there mechanisms in place to secure knowledge transfer from the advisers to the authority? | <p>Scope of services for advisors Council Committee minutes allocating procurement support to Project Team? Letters of engagement of advisers recording identities of advisers and their time commitment.</p> | <p>Key Terms and Conditions Indicative Timetable Commitment of Stakeholders</p> |
| 9 | Project Team | <ul style="list-style-type: none"> ⊘# Project management experience ⊘# Appropriate range of skills and experience, whether from advisers or in house, for the deal envisaged ⊘# Accessible to involvement of 4Ps/PFU/PUK | <ul style="list-style-type: none"> ⊘# Is there a full time project manager with suitable PFI experience? ⊘# Are there sufficient internal resources (taking into account external advisers) to manage the procurement effectively? ⊘# Has the authority set a realistic budget for the costs of the internal project team? | <ul style="list-style-type: none"> ⊘# Project execution plan | <p>Indicative timetable Stakeholder commitment Suitability of advisors</p> |

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| 10 | Indicative Timetable | <ul style="list-style-type: none"> ≠# Timetable prepared ≠# Stages of procurement process kept to a minimum consistent with achieving VFM ≠# Total elapsed time from OJEC to completion realistic | <ul style="list-style-type: none"> ≠# Is there a project plan which includes a project timetable? ≠# Is the timetable realistic – especially how long does it allow between OJEC and financial close? ≠# Is the timetable compatible with maximising competition (i.e. number of stages)? | ≠# Project Timetable | Suitability of advisors Project Team Bankability Commitment of Stakeholders Statutory Processes |
| 11 | Commitment of Sponsors & Users | <ul style="list-style-type: none"> ≠# Demonstrable support from all key sponsors (such as Councillors and Senior Officers) and, where appropriate, users such as School Governors. Consultation with all other stakeholders ≠# Statutory processes addressed (such as planning permission, public enquiry etc as appropriate) | <ul style="list-style-type: none"> ≠# Is there demonstrable commitment from the project sponsors? Key factors are: <ul style="list-style-type: none"> 3 · OBC approved by the sponsoring department. 3 · Authority has approved any one off and on-going annual funding (council minute to this affect). 3 · Any other stakeholders have confirmed their contributions (e.g. school governing bodies in school projects) ≠# Have the users shown a commitment to the project? The authority should demonstrate that users, at the very least, have been consulted about the project. In some cases, such as with schools, user support is crucial to the success of a project. ≠# Is there a well-documented communications plan which addresses the needs of all stakeholders? | <ul style="list-style-type: none"> ≠# Council Committee meeting minutes confirming support for the project ≠# Report on consultation with users ≠# Stakeholder assessment and communications plan. | Affordability Project Team Indicative timetable Suitability of advisors Statutory processes |

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| 12 | Statutory Processes | <ul style="list-style-type: none"> €# Statutory processes identified and plan in place to manage €# Built into project timetable | <ul style="list-style-type: none"> €# Is Outline Planning Permission required? €# Is there a plan to have this in place before ITN? €# Are there any planning constraints on design of project? €# Are any other statutory processes to be followed built into the timetable (e.g. public enquiries, CPOs) | <ul style="list-style-type: none"> €# Stakeholder assessment plan | Indicative timetable Risk Allocation (in respect of planning consents) |
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