National Infrastructure
& Service Transformation
Authority

# PFI Reset

An introduction for SROs and contract management teams

## PFI Centre of Excellence

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# PFI Reset

## Foreword

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I am delighted to introduce NISTA's guidance on resetting operational PFI projects. In 2023, we commissioned the White Fraiser report to investigate the state of the PFI sector, with a key recommendation being that projects should consider a "reset" – an approach aimed at transparently identifying and addressing issues. The report defined a reset as involving a systematic review of assets and services, a rectification plan and relief from deductions to enable improvements.

Whilst NISTA supports the concept of reset, our experience suggests that a tailored, project-specific approach is preferable to a one-size-fits-all solution. Each project is unique, with a different scope, relationships and subcontracting arrangements, and the reset process should reflect these differences. Importantly, not all projects require a reset. Although there are certainly challenges across the PFI portfolio, including instances of poor performance and strained relationships, there are also examples of good practice and strong collaboration.

As more projects approach expiry, there are significant delivery challenges, supply chain constraints, labour market pressures, and issues with historic construction quality, which makes the reset approach relevant now more than ever. Preparing for contract expiry and asset handback will require increased resources and careful management from all parties.

This guidance is aimed at project Senior Responsible Owners (SROs) – senior leaders responsible for PFI performance – and contract management teams. We advocate the use of a Project Stocktake, a tool to assess relationships and performance, involving all key stakeholders. Disagreements may arise, but this process is valuable for identifying issues that need attention as part of the reset, and to hopefully help clarify all parties perceptions and objectives.

I urge all PFI SROs and contract managers to engage with this guidance and consider the operational performance of their projects. Achieving the best outcomes from PFI contracts requires proactive management, collaboration and mutual accountability. NISTA has seen many examples of good practice, and we believe that strong operational performance can be achieved through professional and collaborative relationships. However, this requires investment in resources, perseverance, and a genuine commitment to working together.

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## Introduction

### Purpose

This guidance:

- Introduces the concept of PFI reset.
- Highlights the reasons why it is important to review your PFI project in a structured way in order to understand the relevance of reset.
- Introduces NISTA's Project Stocktake as a means of doing that.
- Includes guidance relevant to the application of reset in PFI projects and in particular to public sector SROs and PFI contract management teams.

This is the first of NISTA's guidance documents supporting reset, the others being:

- Delivering PFI Reset
- Building Blocks of PFI Reset

Other supporting documents include:

- PFI Stocktake
- Relationships Toolkits

### Audience

This guidance is primarily aimed at SROs with PFI responsibilities and their contract management teams. Reset, however, should be a joint endeavour between the public and private sector parties and, as such, this guidance is intended to be useful to investors, funders, asset managers, market suppliers and all those with an interest in PFIs. This guidance has been developed in consultation with a broad range of stakeholders across the public and private sector.

### Legal caveat

This guidance is designed to help you consider what practical steps you should take to manage your PFI project; why you should take them; and how you might go about them. Given the breadth of the PFI sector, the guidance is necessarily generic in nature and not intended to override your contract. Action should not be taken without careful consideration of the details of your own project. As such, this guidance cannot be relied on as legal or any other form of advice, or professional opinion. You should seek formal professional advice as necessary.

**Icons**


Warning


Tip


Note


Toolkits


Appendices

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**Which projects does this guidance apply to?**

This guidance applies to all operational PFI projects, regardless of sector, size or stage – but NISTA does not believe that all projects will require a reset.

A reset should be considered where there are signs of material underperformance, strained relationships, governance challenges or concerns about asset condition. These issues may not always be visible without a structured review of your project.

Many projects are already operating effectively, with strong relationships, good behaviours and good performance. In these cases, a reset may not be necessary – but regular reviews are valuable to confirm that things are working well and to identify any emerging risks.

The need for reset will always depend on the specific circumstances of each project. This guidance supports you in making that assessment and provides tools to help you do so and, where appropriate, to implement a reset.

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## 1. Why do we need reset guidance?

The White Fraiser report[1] applied the concept of reset to PFIs and it is increasingly a topic of interest for the public and private sectors.

The AIIP[2] has developed its own interpretation of reset and this can be found on the AIIP's website at www.aiip.org.uk. The private sector perspective is considered further in the section on key issues below.

### 1.1 What do we mean by reset?

It is difficult to create a universally applicable definition of reset given the wide variety of scenarios seen in the market. On those projects where issues have been identified and something akin to a reset approach is being used, issues vary significantly. For example:

- Major concerns arising from dysfunctional ways of working.
- A lack of data and transparency impacting an ability to carry out assurance.
- A lack of effective governance leading to poor issues resolution and frustration on all sides.
- End user dissatisfaction with service provision leading to strained relationships and challenging behaviours.
- Long-standing asset condition issues relating to potential defects or poor maintenance.
- Consistent issues around contractual interpretation impacting performance management.

In our view, a reset will have a degree of materiality and significance that requires an investment of time and resources which is likely to mean that it cannot be dealt with through usual day-to-day activities.

The actual scope of a reset will be determined by the project-specific situation, the issues highlighted by your Project Stocktake (see below) and your own priorities, but in NISTA's view, if a reset looks to be needed, it should consider:

- Governance and relationships.
- Contract management and supporting processes.
- Service delivery performance.
- Asset condition.
- Data availability and assurance.

1 https://www.gov.uk/government/publications/white-fraiser-report-private-finance-initiative-sector

2 The Association of Infrastructure Investors in PPPs (AIIP) is an investor body which represents many (although not all) of the investors involved in UK PFI projects and has a particular interest in reset as it is applied in the UK market.

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All these areas contribute to a successfully operating project and, in our experience, just one of these can cause significant problems and material underperformance.

The approach taken to address issues in each of the above areas will vary, but is likely to involve some element of assurance as well as a focus on data availability and quality, asset remediation, service improvement, behaviours and ways of working and a focus on fixing existing processes to ensure problems do not recur.

Some examples of the approaches we have seen to implementing reset in practice include:

- A refresh and restart of existing operating procedures and mechanisms such as operating/liaison committee meetings.
- A structured approach to improving project governance after relationships are found to be ineffective.
- A deep interrogation of statutory maintenance compliance after concerns arise from a compliance audit.
- A resetting of relationships and behaviours where examples of poor conduct are uncovered.
- A resolution of contractual points of difference via a consensual approach to DRP.
- A root-and-branch review of asset condition and operational performance and processes aimed at ensuring contractually compliant performance.

## 2. Why should you review your project?

If you are responsible for the management of a PFI project there are several reasons why you should consider reviewing your project in order to understand how it is operating:

- You need to know relationships and behaviours are working as they should be – this should not be taken as a given – this is fundamental to good performance.
- It is good contract management practice to review and assess the performance of any project – public services and money are at stake (see Managing Public Money).
- Undermanagement, and lack of contract oversight, is a recognised issue in PFI projects - the White Fraiser report highlighted the prevalence of this.
- PFI performance standards are high - things can look good from the outside, but sometimes the reality is different once properly interrogated.

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If you fail to ensure your PFI project is operating well you risk:

- Delivery of public services - in the worst cases, NISTA has seen this put at risk through poor performance and/or related issues in relationships and behaviours.
- Significant health, safety and statutory compliance issues.
- Poor value for money - paying for services that you are either not receiving or are below the required standard.
- Paying twice as post-expiry you may need to pay for maintenance which should have been carried out during the term of the PFI project.
- Negative relationships and behaviours becoming entrenched, leading to wasted management time and an increase in the chances of costly disputes where performance issues arise.



**In order to help you better understand how your project is operating, and the relevance of reset, we have developed the Project Stocktake.**

## 3. The Project Stocktake

The Project Stocktake can be found on the PFI Centre of Excellence website.

The stocktake will:

- **Help you** to understand how well relationships and behaviours are functioning on your project.
- **Give you** an idea of service delivery performance and asset condition issues on your project.
- **Indicate** how well you are currently resourced to manage your project (this will be important to understand if you are considering a reset approach).
- **Provide you** with a private-sector perspective on how your project is functioning, noting that this may present a picture significantly different to yours.

The initial part of the process is designed to be efficient with completion of the questionnaire taking around 90 minutes.

The questionnaire within the stocktake has been designed to reflect those themes which in NISTA's experience are most important for well-operating projects: relationships and governance, resourcing, contract management,

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performance (service delivery and asset condition) and data access. These are the "building blocks" of good operational performance in PFI projects and we refer to them again in Delivering PFI Reset and Building Blocks of PFI Reset.

Completion of the questionnaire will give you a basic understanding of what is going well and not so well on your project and importantly how opinions differ between key project parties; it will therefore help inform your approach to a PFI reset where one is needed.



**You should also note:**

- **The stocktake is a tool which is designed to give you a credible but relatively quick assessment of your project. It is not a detailed diagnostic tool and, where issues are identified, further work will likely be needed to diagnose fully the cause and extent of issues.**
- **Your views and those of other parties may well be different. The stocktake process seeks to uncover these differing opinions. This is to allow you to discuss and understand each other's perspectives with a view to determining the necessary next steps.**

### 3.1 Using the results of the Project Stocktake

Once you have the results of your Project Stocktake you will need to meet and discuss those with the PFI Co and service provider.

In many cases, a Project Stocktake will show that, even though a project has some issues, the materiality of those is such that a full reset approach is not needed. In these circumstances, resolution may be achieved through existing governance and day-to-day contract management activities.

In circumstances where your own stocktake results show issues or concerns which are significant, you will likely be considering a reset approach. In Delivering PFI Reset we set out a framework to support you in doing that.

However, before moving to Delivering PFI Reset, there are several fundamental issues you should be aware of and which it makes sense to highlight here.

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## 4. Key issues in delivering a reset

Reset is fundamentally about agreeing and delivering change in PFI projects, and this can be challenging for a number of reasons but most importantly:

- Building consensus on the required change can be complex and time consuming.
- There can be a lack of trust and transparency which hampers joint working.

### 4.1 The challenge of building consensus

Building a joint consensus around the need for change can be difficult:

- Entrenched approaches, even where ineffective and poor, can take time to change due to cultural resistance e.g. "we've always done it this way".
- PFI projects involve a range of stakeholders with differing objectives and approaches. Opinions on matters can vary significantly between these groups, especially when they are not commercially aligned.
- The cause of issues can be complex and multi-faceted, and be difficult to identify and understand properly.

At the early stages of reset it may not be practical to agree "what" needs to change, but it should be possible to agree that areas need further investigation, particularly where parties have differing views. This will help parties better understand each other's views and establish what information is needed to help bring a common understanding and identify the necessary improvement plans.

### 4.2 Importance of joint working

We recommend that any action should aim for a collaborative approach. Implementing change on a PFI project will always be more effective and efficient when all parties are committed to achieving mutually agreed objectives.

Implementing a collaborative approach will by definition require effective engagement with the private sector, and this will be easier to achieve when engagement is at all levels of a project – strategic, commercial and operational. Strong governance will be the foundation upon which this is built.

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When engaging with the private sector on your ambitions for a collaborative reset, it is important to bear the following in mind:

- Reset is an opportunity, not a sign of failure.
- Reset delivers better outcomes when it is jointly led, rather than driven by one party alone. All parties need to be clear on their needs from the reset and understand the objectives and drivers of the other parties.
- You may need specialist support and advice.

Where you are unable to progress your desired reset because of an ability to build a collaborative approach with the relevant PFI Co and/or service provider, we recommend that you consider the following approaches before any radical changes in commercial strategy:

- Use escalation routes to discuss your frustrations with senior leaders within the investor(s) and/or service provider. This can often be an effective way of bringing about a change in approach.
- If you are unable to improve matters through escalation, consider discussing with your departmental contact or with NISTA. Both will be able to provide further guidance and can support both investor and service provider engagement.

Where good collaboration is not in place and it is not possible to proceed jointly, parties may need to consider unilateral courses of action. You should be aware that this will bring added risk and complexity and will not necessarily lead to better outcomes – careful management will be key. Doing all you can to exhaust a joint approach and collaboration is the best course of action.

### 4.3 The private sector perspective

Contracting authorities, even if they do not ultimately agree with the AIIP approach, should be aware of and take the time to understand the AIIP's policy stance on reset which is referred to above. This will be important context for contracting authorities as they develop and implement their own approaches to reset.

AIIP has helpfully provided a private sector perspective on reset below.

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**Lessons from experience: A view from the private sector**

**Facilitating resets demands strong leadership on the part of contracting authorities, PFI Co directors and service providers, alongside a commitment to achieving assured performance together in partnership, based on shared values.**

**Governance is key to this with tiered engagement between parties from operational levels through to SROs to ensure that matters can be resolved through appropriate and timely escalation that avoids surprises, impediments to progress and undue delays.**

**Communication is equally important, with parties taking the time to carefully explain positions to avoid misunderstandings and the risk of causing avoidable disputes that don't confer better operational outcomes and risk undermining relationships.**

**There needs to be a willingness to look at assets, services and contract management and administration by both parties and a culture of continuous improvement that is focused on the systems and processes required to achieve high levels of performance that is resilient, removing the need for sudden, unexpected and counterproductive changes in the approach to contract management referenced in the White Fraiser report.**

**Additional resources, especially for technical aspects, may be required to support reset activity. However, advisers acting for the public sector, private sector or both parties should not assume the role, responsibilities and accountabilities of SROs or SPV directors and must not unilaterally determine the course of reset.**

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## 5. What next?

By now you will have the results of your own stocktake and be ready to engage with your private sector partners on their own results. These discussions will help you understand their perspectives and start to build the basis for a reset, if necessary.

Delivering PFI Reset will support you in doing that.