

MoD succeeds with UK's largest PFI estates contract aided by commercial skills from IBM

Overview

The Challenge

To set up and manage a low-risk, high quality commercial contract for an £8billion, 35 year construction and maintenance project to build, refurbish and manage accommodation and working facilities at six UK garrisons for the British army.

The Solution

- IBM was selected as commercial advisor to the MoD project team.
- IBM worked with the MoD to plan and implement the project strategy.
- IBM played a pivotal role in all phases of the procurement process from inception through to contract completion.

The Benefits

- IBM played a pivotal role in delivering for the MoD an affordable and value-for-money project
- IBM provided a rich mix of commercial, technical and government procurement expertise which provided a bridge between the MoD and the commercial market
- IBM was able to find the 'sweet spot' to mitigate risk and satisfy the MoD, commercial bidders and the funding financial institutions.

Project Allenby/Connaught is a 35-year contract for the building, refurbishment, management and operation of living and working accommodation and facilities for 18000 military and civilian staff at Aldershot and five garrisons on Salisbury Plain. Valued at £8 billion (current day prices), it is the largest Private Finance Initiative (PFI) estates project undertaken by the UK Ministry of Defence (MoD).

A tremendous range of financial, commercial and technical skills was required to plan and implement such a large project. Each garrison is like a small town, comprising soldier and officer accommodation, catering messes, tanks and vehicle sheds, and other essential facilities. The 10 year construction phase alone involved over £1.2 billion of building and refurbishment work, and contracts needed to be put in place to manage the vast array of facilities for a total of 35 years.

At the outset, the MoD brought together a team of commercial and financial advisors to work with its internal team. The objective was to translate the strategic MoD objective

of creating a 21st century standard of facilities and accommodation into a cost-effective, workable contract which would be delivered with minimum risk and within the government's cost and time guidelines.

"IBM consultants played a pivotal role in developing the commercial framework for the project, developing and implementing procurement strategies, handling negotiations with commercial consortia and finalising contracts with the preferred bidder," said Mike Cooper, the MoD's Project Manager for Allenby/Connaught during the pre-contract phase. "IBM was committed at every stage to helping us achieve our strategic goals and brought a rich mix of technical, commercial and PFI knowledge that was instrumental in establishing cost-effective, low risk, commercial contracts for the complete 35 year project."

Project best practice

At the outset, two separate projects were initiated, one for the Aldershot garrison and one for the five garrisons on Salisbury Plain. They were to operate within similar timescales and draw on similar technical, financial and management resources. One of the early tasks for the IBM commercial team was to assist the MoD to undertake scoping and feasibility studies to determine the best management and procurement strategies for two such large undertakings.

Working closely with the MoD, IBM evaluated the comparative benefits of combining the projects. There were clear benefits in standardising design elements, combining the project management activities, and consolidating the procurement processes. However, soundings needed to be taken on the commercial appetite for bidding for one enormous project.

The IBM team worked with the MoD team to translate the technical requirements into a commercial proposition and used its knowledge of the construction and facilities management market to evaluate the reaction of potential bidders. The feedback helped define how the combined project could be presented to achieve maximum interest. One idea emerging from this process was the opportunity for the construction of entire fully-fitted accommodation modules off-site which could be delivered, assembled and commissioned quickly at the garrison location.

Early discussions between the MoD, IBM and financial advisors determined that the optimum way to organise and fund this large capital project was through a public private partnership contract. Under commercial arrangements, the preferred bidder will deliver both construction and facilities management services from the outset, with payment spread throughout the project life-cycle. This approach mitigates risk and provides the MoD with exceptional consistency, quality of service and long term value for money.

IBM supported the MoD and its financial advisors in putting together a business case for a PFI project which duly received government sanction.

Bidding and procurement challenge

A major challenge was how to present the financial and commercial arrangements for a 10-year construction project and a 35-year facilities management operation such that the risks would be acceptable to commercial bidders, the MoD and financial institutions who were providing funding. The IBM team provided a bridge between the MoD and the commercial market.

“IBM acted as our ear to the market. With its experience of similar estates projects and its knowledge of both government and commercial projects, IBM was able to help format project information and help us present our requirements in the best possible way. The IBM team was instrumental in interpreting and evaluating the bidders’ responses so that we were able to select the best bid submission,” Cooper explained.

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Invitations to tender were advertised in relevant journals, and project information prepared in a digestible format to encourage competitive bids. IBM also assisted the MoD in staging an industry open day in London to give a good understanding of the nature and scope of the project and encourage expressions of interest.

Great care was taken in preparing the pre-qualification questionnaires and tender documentation so that competitive bids could be easily compared on a like-for-like basis.

Each bid submission comprised several large bound documents and encompassed extensive spreadsheets. The MoD together with IBM and other advisors took on the intensive task of evaluating and comparing the bid submissions.

“It was a tribute to the clear and precise way in which IBM helped structure the bid documentation and evaluation processes, that we were able to announce the decision of preferred bidder within two months – a much shorter time period than would normally be expected for a project of this scale and complexity,” Cooper added.

The IBM team was involved in going through several iterations with bidders to clarify and provide extra detailed submissions. Care had to be taken to ensure bids had been prepared using similar assumptions, for example on inflation, and bids were adjusted to take account of the level of risk taken by the bidders, for example on construction price changes.

With the project due to run for 35 years, the MoD was at pains to ensure not only that the preferred bid would provide best value for the public purse, but that the construction project would be delivered to the highest quality and the facilities managed to the highest professional standard throughout the project life-cycle. It was important that the financial arrangements would be consistent with sound commercial delivery throughout the duration of the project.

“IBM’s commercial skill was in finding the sweet spot that satisfied our requirements to deliver value for the public purse, provided an acceptable risk/reward for bidders, and presented an investment model to satisfy the funding institutions,” Cooper said.

Contract negotiations

Once the bid processes had been completed, the IBM team played a leading role in the detailed 2 year contract negotiations with the preferred bidder – a consortium called Aspire comprising Carillion, KBR and HSBC.

One of the complexities centred on the garrisons having to remain occupied and operational during the building and refurbishment phases. Garrison staff and facilities had to be moved around ‘solitaire-like’ as construction work progressed through each of the locations. Such arrangements had to be accommodated within the detailed contract and operational plans.

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IBM also handled sensitive negotiations relating to the risks associated with harmful materials within the old garrison buildings that were to be demolished.

"It is rare to find such a rich mix of knowledge and experience in construction, estates management, PFI contracts, and the intricacies of large commercial build and FM contracts all within a single project team. IBM provided us with individuals with a unique level and mix of skills across these disciplines. Their ability to handle negotiations on a commercial, and technical level made them an invaluable part of the successful MoD project team," Cooper concluded.

In addition to providing practical consultancy and negotiation skills in the physical bidding and contract stages, the IBM Project Executive also sat on the Allenby/Connaught Project Board, providing commercial advice to senior level MoD management.

Ongoing Commitment

After several years preparation and negotiation, contracts have been signed and building work has commenced. IBM is now closely involved in helping the MoD operate the contract, interpreting details of the project and transferring knowledge to MoD staff responsible for working with the Aspire consortium to manage the construction and FM stages of the project.

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