

Ministry of Defence
The Joint Services Command and Staff College

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 537 Session 2001-2002: 7 February 2002



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This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

John Bourn National Audit Office
Comptroller and Auditor General 21 January 2002

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1 The College's facilities at Shrivenham

The facilities provided by Defence Management (Watchfield) Limited include:

- 100 acre site, containing 45,000 square metres of College facilities which include seven lecture theatres (ranging from 70 to 450 seats), 67 syndicate rooms, and a library
- Support facilities include 170 offices, two conference rooms, and 600 car park spaces
- Mess facilities include one main dining room, three anterooms, two bars, and three small function rooms
- Single residential accommodation for 483 students and staff
- 290 married quarters
- Sports pitches, including two cricket grounds, a floodlit, all weather hockey pitch, six tennis courts, one rugby and one football pitch
- Leisure facilities, including six squash courts and a fitness centre

Defence Management provides a range of support services at the facilities:

- Civilian academic staff
- Electronic media, technology and communication systems services, and IT
- Administration
- Cleaning and waste disposal
- Security
- Library
- Catering
- Estates management (maintenance, repairs and utilities)
- Facilities management



executive summary

- 1 The Joint Services Command and Staff College (the College) was established in January 1997 and initially operated in temporary facilities at Bracknell. In August 2000 the College opened in new purpose-built facilities at Shrivenham (**Figure 1 opposite**). The College trains 2,000 people a year with a staff of 160. Its forecast expenditure in 2001-02 is £35 million¹. From April 2002 the College is to become part of the Defence Academy of the United Kingdom, along with the Royal Military College of Science at Shrivenham and the Royal College of Defence Studies in London.
- 2 The Ministry of Defence (the Department) identified the need for a joint command and staff college in its 1994 Defence Cost Studies. Command and staff training had to keep pace with the fact that there were more joint operations and with initiatives such as the formation of the Permanent Joint Headquarters and the Joint Rapid Reaction Force. During the Defence Costs Studies the Department also considered that a joint college would generate savings from rationalisation of the existing Service colleges - the Royal Navy at Greenwich, the Army at Camberley and the Royal Air Force at Bracknell. Following more detailed work the Department concluded that a joint college would be broadly cost-neutral.



- 3 The Department originally intended to pursue a conventionally funded public sector solution to provide a new college but this proved costly and it was questionable whether the large initial capital outlay involved was affordable. The Department therefore explored a Private Finance Initiative (PFI) project for the construction of a new college, associated married quarters and single accommodation, and the provision of facilities management services and academic teaching - the Department continues to provide directing staff and military lecturers. In June 1998 the Department awarded a 30-year contract to Defence Management (Watchfield) Limited (Defence Management), a special purpose company wholly owned by Laing Investments and Serco Investments. **Figure 2** provides a brief chronology of the steps leading to the establishment of the new College at Shrivenham.
- 4 This report examines whether the Department managed the establishment of the College effectively - whether the College has succeeded in delivering joint training and whether the use of the PFI has been value for money. The methodology we adopted is set out in Appendix 1.

¹ This excludes VAT and is net of forecast receipts of £3 million.

2 Chronology of events

Date	Event
July 1994	Decision to form the Joint Services Command and Staff College
September 1995	Decision to explore the use of the PFI to provide the College's permanent facilities
August 1996	Invitation of preliminary PFI proposals
January 1997	Establishment of the College
February 1997	Selection of Defence Management as preferred PFI bidder
September 1997	Start of the first joint Advanced course in temporary facilities at Bracknell
June 1998	Signature of PFI contract
August 2000	Completion of the new facilities at Shrivenham and admission of the first students
September 2000	College fully established at Shrivenham; interim facilities close

The Department did well to establish the College but there is scope to improve further the management and evaluation of training (Part 1)

- 5 In response to the need for joint command and staff training, the Department set itself realistic objectives. The three Service colleges had aligned their training to the specific needs and traditions of their parent Service and, despite a commitment to joint training, there was considerable scope for disagreement about the design of joint courses. In response to this the College adopted an incremental approach to delivering joint training and concentrated on the design and delivery of the main joint course - the Advanced course.
- 6 The Advanced course was designed to prepare students for the next ten years of their careers, during which time they would go on to occupy senior and higher command and staff posts within the three Services, Joint Commands and the Department. In September 1997 the Department launched its first Advanced course which reflected the required level of 'jointery'. Launching this course on time was a considerable achievement. Following the March 2001 Defence Training Review, the College is planning to extend joint training.
- 7 Since its opening the College has generally delivered the planned level of training. It has consistently operated within budget and met its targets for annual efficiency savings. For example the College has reduced the number of military staff it uses to deliver the main Advanced course from 62 in designing and delivering the first course in 1997 to 52 in 2001. The College has identified the total costs to the Department of each individual course, including its payments to Defence Management. The structure of the charging regime under the PFI contract does not enable the College to identify readily the actual costs incurred by Defence Management for each course. The College has sought this information from Defence Management to assist in its planning of future courses.





- 8 The College employs 115 military teaching staff but has limited say over who these staff are or over the length of their postings, as these are the responsibility of the individual Services. Staff turnover has been high and in June 2001 65 per cent of the military teaching staff on the Advanced course had been in post for less than 15 months. The College considers that 15 months is the minimum length of posting necessary for it to see a benefit from its investment in training such staff. It also recognises that a balance has to be struck as higher quality staff will move on more quickly but will also bring a better understanding of current views and practices within the Department.
- 9 The College has some say on the quality of the students attending its courses and on the students' subsequent postings at the end of their course but both these aspects are the prime responsibility of the single Services. The College seeks to evaluate the effectiveness of its training, especially its Advanced course. It surveys students during and at the end of the course, as well as its graduates and their line managers (both military officers and civil servants) some time after a course's end, and it assesses a student's performance during the course. Feedback is obtained from the College's other stakeholders through its governance structure, and from various external training accreditation bodies. The College is also taking the lead in the international benchmarking of command and staff training.
- 10 The College's evaluation of its training compares well with good practice at civilian colleges and training provided by the private sector, and feedback has been largely positive. The College is planning to extend its evaluation of the Advanced course to ensure that it can identify some of the long-term benefits of its training. It intends to monitor the performance of a sample of Advanced course graduates over ten years, as well as the performance of graduates in certain key posts. We welcome the College's plans and we have identified a number of other ways in which this evaluation could be improved still further. For example, greater use could be made of the performance information generated by the single Services' personnel systems to identify trends in more objective measures of training effectiveness, such as the length of service of graduates and the speed of their promotion. There is also scope to collect more qualitative data on students' perceptions and motivation.

The 1998 PFI contract for the College's permanent home was good value for money and provides useful lessons (Part 2)

- 11 The Department originally planned to procure the new permanent facilities for the College using public sector capital. However, the Government's policy of considering PFI as a procurement option for all projects and increases in the estimated cost of the public sector capital option led the Department to explore the PFI option. Having selected Defence Management as its preferred bidder, it took 16 months to agree a contract. Such lengthy negotiations with the preferred bidder were, however, a common problem on other PFI projects at that time. The Treasury has subsequently issued guidance which, if followed, should reduce the time taken on the negotiations of future deals.
- 12 During the negotiations there was a 4 per cent increase in the cost of Defence Management's bid and a number of changes in the proposed allocation of risk. In our view, the final allocation of risk agreed is broadly in line with other PFI contracts signed at that time. Before signing the contract, the Department confirmed that the PFI offered better value for money than the public sector capital option as, at £200 million, it was estimated to be cheaper by £23 million (over 10 per cent) and more affordable, and brought a number of non-financial benefits, including the establishment of the College in one building. We found no significant errors in the Department's calculations.

- 13 The Department changed the target date for the project from September 1997 to September 1999. Delays in negotiating the PFI contract then pushed this date back by a year to September 2000. In the meantime the Department established the College in interim facilities at Bracknell at a set-up cost of £10 million. The Department's 1998 value for money assessment correctly did not take account of these factors which had already occurred as it was concerned with the future cost implications. Our own analysis of the signed PFI deal against a hypothetical public sector capital option meeting the original target date of September 1997 confirmed that, even taking account of these factors, the use of the PFI was still likely to be cheaper. There were also affordability and non-financial benefits arising under the PFI option.
- 14 The PFI contract has delivered a number of benefits. Defence Management completed the construction of the new permanent facilities by the due date of early August 2000. This allowed the College to admit its first students at Shrivenham within days and to begin the Advanced course in early September. Such a rapid opening was a significant achievement. In addition, construction risk has remained with the private sector. For example, substantial extra costs arising from unforeseen ground conditions at the site have not been passed to the Department. Also, to date (November 2001) Defence Management's performance in delivering the support services and making the new facilities available has been assessed by the College as generally satisfactory.
- 15 This contract, and the College's experiences since contract signature, have highlighted a number of useful lessons:
- The Department has built flexibility into the contract. For example, the Department and Defence Management agreed to share demand risk on student numbers later in the contract. In addition, at the end of the contract the College facilities will revert to the Department at no cost or the Department can exercise its option to leave these with Defence Management and walk away.
 - The performance regime emphasises the use of warning notices, rather than financial deductions, to secure the rectification of poor service delivery by Defence Management. This regime has provided a strong incentive for services to be delivered to the specified standards and the issue of one such notice did result in an improvement in catering performance. On other PFI contracts we have examined, the first recourse open to a department is to make a financial deduction. On this contract financial deductions can arise if poor service delivery is not addressed. These deductions are limited to a maximum of 10 per cent of the service delivery elements of the PFI fee, although the Department can also suspend all payments if service delivery is so poor that Defence Management is in default of the contract.
 - The Department managed the contract well during the construction stage, providing clear direction and leadership. There are also adequate provisions to enable the Department to manage the contract properly during the service delivery stage. The College has, however, identified that it needs to increase its resources for managing the contract.
 - The Department is seeking to incentivise Defence Management to help the College to control the cost of utilities and other items, which Defence Management purchases on the College's behalf and then recharges the College.
 - In moving from construction to service delivery a department needs to show leadership, and continuity within its project team, where possible, should also help. The contractor needs to ensure that the interfaces within its own organisation and with its sub-contractors are well managed to ensure that the department receives the service required.

Recommendations

From April 2002, the College is to become part of the Defence Academy of the United Kingdom. The Academy will therefore need to take note of our recommendations for the College and apply these more widely across the other organisations for which it will take responsibility.

- 1 The College should build on its current plans for improving how it measures its performance and develop a more comprehensive performance regime which covers both its inputs and its training outputs and outcomes.
 - a) On inputs, the College should calculate financial performance indicators for each course and compare performance year on year. It should also explore the scope for using these indicators in its development of international benchmarking.
 - b) On training outputs and outcomes, the College should develop its existing plans for the long term tracking of its graduates' performance to include:
 - Collecting more qualitative data on students' perceptions and motivation, using methods such as focus groups in addition to questionnaires;
 - Gathering feedback from a wider range of key stakeholders; and
 - Making greater use of the performance information generated by the single Services' personnel systems to identify more objective measures of training effectiveness.

These improvements to its evaluation of training should ensure that the College is better able to assess its own performance and the impact of its training on individual and Service performance. This will require action from the College's customers to support implementation. Other public sector training organisations should take note of the College's evaluation practices and our suggested improvements to these.

- 2 The Department should ensure that military teaching staff are posted to the College for a sufficient period for them to become fully effective.
- 3 The College should continue its efforts to resolve outstanding contract management issues, building on the partnering approach underpinning its performance regime to achieve mutually beneficial outcomes.
- 4 There are wider lessons for other departments on the management of the PFI:
 - a) The Department has built flexibility into the contract. For example it can vary its use of the college in future years.
 - b) Poor contractor performance has been rectified without recourse to financial penalties to the advantage of the relationship between the Department and the contractor.
 - c) The College has identified that it needs to increase its resources for managing the contract.
 - d) The College is seeking greater control of utilities and other items purchased on its behalf by the contractor.
 - e) Departments need to show leadership and, where possible, maintain continuity within the project team.

Part 1

The Department did well to establish the College but there is scope to improve further the management and evaluation of training

- 1.1 This Part examines whether the College has succeeded in delivering joint training as planned, the resources used, and how it evaluates the effectiveness of its training.

The Department met its objectives for the College and the joint Advanced course and is planning to extend joint training

The Department identified a need for more joint command and staff training

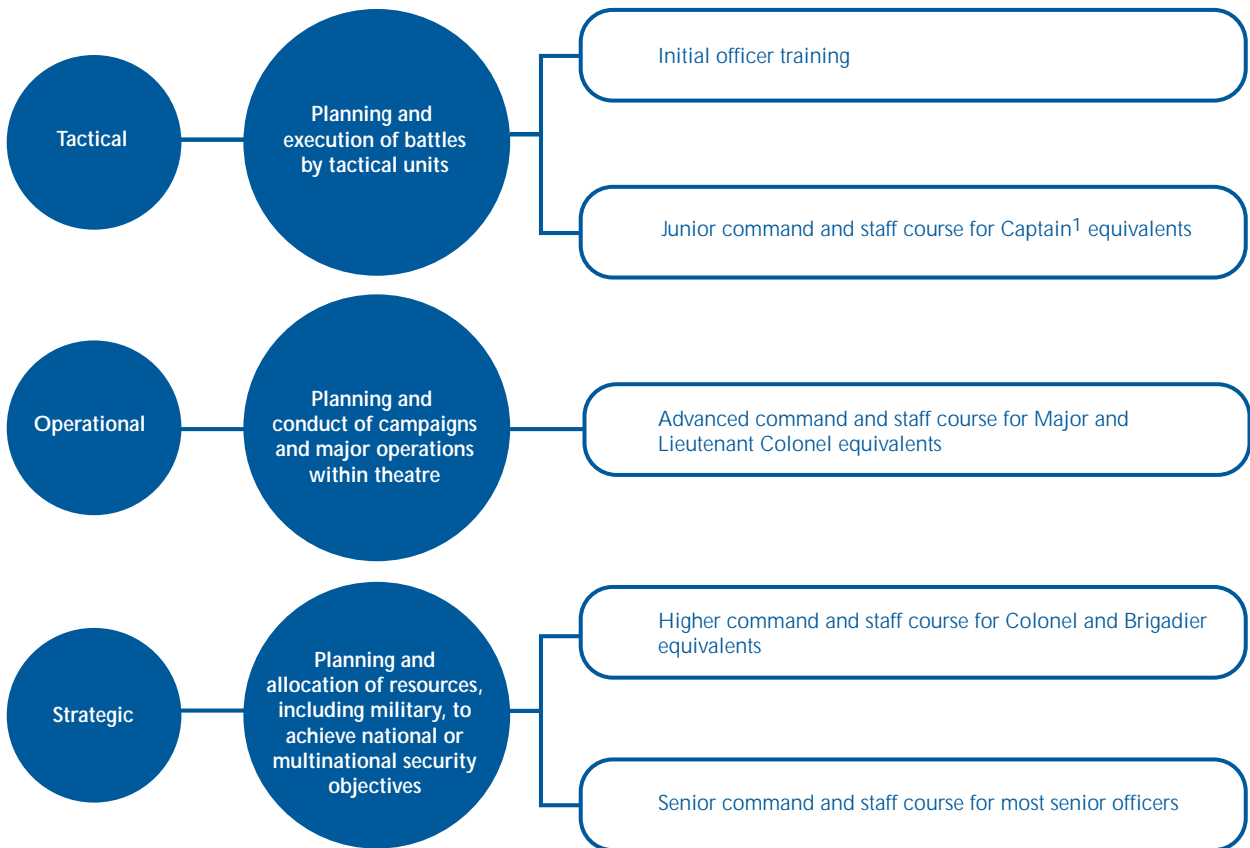
- 1.2 The Department has in place a clearly defined structure for the training of its officers during their careers (Figure 3). Originally command and staff training at junior, advanced and higher levels was conducted on separate sites for each of the three Armed Services and at the Joint Services Defence College, and was delivered on a mainly single Service, rather than a joint, basis (Figure 4).
- 1.3 The Department identified the need for a joint command and staff college in its July 1994 Defence Cost Studies 'Front Line First'. The principal reason was operational, to reflect the increasing emphasis placed on joint working between the armed forces in the period after the Cold War. In future United Kingdom operations would be joint, combining components from all three Services with headquarters staffed jointly.
- 1.4 In January 1997 the Department amalgamated the separate colleges into a new, single Joint Services Command and Staff College, to deliver training "with a more joined-up flavour". While the new College accepts United Kingdom civil servants and overseas military officers as students, it mainly delivers training to United Kingdom military officers. Its stated mission is to provide command and staff training at junior, advanced and higher levels for all three Services to a world class standard. These courses cover the majority of an officer's career progression.

The Department concentrated on the joint Advanced course

- 1.5 The Department set realistic objectives for the level of jointery for the courses at the new college. In practice the training previously provided for each of the three separate Services had been very different from each other. While the Services each saw the need for joint training and were committed to it, the courses at their own colleges had been tailored to meet their own approaches, needs and traditions. Against this background the design of joint training was a considerable challenge.
- 1.6 Given the need to take all three Services along with it, the Department adopted an incremental approach to delivering joint training. It considered that there would be significant benefits from concentrating on the mid-career 12-month Advanced course, the College's "intellectual engine room". This course would form the bulk of the College's training and was designed to prepare students for the next ten years of their careers. The students would go on to occupy senior and higher command and staff posts within the three Services, the Department, and Joint Commands.
- 1.7 For the Junior courses, the Department considered that a joint academic content was not appropriate as the purpose of these courses was to equip junior officers to fulfil single Service roles. The Department also considered it important to maintain a single Service ethos among officers at these junior levels.
- 1.8 The Higher command and staff course was essentially an Army course that had been partly opened up to officers of the other Services before the joint college concept was planned. The course was therefore brought under the auspices of the College and the population made increasingly joint.

3 Officer training

There is a hierarchy of training for officers as their career progresses.



NOTE

1. Ranks given are those for the Army.

Source: National Audit Office

1.9 The College began operating in January 1997 with the first Advanced course starting in September 1997 as planned. The training courses offered by the College on its opening reflected the level of jointery that was considered appropriate (Figure 4). The establishment of the College and delivery of the first Advanced course by the planned dates was a significant achievement given the scope for disagreement about the design of the course. Strong leadership and effective management were crucial to this.

The Department is planning to extend joint training

1.10 In March 2001 the Defence Training Review recommended an increase in the level of joint training. The College is currently working on the implementation of the Review's recommendations for the Junior and Advanced courses. Further change beyond that recommended by the Review is planned for the

Advanced course as the Department has agreed that there is no continuing need for a stand-alone single Service phase within the Advanced course (Figure 4).

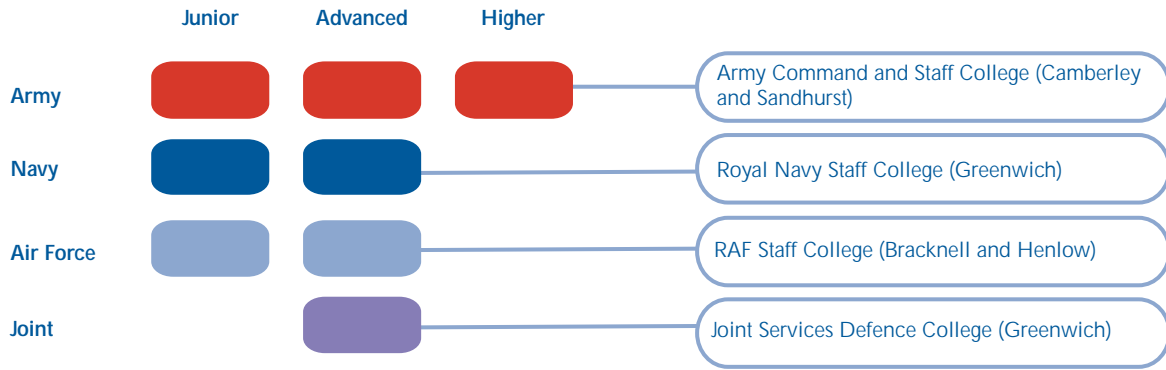
1.11 The Review also recognised that officers needed to be encouraged at an early stage in their careers to adopt an open-minded approach to their own and the other Services and to the need for jointery. The Review proposed the introduction of short common modules on defence and joint / multi-national awareness from late 2002 as part of Initial Officer Training. The College is to take the lead in this area, although the courses will continue to be single Service.

1.12 In addition, the Review recognised the increasingly important role that Warrant Officers play in delivering operational capability. It considered that the lack of any joint training for these officers was a weakness in the current operational environment. It therefore recommended the establishment of a new Joint Services Warrant Officers School from the end of 2003 to

4 Command and staff training

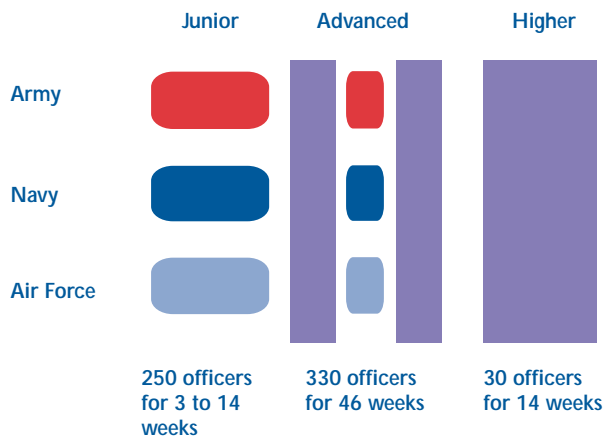
Prior to the College

Each service conducted its own command and staff training at its own college. The Army's Higher course was partly open to officers of the other Services and there was a small joint course at the Joint Services Defence College.



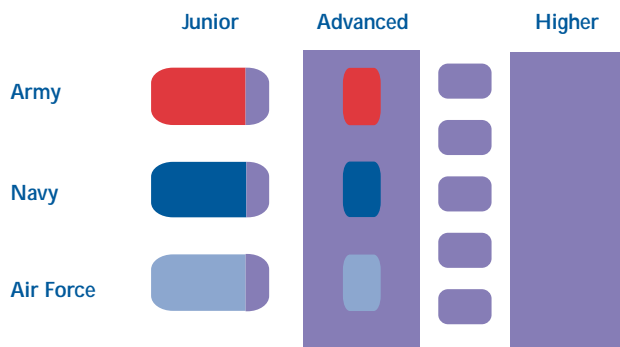
At the College

The College provides an increased level of joint training. Certain training, for example one of the Advanced course's three phases, is still delivered on a single Service basis, although on the College's single site.



Future structure

The College is to devise common modules for those topics which are common to the separate Junior courses. On the Advanced course certain single Service elements will be moved to the Junior Courses and there will no longer be a separate single Service phase, although there will continue to be some separate single Service elements. There will also be new specialist modules on topics such as business management and acquisition.



Source: The College

provide Warrant Officers with up to two weeks joint training, to complement existing single Service training. This School is to be part of the College.

The College has delivered its planned training with fewer teaching staff and has remained within its budget

The College has generally delivered the planned level of training

1.13 Since its opening the College has delivered its programme of courses and delivered training to 2,000 students a year. Student throughput has matched planned levels for the Advanced and Higher courses. In contrast, throughput on the Junior courses has varied. On certain of the Junior courses there had been a shortfall in the number of students because of the Services' operational priorities. On others demand for places has outstripped availability. For example, the Royal Air Force wishes to increase its numbers. The College is looking at how it can boost student throughput on the Junior courses.

1.14 The management and delivery of the courses is carried out mainly by 115 military teaching staff, out of the College's total establishment of 160 staff, who are posted to the College for a tour of duty. The military teaching staff are complemented by 40 civilian academics, supplied by Kings College, London as part of the PFI contract. The level of military and academic teaching varies from course to course.

The College's costs have been adequately controlled but there is a need for more detailed cost information

1.15 As regards financial objectives the College has delivered its planned programme of training within its budget and has met its targets for delivering annual efficiency savings. Its forecast expenditure for 2001-02 is £35 million². The College is concerned that it will be increasingly difficult for it to meet planned budget and efficiency savings targets in the future. Over 90 per cent of its costs relate to its staff and to payments to the PFI contractor, Defence Management. It considers that there is little scope for reductions in these since, for example, the fees payable to Defence Management will be increased annually in line with formulae set down in the PFI contract to cover movements in prices and earnings.

1.16 The cost to the Department of each course comprises the payments incurred under the PFI contract and the College's own costs, for example the cost of the military teaching staff, which it fully analyses. The College therefore knows the total costs of each course. In the case of the PFI payments, the cost to the Department of each individual course does not reflect the actual resources consumed by Defence Management in providing support to that course. This is because Defence Management charges the same flat-rate fee for each student day regardless of the course in question. In contrast, its actual costs on each course can vary, in the case of academic support significantly since the level of this support is higher on some courses than on others. The College has sought information from Defence Management on its actual costs for each course. Although such information would not alter what the Department actually pays, it would assist management decision-making. For example, the College intends to identify financial performance indicators, such as the cost per student, for each course and thus be better able to identify the cost of the changes arising from the Defence Training Review (paragraph 1.10). This information will also enable the College's customers to take more informed decisions when setting objectives for courses and when assessing an acceptable balance between military and academic content.

The College has reduced the number of military teaching staff but turnover has been significant

1.17 The College used 62 military staff to deliver its first Advanced course and reduced this to 57 for subsequent courses at Bracknell. In its original plans the Department had assumed that the College would need 50 military staff to deliver the Advanced course in the new permanent collocated facilities. In light of the College's experience of delivering the Advanced course, however, the Department agreed in 2000 that the figure be increased by two posts to 52, provided that the extra costs were met from the College's existing budgets.

1.18 The College has some say over the United Kingdom military staff who are posted to it to deliver the training, although the primary responsibility for this rests with the individual Services. In addition, certain of its teaching staff are overseas officers posted to the College under reciprocal arrangements with overseas armed services. To assist new staff the College runs an induction course and appoints a mentor for each of its military teaching staff during their time there. The College takes assurance that most of the staff are of the required quality from the fact that over 75 per cent of them were subsequently posted to high grade or command appointments. We note, however, that the best practitioners of a subject do not necessarily make its best teachers and that even those who naturally are good teachers need time and experience to develop to an acceptable standard.

1.19 The College has no control over the length of time that the military teaching staff are posted to it as, again, responsibility for this rests with the individual Services. According to the College, such staff appointed to the Advanced course rapidly become effective as syndicate leaders because of the induction programme and the high quality of the personnel involved. However, in terms of their contribution to the development and management of teaching, they only become fully effective after 15 months when they have had experience of delivering a whole course. In June 2001 65 per cent of the military teaching staff at the College had been in post for less than 15 months. The College recognises that a balance has to be struck as higher quality staff will move on more quickly but will also bring a better understanding of current views and practices within the Department. It also recognises that the Services not only have to take account of the College's needs but also the broader requirements of an officer's career and their own operational priorities when deciding on the length of a posting.

1.20 At times there can be a gap between staff leaving the College and their replacements taking up post. The College estimates that between August 1999 to June 2001 it lost 7 per cent of available teaching capacity because of unfilled military teaching posts. While no actual teaching days were lost as a result of this, such understaffing did increase the workload of College staff in post.

The College has some say on the quality of students attending and on their subsequent posting

The College has some say on the quality of students put forward by the Services

1.21 The College has no executive control over the quality of United Kingdom military officers sent to attend its courses. The single Services decide which of their officers attend, although the College does advise the Services on the selection of suitable candidates. The Services' policies on attendance vary. It is a prerequisite for the Army and Royal Air Force officers attending the Advanced course that they have previously attended the relevant Junior courses. This is not the case for the Royal Navy. The College told us, however, that the nature of senior military officer career management dictates that the highest quality students attend the Advanced course. In addition, most Junior course training is mandatory. The high graduation standards of the students who have attended also give some assurance that the students generally have been of the right quality.

1.22 In July 2001 the three Services agreed to the College's proposal for the articulation of a common entry standard for students on the Advanced course. The Services, however, still reserved the right to send to the College whichever officers they wanted.

1.23 The College does not control the allocation of places on the Advanced course between the Services. The division of the total number of places available for United Kingdom military students between the Services was agreed by the Chiefs of Staff when the course was first being set up and was based on the capacity of the previous, single Service colleges. The Defence Training Review has recommended that the Department reviews the distribution of places between the Services to ensure that it remains valid in line with the changes arising out of the Strategic Defence Review and the evolving career structures within the single Services. For example, a recent review by the Army of its officers' training requirements has resulted in it needing 18 (17 per cent) fewer places on this course.

The College has a limited say on its students' subsequent postings

1.24 The College has a limited say in where its students are posted at the end of their course. Determining postings is the responsibility of the single Services. The College does, though, produce an end-of-course report for each graduate which gives a steer to the single Services on the types of post for which the graduate would be suitable. The Army in particular draws significantly on the views of the College. Despite this, when deciding such postings, the Services also have regard to a number of other factors such as the broader requirements of an officer's career.

1.25 The College's monitoring of its graduates' postings is currently limited. While it does maintain a record of the first postings of its Advanced course graduates, thereafter it receives no regular information on their subsequent postings. Its monitoring reveals, for example, that on first posting about a fifth of the Royal Air Force's Advanced course graduates are going into joint posts, with a third going into command posts. Increasingly single Service posts are operating in a joint environment. Therefore the number of Advanced course graduates occupying posts in such an environment is expected to increase. In addition, in the future a growing number of posts in the Services are being earmarked for graduates given the joint nature of the duties that these posts will entail.



While the College's evaluation of its training is at the forefront of good practice, there is scope for some further improvement

The College's evaluation of its training compares well with good practice

- 1.26 The College considers the evaluation of the training to be essential if it is to obtain feedback on the relevance of that training and the quality of its delivery. It takes this feedback into account when considering the design and content of subsequent courses. The College conducts the evaluation of the Advanced and Higher courses but not for the Junior courses, where responsibility remains with the single Services.
- 1.27 In carrying out evaluations the College and Services follow broad Departmental guidance but vary in the detailed methods they use. Collocation at Shrivenham, however, has given the College the opportunity to look at how the evaluation strategies for all command and staff training courses can be made more coherent. The College has commissioned a review into this for the near future by the Training Development Support Unit, a specialist agency within the Department. In addition, the Department is currently formulating its policy on the evaluation of all joint training. The College aspires to be one of the leading agencies in the undertaking of this evaluation.
- 1.28 We compared the evaluation that the College carries out with a widely used model of good practice for evaluating training. The Kirkpatrick model identifies four levels at which evaluation of training and development activities can be made: immediate student satisfaction; testing of the student's learning; impact on the student's performance; and long term impact on the organisation's performance ([Appendix 2](#)).
- 1.29 Examination of the training evaluation carried out by other organisations comparable to the College has shown that most organisations only carry out evaluation of student satisfaction and the extent of their learning. Few evaluate the impact of the training on the graduate's performance and on the organisation's performance. These are more difficult to assess as the evaluation is more subjective and other factors influence the graduate's and organisation's performance.
- 1.30 The results of our comparison show clearly that the College's evaluation of its training compares well against the Kirkpatrick model and the evaluation carried out by other organisations. In particular, the College's plans for the evaluation of the long-term impact of its training are in line with the best of the evaluation

carried out by the comparable organisations that we examined (Figure 5). Overall, feedback on the training to date has been generally positive.

The College seeks feedback from its customers

1.31 In addition to its formal evaluation of training, the College gathers feedback from its formal governance structure (Figure 6). The College considers that this structure, combined with the evaluation feedback, ensures that all its key customers within the Department have the opportunity to comment on the appropriateness and quality of the training. The College is concerned, however, that the Customer Board currently does not include all the College's

stakeholders. It therefore informally seeks feedback on its training from all stakeholders who visit the College to deliver lectures to the students. The College also recognises that the formation of the Defence Academy will provide it with an opportunity to address its concerns over stakeholder representation on its governance structure.

1.32 There are also other, more peripheral stakeholders who are not represented in the College's governance structure and whose training is not formally evaluated by the College. Around a fifth of students on the Advanced course are students from overseas armed forces. Their training is part of defence diplomacy and foreign policy cultivating links with those countries. Overseas demand for these places is high, reflecting the College's international standing.

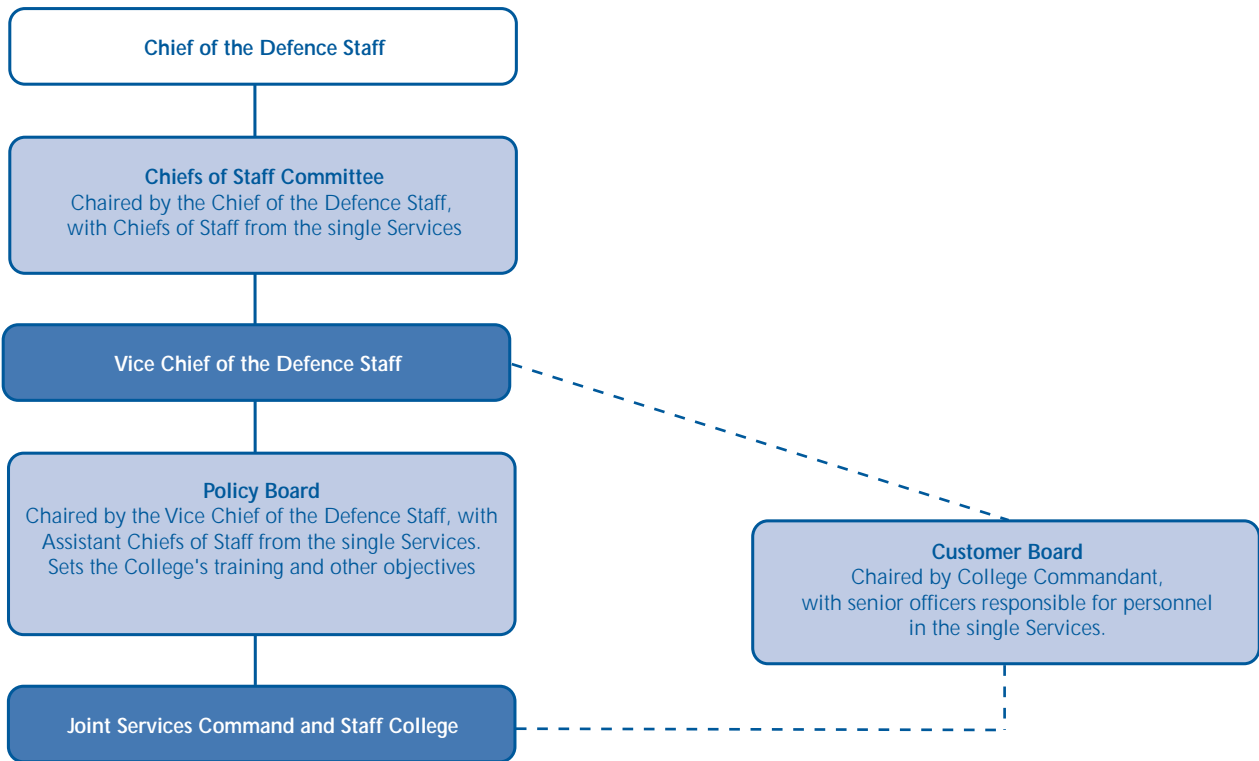
5 The College's evaluation of training

The College evaluates its training in line with good practice. Feedback on the training has generally been positive.

Aspect of evaluation	Evaluation method	Evaluation results
Student satisfaction	Satisfaction with the three courses is extensively monitored, primarily using questionnaires filled in by the students during the courses.	Feedback has been generally positive. On the Advanced course, for example, less than 10 per cent each year say that the course has not met its objectives at least satisfactorily. Student satisfaction with the course is gradually increasing year on year.
Validation of student's learning	The College does grade its students at the end of its main course, the Advanced course, based on their performance and work during the course. Assessment of the education received by the Advanced course students is also provided externally for those who chose to sit an MA as part of their course.	The trend is for an improvement in the grades for students' performance. Up to 55 per cent of students choose to take this each year and the pass rate is over 80 per cent.
Impact on the student's performance	For all courses questionnaires are used to gather the views of the graduates and their line managers (both military officers and civil servants) on the relevant course and on the performance and ability of the graduates. The questionnaires are sent out between 6 and 18 months after the course's end, the timescale varying with the course.	Feedback in November 1999 from the graduates of the first Advanced course in 1997-98 was that the course had been useful and its benefits were growing over time. Their line managers stated that it was too early to make a worthwhile assessment of the graduates against their peers who had not been on the course. However they considered that the graduates were at least of an equivalent ability and had a better understanding of the joint environment.
Long-term impact on the organisation's performance	The College currently does not evaluate this, although it plans to do so for the Advanced course. Firstly, it intends to monitor the performance of a sample of graduates from each course by sending these graduates and their line managers a questionnaire every two years for a ten year period after the end of their course. Secondly it intends to identify certain key marker posts and monitor the performance of the graduates holding these posts at that time, as revealed by each subsequent round of questionnaires. This will allow it over time to identify any improvement or otherwise in the quality of the different graduates holding that post.	None to date.

Source: National Audit Office

6 The College's governance structure



Source: The College

1.33 As a result of the Defence Training Review, the College is to become part of the Defence Academy of the United Kingdom from April 2002. The Academy will aim to be a national and international centre of excellence, providing military and civilian personnel with high quality education, primarily at postgraduate level, and carrying out academic research, in fields related to defence. The Royal Military College of Science at Shrivenham and the Royal College of Defence Studies in London will also be included in the Defence Academy. These organisations are to be brought together under a single management and budgetary structure. The College intends to ensure that its customers are effectively represented on the new governance structure for the Academy.

The College seeks assurance on the quality of its training from external bodies

1.34 The College receives feedback from a number of external bodies on the quality of its training. For example, the Junior courses are subject to audit by the respective single Service authorities.

1.35 For the Advanced and Higher courses the College takes direct assurance as to the quality of the teaching delivered by its academic contractors. The academic teaching underpinning this is subject to the normal quality assurance system operated for all higher education establishments. For example, as part of a review of the War Studies Department of King's College, London in Autumn 2001 the Quality Assurance Agency assessed the academic elements of the Advanced course, awarding maximum marks and praising the College's teaching and students.

1.36 As for direct assurance on the quality of the military teaching of the joint courses, the College has been asked by overseas staff colleges to take the lead in the international benchmarking of best practice in command and staff training. This is an example of the esteem in which the College is held by its peers and of how it has started to position itself as a world class provider of command and staff training. As part of this exercise, the College has developed a checklist for assessing the quality of a staff college which is based closely on the Quality Assurance Agency's practice when reviewing higher education establishments. It has already used this checklist to review the Baltic Defence College. In turn the College invited the German Staff College to assess its own performance in November 2001.

There is scope for further improvement in the College's evaluation

- 1.37 Although the College's evaluation of its training compares well against good practice, we consider that there are a number of improvements which the College could make. The College should be in a stronger position than other organisations to evaluate its training as there is the expectation that its graduates will continue their Service careers. The College therefore has, in many respects, a "captive" population which should enable it to establish robust tracking arrangements.
- 1.38 The evaluation of the students' performance in the medium and long term relies on the use of questionnaires (Figure 5), feedback from the College's governance structure and informal discussions with senior officers and other key stakeholders when visiting the College to lecture (paragraph 1.31). In our opinion, the College should augment the above with other methods, such as follow-up interviews with individuals, or focus groups with a sample of graduates and their line officers. We pilot-tested the use of focus groups by holding one such group, composed of graduates of the early Advanced courses. We found that this forum provided a useful opportunity to explore in depth issues such as students' motivations and perceptions. We also consider that the College should put its discussions with visiting lecturers on a more formal basis by, for example, giving them a list in advance of the questions it wishes to discuss with them.
- 1.39 The College's evaluation is currently confined to obtaining feedback from the graduates and their line managers (both military officers and civil servants). We consider that there would be benefits if the College extended this evaluation to include gathering feedback from the graduates' peers (those with whom they work) and from other key stakeholders who would be in a position to provide an informed assessment on the level of jointery generally demonstrated by the College's graduates. Such key stakeholders would include senior civil servants and NATO and UN commanders. Given that such feedback would be of a general nature, we consider that obtaining this would not contravene the Department's current policy of not using 360 degree appraisal to assess the performance of individuals. We also recognise that many of these stakeholders, but not all, will now be contacted under the College's planned improvements to its evaluation (paragraph 1.30).
- 1.40 In identifying the impact of its training on its students' performance in the medium and long-term the College makes no use of the performance information generated by the single Services' personnel systems. In our opinion, the College should discuss with the Services' personnel sections the possibility of obtaining access to this management information in such a way that the confidentiality of the contents of individual performance appraisal reports is maintained. Such access would help the College to identify career progress and performance after attendance on the course. This should be more easy to do now as the College has harmonised its end-of-course appraisal report with the Services' performance report. This harmonisation should help the Services' personnel officers gain a clearer understanding of the final reports the College produces on its graduates. It should also make comparisons between the students' final marks and their subsequent performance easier.
- 1.41 Access to the single Service's management information and to the graduates over a long period of time should assist the College in assessing the continuing relevance of the training and the competencies that it delivers. It should also enable the College to identify more objective measures of training effectiveness by analysing trends in such matters as the length of service of graduates and the speed of their promotion, although other factors in addition to training also affect these trends. We recognise that there can be no control group of non-graduates against which comparisons can be made as all of the most talented officers attend the Advanced course or an equivalent overseas course.
- 1.42 In order to identify the value added by the College's training, it is not sufficient to measure the quality of the student at the end of the course. It is also necessary to establish this at the start of the course in order to measure the improvement over the course. The information already exists within the College to enable it to do this. For example, the College could plot participants' marks during the course to identify value added by attendance. The College could then use these marks to identify group trends (such as whether weaker performers improve and whether initially strong performers remain static) and to compare performance on a course year-on-year.
- 1.43 Currently the College does not set itself firm targets for the levels of satisfaction to be achieved in any of the evaluation methods and tools. In our opinion, the College should monitor satisfaction and other performance ratings (for example, percentages of graduates appointed to senior posts) to identify trends over a number of courses. Significant upward or downward movements should act as triggers for follow-up investigation to identify changes needed, and best practice and lessons to be learned.



Part 2

The 1998 PFI contract for the College's permanent home was good value for money and provides useful lessons

2.1 The College's permanent home was procured using a PFI deal. This Part examines whether the use of the PFI has been value for money. It includes the negotiation of the original PFI agreement and the management of the contract during the construction of the new facilities and the subsequent delivery of the required support services.

The Department used the PFI to procure the College's permanent home

The Department originally planned to fund new facilities using public sector capital but changed to the PFI

2.2 The Department originally forecast that the College's establishment on one site would produce savings as the existing sites were rationalised. Following more detailed cost analysis it considered that establishing the College would be broadly cost-neutral as reductions in running costs and economies of scale from locating onto one site would offset the set-up costs.

2.3 The Department originally favoured a solution, which used public sector capital to base the new college in a mix of new and refurbished facilities at Camberley (the existing site of Army staff training). In line with Government policy for departments to consider the PFI as a procurement option and with Treasury direction, in September 1995 the Department began to explore a PFI solution. Also, increases in the estimated cost of the Camberley option made it difficult for the Department to accommodate the capital costs involved in the existing defence programme. Consequently it invited preliminary PFI proposals from four firms.

2.4 In deciding whether to opt for a PFI solution, the Department assessed these preliminary proposals against conventional public sector capital options. The Department's results showed that new build was cheaper than refurbishment and that, for the new build option, the PFI had the potential to be, at most, 3 per cent cheaper. The Department also considered that there were good operational reasons for using the PFI, including the fact that a public sector solution, involving up-front capital spend, presented it with significant affordability problems. In August 1996 the Department therefore decided to explore further the use of the PFI to procure the new permanent facilities for the College.

The Department selected its preferred bidder after a competition but the original timetable was unrealistic and negotiations were protracted

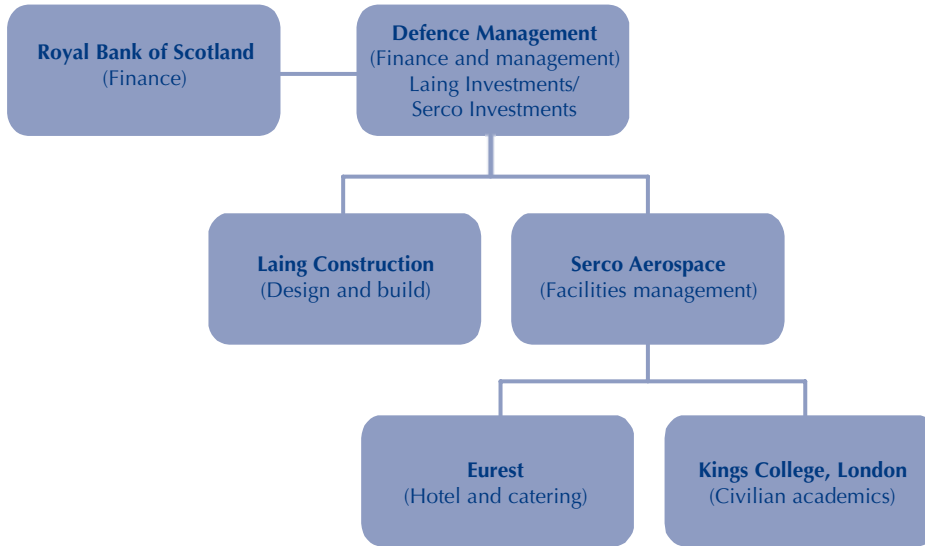
2.5 In June 1998 the Department awarded the PFI contract to Defence Management, a special purpose company wholly owned by Laing Investments and Serco Investments (**Figure 7**). Under the 30 year contract Defence Management had to design, build and finance the permanent facilities for the college. It then has to provide a range of support services (**Figure 1**). In return for making the facilities available and providing the support services to the required standards Defence Management is paid £26 million a year (at 2000 prices) (**Figure 8**).

2.6 In February 1997 the Department chose Defence Management as its preferred bidder after a competition during which it received bids from only two companies. It preferred Defence Management as its bid offered the best value for money. At a cost of £193 million³ Defence Management's bid was half the cost of the other bid. The Department also considered that Defence Management's design and operational proposals, with its proposed construction of new facilities on surplus land at an existing Department site at Shrivenham, were of a higher quality.

3 Costs are discounted to 1997 prices using a 6 per cent discount rate.

7 Defence Management and its contractors

Defence Management's shareholders are Laing and Serco Investments. Associate companies of these were awarded the contracts for construction and the provision of support services. Serco Aerospace in turn sub-contracted the provision of certain of these services.



Source: National Audit Office

8 The structure of the PFI fee¹

Defence Management will receive £26 million a year (at 2000 prices) if it makes the facilities available and provides the support services to the required standards.

	Number	Guaranteed Usage		Non-guaranteed usage fee rate
		Fee rate £	Total Payable £ million	£
Student place days	128,860	97	12.5	2
Residential place days	138,894	45	6.3	5
Married quarters weeks	15,080	489	7.4	62
			<u>26.2</u>	

NOTE

1 All figures are at July 2000 prices and exclude VAT.

Source: PFI Contract

- 2.7 After Defence Management's selection as preferred bidder there was a long period of negotiations until the contract's eventual signature 16 months later in June 1998. These negotiations took 12 months more than expected for a number of reasons. These included the need to gain planning permission for the new facilities at Shrivenham and to agree a number of outstanding contractual and risk transfer issues which the Department had not resolved prior to its selection of the preferred bidder. In our experience, such lengthy negotiations with the preferred bidder were a common problem on other PFI projects at that time. The subsequent issue by the Treasury of guidance on the selection of preferred bidders and of standard terms and conditions for PFI contracts⁴ should, if followed by departments, contribute to reductions in the time taken to complete such negotiations on future deals.
- 2.8 During these lengthy negotiations, there was an increase in the cost of Defence Management's bid from £193 million to £200 million. This increase largely occurred because of changes to the Department's requirements, such as increases in the estimates of the number of academic support staff required, as the design of the main Advanced course was finalised, and improvements in the IT requirements, as well as inflationary increases to construction and other costs arising from the delay in finalising the deal. The total increase was, however, limited to under 4 per cent as a fall in interest rates during the period offset, in part, the cost increases. Without these savings the cost of the bid

would have increased by almost 10 per cent. The Department told us that, if there had been no interest rate savings and it had been faced with a 10 per cent increase in the bid price, it would have reduced its requirements to minimise any such cost increase.

- 2.9 There were a number of changes to the allocation of risk sought by the Department during the negotiations. The final allocation of risk agreed (**Figure 9**) is, in our opinion, broadly in line with other PFI contracts signed at that time. The Department also has some rights under the contract should Defence Management seek to refinance the deal. In our experience these rights are stronger than those contained in other PFI contracts dating from this time. For example, Defence Management cannot make a material amendment to its financing arrangements without the Department's prior consent if this will increase the Department's liabilities under the contract.

Before signing the contract the Department confirmed that the PFI offered best value for money

- 2.10 The Department chose to sign the PFI contract in June 1998 as it had concluded in its financial appraisal that the proposed deal at £200 million⁵ was £23 million (10 per cent) cheaper than the option based on the use of public sector capital (**Figure 10**). We found no significant errors in these calculations.

9 Summary of risk allocation

The allocation of risk agreed in the final contract is, in our opinion, broadly in line with other PFI contracts signed at that time.

Risk	Party bearing risk	Detail of allocation
Design and construction	Defence Management	Defence Management did not start to receive any payment due under the contract until the start of service delivery in the newly completed facilities
Availability	Defence Management	Payments to Defence Management are reduced if it fails to make areas of the new facilities available for use by the Department
Performance	Defence Management	Payments to Defence Management are reduced if it fails to provide support services at the new facilities to the required standards
Inflation	Shared	Defence Management's fee is subject to annual indexation by a pre-agreed formula. Defence Management will bear the extra costs if its underlying costs increase by more than this indexation, although certain costs will be benchmarked against market rates after ten years of service delivery
Demand	Shared	The Department has guaranteed to buy a certain level of usage at the new facilities but the level of this guarantee decreases in later years
Residual value	Shared	The College facilities will revert to the Department at the end of the contract or the Department can choose to leave them with Defence Management

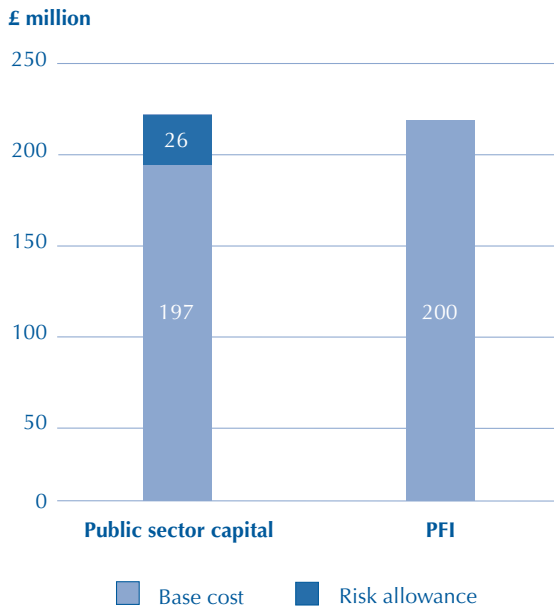
NOTE

For details on the allocation of risk, see Appendix 3.

⁴ Treasury Taskforce Technical Note 4 "How to appoint and work with a preferred bidder" (July 1999); Standardisation of PFI Contracts (July 1999).
⁵ Costs are discounted to 1997 prices using a 6 per cent discount rate.

10 Comparison of costs of PFI and public sector capital options (June 1998)

Defence Management Limited's bid was 10 per cent cheaper than the public sector capital option.



NOTE

All costs discounted over 30 years to 1997 prices.

Source: *The Department*

2.11 In line with good practice, after analysis by the Department and its financial advisers, Price Waterhouse, of the risks involved, the Department added £26 million to the public sector capital option's base cost in respect of the risks transferred to the private sector under the PFI but retained by the Department under the public sector capital option. This addition was necessary in order to put the costings of the PFI and publicly financed options on an equal footing as the PFI bidder included its own allowance for these risks in its bid price. At 13 per cent of the public sector capital option's base cost, the risk allowance on this project is at the low end of the range of between 10 per cent and 40 per cent of such allowances on other PFI accommodation projects we have examined.

2.12 The Department considered that the proposed deal brought non-financial benefits. The public sector capital option would not meet its requirements as well as the PFI because of the limitations of the Camberley site which would entail the need for two separate buildings and thus make for an environment that was less joint than required. Camberley would involve the retention of more risk by the Department. The alternative option of remaining at Bracknell and upgrading the facilities there was likely to be more expensive and difficult to

implement due to problems in obtaining planning permission, and would bring fewer operational benefits.

2.13 The proposed PFI deal was affordable. In April 1998 the Department identified that the payments due under the PFI would exceed its available funding by £2.5 million in the first four years. However, it considered that it would manage the shortfall within its overall budget. In contrast, it would have difficulty funding the public sector capital option with its requirement for up-front capital expenditure.

The change to the use of the PFI led to a delay

The Department changed the target date to September 1999

2.14 The Department had originally planned to deliver the College's new permanent facilities by September 1997. By August 1995 it had doubts as to whether it was achievable. It had yet to seek planning permission for Camberley's redevelopment and a further six months of design work would have been needed before construction there could have begun. On deciding in September 1995 to explore a PFI solution, the Department subsequently confirmed the planned delivery date as September 1999. The Department was still keen, however, to obtain the operational benefits arising from the establishment and collocation of the College. It therefore decided in February 1996 to establish interim facilities so that the College could start delivering joint courses on a collocated site by September 1997.

2.15 The Department considered that there would be additional benefits from establishing the College before its permanent home was ready. There would be more accurate information on how a joint college would function and its cost. This, in turn, would enable the Department to obtain a better deal on the new facilities and enable the eventual contractor to have a better view of the Department's requirements and thus to produce improved designs. This phased approach would also be less risky than the alternative of establishing a new College in new, permanent facilities.

2.16 There were, however, disadvantages to the Department's phased approach. Extra costs would be incurred in providing the additional temporary accommodation needed at Bracknell. Delivering the new course ahead of the facilities also meant more disruption as some of the College's operations had to be moved twice from the single Service facilities to the interim joint facilities and then to the permanent home when ready.

2.17 The College completed the interim facilities within the £10 million budget it had set and opened these on time in September 1997. Completion of these facilities allowed the College to vacate the Naval College at Greenwich and the Army Staff College at Camberley. The lease to the Greenwich site was handed over to the University of Greenwich in July 1998, and Camberley was occupied by the Army Medical Services as its headquarters.

Contract negotiations delayed the delivery of the new facilities by a year

2.18 The delays in negotiating the PFI deal (paragraph 2.7) pushed the planned delivery date for the new permanent facilities back by a year to August 2000. In turn, this delay meant that the College's use of the interim facilities had to be extended by a year. In January 2001 the College handed the site over for disposal to Defence Estates and the Department expects to achieve sale proceeds of £24 million on the disposal's completion in 2002.

Despite the delay it is still likely that the use of the PFI offered best value for money

2.19 The negotiation of a PFI project can often take longer than that of a conventional project because of the complexities involved, although the design and construction stages usually take less time. One criticism made of the PFI process is that, as the value for money assessment carried out prior to contract signature is concerned with the future cost implications, it does not reflect the extra costs already incurred due to the longer negotiation. Thus, on this deal, when comparing the costs of the PFI and public sector capital options in June 1998 (paragraph 2.10), the Department correctly did not include the costs already incurred in setting up the interim facilities.

2.20 We were interested to see if the signed PFI deal still retained its cost advantage, compared against a hypothetical public sector capital option which we assumed started in 1995 and met the original target date of September 1997. We reworked the Department's June 1998 calculations to reflect these assumptions. We also included the cost of interim facilities - for the PFI, the cost of the facilities at Bracknell, and, for the public sector capital option, the cost of the temporary accommodation needed to house the Army Staff College during Camberley's redevelopment. We assumed that the public sector capital option would not have allowed for Bracknell's disposal before the current expected date of 2002 as the Department told us that, even if Camberley's redevelopment had started in 1995, an earlier disposal would not have been possible because of the planning difficulties it had encountered on this site.

2.21 On these initial assumptions the estimated total costs of the PFI and hypothetical public sector capital options were broadly equal. However, our cost estimate for the public sector capital option was based on the Department's costings and adjustments for risk in June 1998 when there was a much fuller appreciation of the scope of the College and the required facilities. If the Department had proceeded with the public sector capital option in 1995, it would have been faced with the prospect of developing its specification of requirements during the construction of the new facilities. This would have been a high risk approach as implementing changes during construction usually results in cost increases. Provision for such increases was not included in the 1998 risk allowance. Thus our estimate of the costs of the public sector capital option is understated and this option is likely to be more expensive than the PFI. Without a detailed analysis of the risks faced by the Department in 1995, it is not possible to quantify the understatement and thus the extent of the PFI's cost advantage.

2.22 Even if our revised calculations had shown that the 1995 public sector capital option would have been cheaper than using the PFI, this option may still have represented poorer value for money. The affordability problems with the public sector capital option were greater and an assessment by the Department in November 1997 of non-financial factors identified that this Camberley-based option would not meet its operational requirements as well as the Shrivenham-based PFI. In addition, the Department would have borne the risk of managing the project. The Department told us that, given the doubts that existed in 1995 about the public sector capital option's ability to meet the September 1997 target date (paragraph 2.14) and the delays that would inevitably have arisen as it developed its specification during construction, the public sector capital option would probably not have been completed until September 1999 at the earliest.

The PFI contract has delivered benefits

2.23 Since its signature in June 1998 the PFI contract has delivered benefits for the Department. Defence Management completed the construction of the new permanent facilities (Figure 1) by the due date of early August 2000. This allowed the College to admit its first students at Shrivenham within days and to begin the Advanced course in early September 2000 as planned. Such a rapid opening was a significant achievement. The new facilities provide a high-quality training environment and have won a number of construction awards. Feedback from the students on the facilities has been extremely positive.

2.24 Aspects of the allocation of risk have worked satisfactorily to date for the Department. Construction risks did occur. For example there were problems with unforeseen ground conditions at the site. The extra costs were, however, borne by the private sector and not passed on to the Department. The private sector also resolved these problems as the new facilities were ready on the due date. Defence Management's main contractors, Laing Construction and Serco Aerospace, have not divulged the extent of the extra costs that they incurred in overcoming these problems. However, speculation in the press has put Laing Construction's losses on this contract at up to £20 million.

2.25 To date (November 2001) Defence Management's performance in delivering the support services and making the new facilities available has been generally satisfactory.

There are useful lessons from this contract

The Department has built flexibility into the contract

2.26 Under the contract the Department has guaranteed to buy a certain level of usage from Defence Management (Figure 8). If its actual usage is more than this, then it will pay more, although at a reduced rate to reflect Defence Management's marginal costs in meeting this extra usage. In the first full year of occupation the actual number of student days used by the College has been 7 per cent below the guaranteed levels. The College told us that numbers were reduced on some early courses in order to assist the settling-in process at Shrivenham. Furthermore, with the planned introduction of various seminars and additional courses, its usage should increase in the second year.

2.27 The level of the guaranteed usage is fixed for a number of years before it reduces over the rest of the contract period (Figure 11). The Department told us that it had negotiated these reductions as it had wanted the flexibility to reduce its usage in later years since the historical trend had been for a decrease in the size of the Services. The Private Finance Panel Executive had also advised it to seek such flexibility.

2.28 In pricing its bid Defence Management has ensured that it will recover in full its costs of building the College facilities and its other fixed costs from the income it receives for the guaranteed usage. In response to the declining level of guaranteed usage in later years, Defence Management will have increased its prices to ensure that it recovers early in the contract some of the fixed costs it will incur in later years. Both the Department and Defence Management confirmed to us that the contract prices would have been lower if

Defence Management had been guaranteed a constant level of usage for the whole of the contract. Both doubted, however, whether the overall net present cost of the PFI option would have been significantly lower as a result. Other factors would also have influenced the level at which contract prices were set.

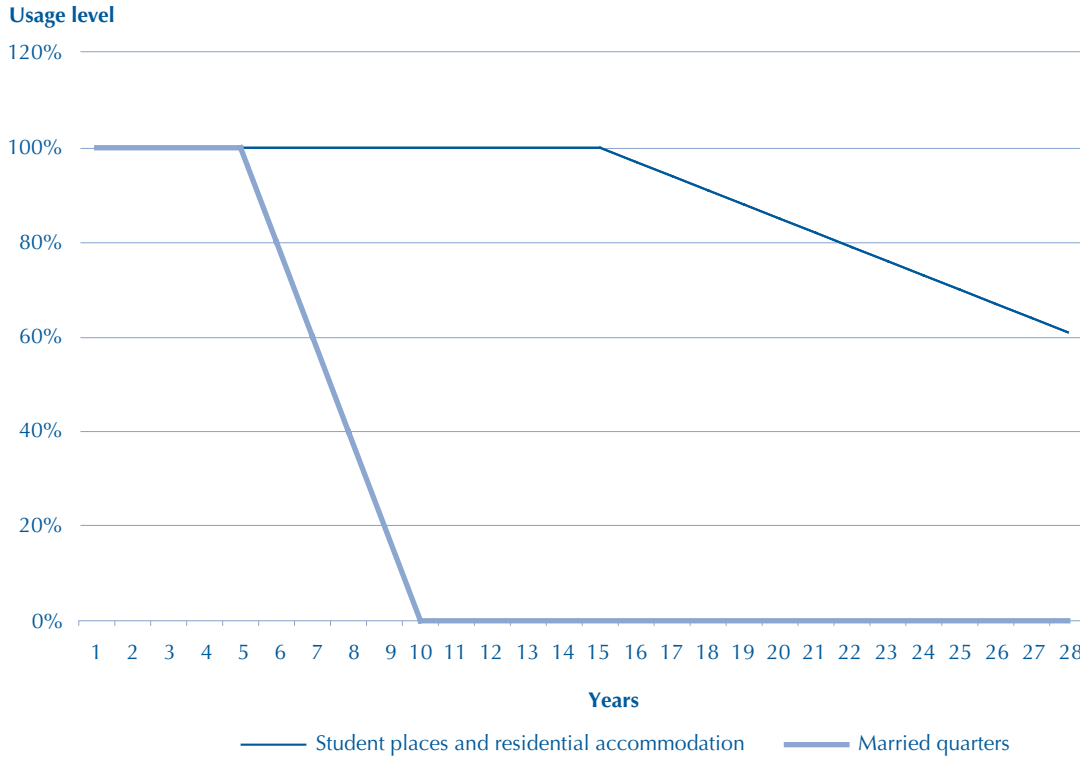
2.29 As for residual value risk, the College facilities were built with a design life of 60 years. At the end of the 30 year contract in 2028 either these facilities will revert to the Department at no cost or the Department can choose to leave them with Defence Management. The Department told us that it had negotiated these provisions as it wanted maximum flexibility at the end of the contract.

2.30 Defence Management assumed in preparing its bid that the Department would not exercise its option to walk away and the College facilities would revert to the Department at no cost. Consequently, when calculating its price, it sought to recover the full cost of building these facilities during the contract. The Department told us that it had briefly explored the alternative option of it paying the contractor the facilities' market value for their return as this might have resulted in Defence Management lowering its fee in anticipation of this payment. It had, however, rejected this option as it was opposed, in principle, to making any further payment at the end of 30 years to purchase the building. Also, Defence Management had made it clear that it did not consider that the facilities would have an alternative use and, consequently, a market value. Defence Management confirmed to us that it would have been very conservative in estimating in advance the size of any payment based on market value as the facilities were purpose-built as a military training college in a location which was not ideal for alternative uses. Any reduction in its fee would therefore have been minimal.

2.31 The PFI contract allows the Department some flexibility in dealing with changes in its requirements. For example, if the College were to require new accommodation at its existing facilities, under the contract the College is free to require Defence Management to manage a competitive tender for the implementation of the necessary capital works if the value of these works exceeds £250,000. As a result of the changes in student numbers the College may need such new accommodation in the near future. The College told us that, if its existing facilities did prove insufficient, it would attempt in the first instance to use the other non-College Defence Academy accommodation elsewhere on the Shrivenham site.

11 Levels of guaranteed usage

The College guarantees to buy a set level of student and residential accommodation places for the first 15 years of the operational stage, after which the level of this guarantee reduces over the next 13 years to 61 per cent of the original level in the contract's final year. In contrast, on the married accommodation the fall in guaranteed usage starts in Year 6 and goes to zero in Year 10.



Source: PFI contract

2.32 There are, however, limits to the flexibility available to the Department. The long-term nature of the contract inevitably constrains the Department's ability to respond to more fundamental changes. The Defence Academy is to take over responsibility for the whole Shrivenham site, including that of the College, from April 2002 and will be reviewing its strategy for the estate management arrangements. Any plan for the Academy to rationalise these arrangements by, for example, outsourcing the management of the whole site will have to take account of the existing PFI contract for part of that site.

for three consecutive months, and Defence Management can face termination of its own contract if, across all nine services, it receives 16 such notices in a 12 month period (Appendix 4 paragraph 9). These thresholds therefore provide a strong incentive for services to be delivered to the specified standards. The performance regime has proved effective, as catering performance has improved after the Department issued a warning notice in February 2001. Performance was not sufficiently poor for the Department to impose a financial deduction.

Poor contractor performance has been rectified without recourse to financial penalties

2.33 Under the contract Defence Management is required to make the facilities available and to service these to specified standards. Appendix 4 summarises the performance regime on this contract. The regime was negotiated as a complete, inter-related package, where the use of warning notices plays an important part. Termination of a service sub-contract can occur if a warning notice has been issued for the relevant service

2.34 This emphasis on the use of warning notices, rather than financial deductions, is unusual. On other PFI deals we have examined the performance regime is structured in such a way that, when contractor performance in delivering the support services fails to meet the requirements of the contract, the first recourse open to a department is to levy financial deductions and then, if the performance is sufficiently poor, to take the first step which can eventually result in the contract's termination. Despite this, the College's underlying approach to dealing with poor contractor performance is consistent with guidance issued subsequently by the Treasury⁶.

6 Standardisation of PFI Contracts (July 1999) paragraph 10.3.3.

2.35 The Department and Defence Management told us that they have succeeded in maintaining a good, open relationship with each other. Constant deductions to payments for poor service provision would substantially harm their relationship and might provide Defence Management with an incentive to walk away from the contract rather than to address any poor performance. Thus the performance regime had been designed to give Defence Management the opportunity to tackle poor performance in any one month without incurring financial deductions. If, however, Defence Management did not address its poor performance, then a further warning notice would be issued and financial deductions made.

2.36 In line with some other PFI contracts we have examined, there are limits on the deductions that can be made to the PFI fee for poor service delivery. The limits agreed on this contract are 20 per cent of the cost of each individual service, and 10 per cent in aggregate of all the elements of the PFI fee that relate to service delivery (Appendix 4 paragraph 6). These limits should provide Defence Management's sub-contractors with an incentive to perform well as their profit margins will be below these levels. Since the elements of the PFI fee that relate to service delivery total £8.3 million, the 10 per cent limit means that only 3 per cent of the total PFI fee of £26 million is at risk from poor service delivery. This low figure reflects the fact that, as a percentage of the PFI contractor's total costs, the costs of service delivery are low compared to the annual servicing of the finance raised for the construction of the facilities. The Department can also suspend all payments to Defence Management if service delivery is so poor that Defence Management is in default of the contract (Appendix 4 paragraph 7). In addition, virtually all of the PFI fee is at risk if Defence Management fails to make the facilities available (Appendix 4 paragraph 4).

2.37 For six months after contract signature in June 1998 Defence Management's shareholders received a higher level of protection than was usual if Defence Management's performance had been sufficiently poor for the Department to terminate the contract. On most PFI contracts, in the event of such contract termination, a department would have to pay its PFI contractor compensation. The purpose of this compensation is usually to ensure that a contractor's banks will receive at least some of their loans back in return for the assets reverting to the public sector. This protection can also be extended to the providers of any subordinated debt⁷ where these are not also shareholders in the PFI company. The subordinated debt on the College deal receives such protection. The original intention had been for this debt to be provided by Defence Management's bankers. However, as negotiations with

these had been protracted, Defence Management's shareholders, Laing Investments and Serco Investments, had agreed to provide this debt in addition to their equity, on the understanding that they would quickly sell this debt on to an external third party. Laing Investments and Serco Investments then sold this debt on to Abbey National in December 1998.

The College is improving its management of the contract

2.38 Benefits do not automatically flow from a PFI contract. Whatever the value for money of such a contract when it is first signed, subsequent poor management of a contract can result in higher costs, wasted resources, and impaired performance. Proper management of a contract is dependent on, amongst other things, the existence of adequate provisions within the contract which spell out the agreed procedures for its management, and the client having the necessary resources in place⁸.

2.39 On this deal the contract contains adequate provisions to enable the Department to manage the contract properly. In line with other PFI contracts, Defence Management is responsible for monitoring its own performance and reporting on this regularly to the Department. For its part the Department has the right to carry out spot checks and more formal reviews of Defence Management's performance. There are also arrangements for open book accounting under which the Department has access to Defence Management's records, and agreed procedures for dealing with disputes should they arise.

2.40 The Department did have a small team who had been involved in negotiating the deal to manage the contract during the construction stage. Defence Management told us that this team had been well managed and provided the clear vision and strong direction which, as a contractor, it seeks from its client.

2.41 Responsibility for the contract's management during service delivery was then passed on to the College, with support from the Department's contracts branch in Glasgow. The College's staff given this responsibility had not, however, been previously involved in the contract and had other duties in addition to this. The College has therefore created three new posts, two of which remain to be filled, to form a dedicated team for managing the PFI contract during service delivery.

⁷ Subordinated debt is an intermediate form of financing. It is usually unsecured and comes below bank and bond financing, but above equity, in ranking for repayment in the event of default.

⁸ Treasury Taskforce Technical Note 6 "How to manage the delivery of long term PFI contracts" (January 2000).

The College is seeking greater control of pass through costs

2.42 In addition to the £26 million PFI fee Defence Management also passes on directly to the Department, with no mark-up, the costs of certain other items, mainly utilities, that it purchases on the College's behalf. This reflects the arrangements on other PFI contracts we have examined where the contractor has only been willing to provide such items at cost since it has had no control over its public sector client's usage of these items. These items cost the College £2 million a year at 2000 prices. The College considers that these costs offer it the only opportunity for making its required efficiency savings as there is no scope for such savings in the other payments it makes (paragraph 1.15). While the PFI contract does require Defence Management to take all reasonable steps to ensure that it pays the lowest available price for these cost pass-through items, the company has no direct financial incentive to help the College to control these costs. The College is currently considering how it can provide Defence Management with such an incentive.

2.45 In the College's opinion, the contractor needs to ensure that the interfaces within its own organisation and with its sub-contractors are well managed so that the department receives the service required. The College considers that the service delivery problems (paragraph 2.33) were exacerbated by the services in question being sub-sub-contracted (Figure 7). This made the communication of the Department's expectations about the standards of performance in these areas more complex. The College also considers that these problems were, in part, due to its output specifications not being sufficiently tightly defined to reflect the true level of service it required.

2.46 Finally the College considers that the successful operation of this PFI contract has required a significant shift in culture from both the College and Defence Management. The College has had to stand back and allow Defence Management to deliver the required services, while Defence Management has had to recognise the particular needs of a military training establishment.

The parties have identified further lessons

2.43 Both parties to the contract have identified a number of lessons arising from their experience on this deal. We endorse these lessons for other departments who are either procuring new PFI deals or managing existing ones.

2.44 These lessons include the need for a department to show clear vision and strong leadership both during the procurement and subsequently during the construction and service delivery phases of the contract. Defence Management told us that it considers that the Department and College had shown these qualities on this project. The department and contractor also need to devote sufficient resources to the management of the contract, especially at the start of the service delivery phase when teething problems are inevitable, and, if possible, ensure continuity within their project teams from the project's procurement to the early stages of service delivery.

Appendix 1

Scope and methodology

Scope of this study

- 1 In undertaking this examination we were seeking to identify whether the Department had established a Joint Services Command and Staff College that delivered the required outcomes cost-effectively. To this end we reviewed the delivery of training by the College since its establishment in January 1997 and the PFI deal for the provision of permanent facilities for the College.

Methodology

- 2 We undertook an issue analysis examining:
 - Whether the rationale for the College reflected the Department's overall strategy for the promotion of jointery in its operations;
 - Whether the College was delivering the required training outcomes cost-effectively; and
 - Whether the PFI had enabled the cost-effective delivery of new facilities.
- 3 In reviewing the procurement of the PFI deal, we followed the standard methodology described in our report *Examining the Value for Money of deals under the Private Finance Initiative* (HC 739, 1998-99). We augmented this with an examination of the PFI contract's performance after its signature to reflect the fact that the new facilities were occupied in August 2000. We collected the evidence in support of our findings under each of these issues from the information contained in the Department's records and from discussions with the Department. We also discussed the PFI deal with the private sector contractor, Defence Management.
- 4 As regards the training provided by the College we compared the methods used by the College to evaluate this training with those used by overseas staff colleges, civilian providers of management training, and private sector customers of such courses. We also ran a focus group of graduates of the Advanced course.

Use of external expertise

- 5 We used the following consultants:
 - Lindsay Beaton of The Development Partnership, a firm of management consultants experienced in the design, provision and evaluation of management training, to examine how the College evaluated its training; and
 - Dr David Kirkpatrick⁹, Professor of Defence Analysis at University College London, who has had experience of devising training courses for the Department.

⁹ Dr Kirkpatrick is not the creator of the Kirkpatrick model of training evaluation discussed in Appendix 2.

Appendix 2

Evaluation of training

Good practice

- 1 Evaluation of training of staff is necessary if an organisation is to demonstrate that its investment in staff development brings it direct benefits. Key players in such evaluation include senior managers, the line managers of those receiving the training, course participants, external experts and internal/external customers. Ways of isolating the effects of training include using control groups of people who have not received the training, trend line analysis, and customer feedback.
- 2 The Kirkpatrick model is widely used to provide the intellectual basis for such evaluation. This model identifies four levels at which evaluation of training and development activities can be made. Research¹⁰ has shown that most organisations carry out some sort of evaluation at levels 1 and 2, but few evaluate at levels 3 and 4, as these are more difficult to assess as they cover softer issues.

Level 1: Immediate reaction by the individual to the event

- 3 At this level an organisation assesses whether or not participants in a training course feel that a particular learning experience has been of benefit to them as individuals. As it concentrates on an individual's immediate reaction, this level of evaluation does not assess whether or not behaviour will change or whether new skills have been learned. Where, however, training meets the individuals' expectations, they are more likely to be confident about their ability to implement the lessons learned (and consequently do so), and to show commitment to the organisation.
- 4 The most common method for undertaking this level of evaluation is completion by participants of a post-learning questionnaire to record their reaction. This allows the evaluator to know the immediate reaction of individuals and the likelihood that they will implement what they have learned. Also used are post-learning interviews with participants. Such interviews, however, may involve considerably more time and effort than can be justified.

Level 2: Validation of learning

- 5 This level of evaluation involves testing individuals on whether they have gained specific knowledge, skills and/or attitudes. This is more suited to technical subjects and may be more difficult to apply to soft management skills. Evaluation at this level is simpler if there is a clear baseline of individuals' current level of skill or knowledge against which subsequent improvement can then be measured. Examples of evaluation methods include:
 - pre- and post-learning activity tests (for example, self-assessments, written tests or practical tests);
 - questionnaires; and
 - structured interviews.

Level 3: Intermediate impact on individual performance and contribution to the team

- 6 This level of evaluation assesses the impact the event has had on the individual's performance. The best time for this evaluation is 4 to 6 months after conclusion of the learning activity so that individuals have had time to put what they have learnt into practice. Methods of evaluation could include:
 - structured interviews with participants and their line managers;
 - questionnaires to participants and their line managers;
 - estimates of the benefits of learning;
 - 180° and 360° feedback; and
 - the contents of the organisation's appraisal/performance management systems.

¹⁰ 'Making Training Pay' by the Institute of Personnel and Development.

Level 4: Long term impact on organisational performance in reaching goals and targets

- 7 This level of evaluation addresses the kind of training that will add value to the organisation's business by making it more effective and efficient. Measures at this level can only provide broad assurance of the effectiveness of training and development and it is impossible to isolate the impact of this area alone from other factors. Indicators that could be used at this level include:
- an aggregate of individual performance as evaluated at Level 3;
 - reduced levels of absenteeism;
 - reduced staff turnover rates; and
 - improvements in organisational output.
- 8 Methods for carrying out this evaluation include:
- structured interviews with senior management;
 - senior management evaluation of the benefits of training;
 - trend line analysis;
 - impact analysis;
 - the use of control group and pilots; and
 - the management information produced by an organisation.
- 9 Organisations can go further and attempt to calculate the financial return on investment. This involves the performance of a cost-benefit analysis, where the return on investment is defined as quantified monetary benefits less costs.

Practice in comparable organisations

- 10 We examined the methods used by organisations comparable to the College to evaluate their training. These organisations included overseas staff colleges, civilian providers of management training, and private sector customers of such courses.

Overseas staff colleges

- 11 We identified the training evaluation performed by the Australian Command and Staff College and the Canadian Forces College. Evaluation at these at Levels 1 and 2 mainly focused on the use of questionnaires to students during and at the course end, and, where possible, validation of their learning by testing and examinations. Methods used for Level 3 and 4 evaluation included surveys to graduates and their line managers between 6 to 12 months after the end of a course, and informal feedback from external lecturers and via the colleges' governance structures.

Civilian providers of management training

- 12 We identified the training evaluation performed by Henley Management College, the Civil Service College and Hendon Police Training School. Evaluation at these was mainly focused at Levels 1 and 2, with the colleges using questionnaires to students at the course end and, where possible, validation of their learning by testing and examinations. Level 3 and 4 evaluation was more difficult due to these Colleges' lack of continuing access to the graduates and their employers. Where such evaluation was carried out, methods used included interviews with graduates, meetings with the management of the colleges' client bodies, and informal feedback from external lecturers and via the colleges' governance structures.

Private sector customers

- 13 Our research revealed that evaluation among training customers was, again, mainly focused at Levels 1 and 2. As for Level 3 and 4 evaluation an Industrial Society survey in January 2000 revealed some use of questionnaires to graduates and their line managers after the end of a course. About 20 per cent of those replying also attempted to measure graduates' subsequent performance. Other less frequent methods included focus groups and the aggregation of the training's impact on individual performance in an attempt to identify its impact at various levels within an organisation.

Appendix 3

Risk allocation between the parties

Type of risk	Allocation	Comments
Design and construction		
1 Construction lasts longer than expected.	Defence Management	Defence Management did not start to receive any payment due under the contract until the start of service delivery in the newly completed facilities. Despite problems during the construction, the new facilities were completed on time in August 2000 (paragraph 2.23).
2 Construction costs more than expected.	Defence Management	Increased costs arising from problems during the facilities' construction were not passed on to the Department (paragraph 2.24).
3 Failure to provide the new facilities to specification.	Defence Management	Defence Management had to complete the new facilities to the approved specification and design and to rectify any defects at its own cost. An independent certifier, whose costs were met jointly by Defence Management and the Department, certified that the new facilities had been completed satisfactorily in August 2000.
4 Equipping the facilities costs more than expected.	Defence Management	Defence Management was responsible for the provision of equipment that it needed to provide the contracted services. The Department only supplied library books and some other, minor items.
5 Unsatisfactory design causes operational problems.	Defence Management	The payments to Defence Management are reduced if an unsatisfactory design results in the unavailability of areas of the new facilities or the poor performance of the support services.
Decant		
6 The transfer of College staff and their equipment to the new facilities takes longer, or costs more, than expected.	Defence Management	Defence Management transferred College staff from the interim facilities to Shrivenham by the agreed date for the agreed price within the contract.
Maintenance		
7 The facilities' condition is not properly maintained.	Defence Management	Defence Management's fee is reduced if it fails to maintain the facilities in good condition. At the end of the contract Defence Management is required to rectify any dilapidations arising at its own cost.

Type of risk	Allocation	Comments
Operation		
8 Defence Management's charges are out of line with market rates.	Shared	Once the new facilities are open, Defence Management can reset its charges for seven of the nine support services in year 12 of the contract, and every ten years thereafter, after it has market-tested these.
9 Utilities and other pass-through costs are more than expected.	Department	Defence Management will arrange for the provision of these items at the lowest available price and the Department will reimburse the cost of these. The Department reserves the right to buy these items itself (paragraph 2.42).
10 Defence Management fails to meet performance standards.	Defence Management	Deductions are made to Defence Management's fee if its performance in providing the required support services is poor. Although there are initial limits on the deductions that can be made, if performance is sufficiently poor, payments can be suspended until there are improvements. The Department also has the right to terminate the contract. There are however certain circumstances where Defence Management is not penalised for its poor performance (Appendix 4).
11 Maintenance of insurance cover during operation.	Shared	Defence Management is required to take out certain insurance cover. If the insurance required becomes unavailable on commercial terms due to no fault of Defence Management's, then the Department may choose to pay the increased costs of this insurance or waive the requirement on Defence Management to take out this cover.
Availability		
12 Some of the facilities are unavailable for use.	Defence Management	An area is unavailable if it fails to meet certain criteria and is consequently not used by the Department. In this case, deductions are made to Defence Management's fee. If the unavailability is sufficiently serious, then the fee will be reduced virtually to zero and the Department can also terminate Defence Management's contract. There are however certain circumstances where Defence Management is not penalised for the facilities' unavailability (Appendix 4).
Volume		
13 There is less need for, or use of, the new facilities than planned.	Shared	The Department has guaranteed to buy a certain level of usage from Defence Management. If its actual usage is below this level, then its payments to Defence Management are not decreased. However the level of this guaranteed usage is only fixed for a certain number of years and then declines over the rest of the contract (paragraph 2.27).

Type of risk	Allocation	Comments
Residual value		
14 The facilities have little or no use at the end of the contract.	Shared	College facilities will revert back to the Department at the end of the contract for nil consideration or the Department can choose to vacate and leave these with Defence Management (paragraph 2.29).
Legislation / regulation		
15 Adherence to the terms of planning permission.	Defence Management	Defence Management is required to comply with obligations imposed by planning permissions.
16 Changes in legislation increase Defence Management's costs during operation.	Shared	The Department will reimburse Defence Management for increases in its support services costs if these arise due to discriminatory changes in law or changes to health and safety, employment and environmental law. If the change in law involves additional capital expenditure, the Department will meet all extra costs if it is a discriminatory change or, if the change is after five years of operation and is to employment, health and safety or environmental law, only those costs in excess of £1 million in aggregate; Defence Management has to meet the first £1 million.
Finance		
17 Interest rate changes increase Defence Management's costs.	Defence Management	Defence Management pays interest on the loans it has taken to finance the construction of the new facilities. In order to limit its exposure to the risk of increases in its financing charges due to movements in interest rates, it has entered into interest swap deals which fix the interest rates that it will pay.
18 Changes in the tax regime increase Defence Management's costs.	Defence Management	Defence Management will meet any extra costs arising itself. However it can seek to increase its fee accordingly for market-tested services at each market testing.
19 Inflation increases Defence Management's costs.	Shared	Defence Management's fee is subject to annual indexation by a pre-agreed formula. This formula is based on a mix of indexation by the Retail Price Index and Average Earnings Index and of no indexation at all, with the mix varying depending on whether the fee is for a student place, residential accommodation or married quarters. If Defence Management's costs increase by more than the increase to the PFI fee under the above indexation, it will meet the excess (until, for the market-tested services, the next point at which it can reset its fee levels in line with market rates - see risk 8).

Appendix 4

The performance regime under the PFI contract

- 1 The amount payable by the Department to Defence Management under the PFI contract is dependent on Defence Management's performance in making the facilities at Shrivenham available for use by the College and in providing support services at these to the specified standards.

Availability

- 2 An area is unavailable if it fails to meet certain pre-agreed criteria and is not used for its intended purpose. The criteria cover such aspects of performance as: compliance with legal and health and safety requirements; access to the facilities; the condition of the buildings; the level of lighting; and the provision of utilities. If an area is unavailable, a deduction will be made to the fee payable to Defence Management unless the area concerned is still used by the Department or Defence Management is able to offer suitable alternative accommodation.
- 3 Defence Management is allowed a certain period to rectify the availability before the deduction is made. The size of this period varies from 30 minutes to 12 hours, depending on the importance of the area of the facilities involved. For certain of the more important areas (such as the lecture theatres and main dining room), the 30 minute period of grace falls to zero on days when key events are being held. The size of the deduction also varies, depending on the importance of the affected area.
- 4 The maximum deduction possible is 97 per cent of the total fee since deductions for unavailability and poor service performance cannot total more than 100 per cent of the total fee and a maximum of 3 per cent of the fee is at risk from poor service provision (see below). For the 97 per cent deduction to occur, all of the facilities (College, residential accommodation and married quarters) would have to be unavailable.

Provision of support services

- 5 In the event of poor service delivery against pre-agreed performance standards for each support service, the Department can award Deficiency Points. Defence Management has 24 hours within which to rectify the poor performance or further Points are awarded. Additional Points are awarded if the poor service provision occurs when a key event is being held.
- 6 Defence Management is allowed to incur a pre-agreed number of Deficiency Points - that number varying depending on the support service concerned - over a

three-month period before the Department can make deductions to Defence Management's fee. Once this number is exceeded, the number of Deficiency Points awarded determines the level of financial deductions made, with larger deductions being made the more Points are awarded. The deductions to be made are capped for each individual service at 20 per cent of that element of the PFI fee which relates to the costs of that service, and in aggregate at 10 per cent of the total of those support service elements within the PFI fee (£8.3 million- just over 30 per cent of the total PFI fee of £26 million - Figure 8).

- 7 The 10 per cent aggregate limit placed on the deductions means that, in the first instance, only 3 per cent of the total PFI fee is at risk from poor service delivery. However, the contract also allows that, if Defence Management's performance is sufficiently poor for it to be in default, the Department can suspend payments to Defence Management until performance improves.

Exemptions for poor performance

- 8 As on other PFI accommodation projects there are a number of circumstances where the Department cannot make deductions even if areas are unavailable for use or service delivery is poor; for example if the poor performance is due to the carrying out of pre-planned and agreed maintenance or the actions of the Department. Unlike other PFI projects, there is no short period after the new facilities are first open when deductions cannot be made.

Termination for poor performance

- 9 Once the new facilities are open, if the number of Deficiency Points awarded in a month exceeds a pre-agreed level, that level varying depending on the support service concerned, the Department can issue Defence Management a warning notice on its performance. If Defence Management receives 16 of these notices in any 12-month period, the Department can terminate the PFI contract in whole or in part. Prior to this, the Department can also require Defence Management to appoint a new service sub-contractor if it has issued notices in respect of the relevant service in three consecutive months or four consecutive three-month periods.
- 10 The Department can terminate the PFI contract, in whole or in part, if Defence Management's performance in making the facilities available is so deficient that it is in serious breach of the contract.