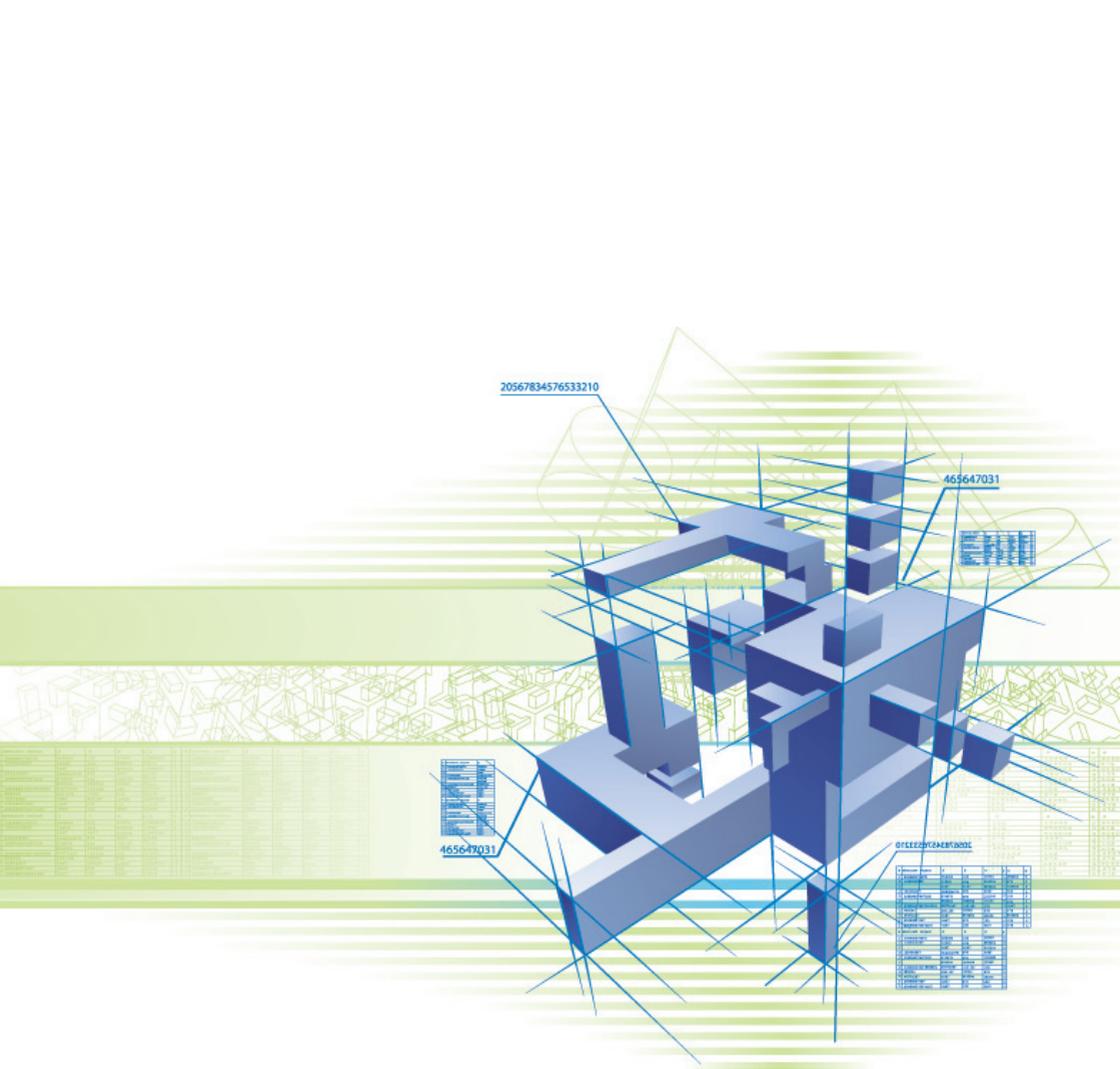


# Built to Serve: The Benefits of Service-Led PPPs

Briony Smith



© 2007, The Serco Institute  
22 Hand Court  
London WC1V 6JF  
T: + 44 (0)20 7421 6475  
F: + 44 (0)20 7421 6471  
E: [institute@serco.com](mailto:institute@serco.com)  
W: [www.serco.com/institute](http://www.serco.com/institute)

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# Preface

This short report emerged almost by accident, from a discrete exercise to gather evidence for a government consultation on the inclusion of soft services in PFI projects. The challenge was to understand what happens when service providers are directly involved in the design and construction of the public infrastructure. The insights that emerged were so powerful that the report almost wrote itself.

As service providers perceive it, the infrastructure (for example, buildings or equipment) is merely the physical manifestation of part of a service solution. Its role is to facilitate the delivery of the service, and for that reason, it must be designed with the service in mind. In some cases, the ideal service solution may not be constructed around a physical asset at all – home detention in the justice sector and managed care in the health sector are two obvious examples.

Of course, it is unsurprising that the employees of a public service provider should take the view that PPPs should be service-led. For these individuals, services lie at the heart of the solution, and their perspective has been formed by the experience of operational delivery. But that does not weaken the force of their insights.

The concept of soft services is somewhat difficult to define, and the individuals quoted here use the term broadly. In some instances, interviewees refer to soft facilities management (FM) services such as cleaning and catering (services which are not necessary for the maintenance of the physical infrastructure). In other cases they refer to a much wider range of frontline services. All of the participants agreed that the boundaries between soft and hard services are fluid – services defined as ‘soft’ in one project, might be considered ‘hard’ in another project. In some projects, the service provider’s role extends across all core service functions, far beyond cleaning, catering or maintenance of the asset.

This report does not suggest that soft FM services alone should drive the design process, but a much broader range of service considerations, led by a project team with broad knowledge and capabilities across the range of service needs, from support to frontline functions.

It is worth noting that, whilst those interviewed talk predominantly about assets in the form of public buildings, PPPs are also used in the manufacture of technical and mechanical equipment and the construction of transport infrastructure. The case for PPPs to be service-led applies equally in those contexts. Further research in this area might adopt a broader scope, involving inquiry across a diverse range of projects and feedback from public sector clients and service users.

For their contribution to this report, the Serco Institute extends its thanks to the operational experts from Serco's health, home affairs and defence businesses who gave their time to be interviewed for the initial project, and who encouraged colleagues – and in one case a project partner – to become involved in this work.

# Introduction

According to service providers, a world-class public facility 'does what it says on the tin': it makes it possible for services to be delivered efficiently and effectively, and to high standards. It follows that those responsible for the delivery of public services should be placed at the heart of decisions about the design and construction of the supporting infrastructure.

This is the conclusion that emerged from conversations with service providers involved in the delivery of public private partnerships in the UK. The original catalyst for this research was a report released by HM Treasury in 2006 that examined the performance of construction, hard FM (facilities management) and soft service elements of operational PFI projects. The report questioned whether soft services had delivered the same 'step change' and value-for-money benefits that have been identified for the hard FM and construction elements of the projects.

Closer examination revealed that the evidence on this question is somewhat limited, so that it is difficult to draw strong conclusions. Moreover, there appear to be a number of different reasons why PFI contracting might not have captured the same value-for-money benefits from soft services as from construction and hard FM.

One of the most important explanations is that PFI contracting has been concerned overwhelmingly with the construction of physical assets, and in many cases, procurement officials have not actively pursued innovation in service design. Nevertheless, in several markets – prisons, defence, and more recently in some parts of health – service providers have been placed at the heart of the contracting process, increasing the scope for service innovation. Insights from these markets form the starting point for the analysis in this report.

In an attempt to understand the benefits brought through the integration of asset design and service design, the Serco Institute spoke to individuals involved in the planning and management of soft services in PFI projects. The research took the form of face-to-face interviews with operational experts from Serco's businesses. Individuals were encouraged to speak freely about their experiences with the inclusion of soft services in large capital projects.

All respondents were surprised to be asked whether the integration of soft services in PFI projects offered value for money. As service providers, they observe first hand the considerable benefits in terms of efficiency, innovation and service quality that come from including soft services as part of a global solution. They were in no doubt that the best outcomes from large capital projects are usually achieved through a solution driven by service considerations.

This short paper picks out some key themes revealed in those interviews. While we have given structure to their responses, we have let these individuals speak for themselves, frequently using direct quotations.

# 1. Services first

Understandably, service providers take the view that physical facilities are designed and built to assist in the delivery of a public service. A hospital exists to deliver health care to patients. A school is intended to provide education to students. A laboratory is created to deliver scientific research. To those who must manage the services in these facilities, day after day, year in and year out, it is self-evident that service design must be the priority from the outset.

*“To build the building, then, when it’s complete, to start thinking about the services – that’s the tail wagging the dog.”*

*“The building is there to facilitate delivery – it’s the platform upon which delivery of the service is built.”*

Given the long life of public service facilities, the overall value and importance of the service elements are often far greater than the upfront capital costs: “Design and construction might take three or four years, but the services lifespan is likely to extend to upwards of thirty or forty years.”

It is no surprise that those interviewed identified numerous ways that whole of life value for money and service quality can be improved with a service provider driving the project:

- **Specialist procurement:**

*“Service providers are specialists in two ways: (i) as providers, we know the appropriate value for soft services within the management of the facility - we know how much each service costs to deliver;(ii) as operators, we bring operational expertise to the design and build - this lets us specify a facility that comes in on time and on budget, and is not over-specified.”*

- **Whole-of-life service solutions:**

*“The service provider needs ownership of the design process... Otherwise, we’ll get the building, and the builders won’t have factored in the ongoing service considerations and the solution will be inappropriate for the service needs.”*

- **Greater innovation:**

*"Involving the service provider brings innovation to the design. The building is the platform for the services, so there is an incentive to innovate."*

*"Service providers start with a clean slate. In the public sector, there is often a mindset rooted in what has always been. We bring fresh eyes and the operational expertise to come up with a design that will meet the service needs."*

- **Better value for money:**

*"If you design the facility so that it enables the most efficient service delivery, you will get savings all down the line. If you can run it with 150 staff instead of 230, that is a saving of the cost of 80 staff each year, which is a lot over 30 to 40 years".*

- **A more efficient building:**

*"Many public facilities are larger than they need to be and they come in over-budget and over-time. The design footprint is often larger than it needs to be and the wrong details are specified. They'll specify what type of light bulb we should use in a particular corridor, but they will have missed something crucial, like the overall shape of the building, which will require more staff to manage it, or make it harder to keep clean".*

- **Appropriate building fabric:**

*"The soft FM provider will look to have a robust finish on doors, walls, and so on, because if they are damaged in the provision of the service, then the hard FM provider may look for repair costs".*

## 2. A better compromise

All projects involve trade-offs. If the construction partner leads, the trade-offs will be made in favour of the building – resulting in more cost-effective construction. If the hard FM partner leads, trade offs will be made in favour of maintenance – resulting in design solutions that need less maintenance, but which may not be most cost effective or fit for purpose in terms of end-service delivery.

When the service provider leads a project, then the compromises that inevitably have to be made during the design and construction process will be made with a view to the ultimate effectiveness of service provision. Because service delivery is the soft service provider's priority, the compromise will be more likely to offer the best solution for the quality, efficiency and effectiveness of service provision throughout the life of the contract:

*“The builder wants to build the building at the cheapest cost he can to produce a compliant design. The SPV\* will try and balance this capital expenditure with the best design life to produce the cheapest whole life cost. The soft services provider looks at it from the point of view of disruption to services. If it disrupts service provision the FM provider is exposed to financial penalties, but the authority will also have increased operating costs that do not appear in the original calculation. So cheapest might not be best.”*

### Designing for delivery

Operational experts agreed that to achieve the best results in any project, the design solution should flow from knowledge of the service; operational expertise should be harnessed to drive technical and service innovations; and the entire project should be structured around whole life service considerations. They regard the relationship between service provider and design team as extremely important:

*“We don't just sub-contract the build. It is an iterative process. We work with one key architect each time, so knowledge and experience build up. It is a very dynamic relationship.”*

\* Special Purpose Vehicle – the joint venture, usually composed of builders, bankers and service providers, with whom the PFI contract is signed.

Some interviewees mentioned that when there is a steady flow of projects in the pipeline, the same construction team is used for each new facility:

*“For a while there was a steady flow of work [in our sector], so the team moved from one project to the next – the same companies and people, including the builders, moving together from project to project. You then get a build up of expertise. Problems can be ironed out and lessons drawn through from each building, including some that have already been running for a year.”*

They see access to operational expertise as the key to achieving a building that fulfills all the required criteria – from meeting health and safety requirements to conforming with international standards and conventions on minimum space requirements. But they also see the service provider’s involvement as the key to achieving the kind of innovations that lead to better service outcomes for users:

*“Take cleaning as an example – small differences in the design can make a big difference to how easy a building is to clean, and how expensive. In [one facility], the architects came up with a design that had windowsills on the inside. It sounds such a small thing, but those windowsills accumulate dirt. They take a huge amount of cleaning, so you need more cleaners to keep the building up to standard. If the ledges had been on the outside, nature would have done its work and solved the problem.”*

### **Better risk management**

Design solutions that enable more efficient, effective provision of soft services, such as cleaning, also play a key role in helping service providers to manage risks and provide a safe and healthy environment for service users. Hospitals are a case in point:

*“The quality of the fabric of the building is a key factor in preventing the spread of hospital infections. If you have a design that accumulates dirt, then the risk levels increase considerably. Cleaning and catering*

*are incredibly important in establishments like hospitals. That's why you need cleaners and caterers involved in driving the building design. If the clinicians drive it, they won't understand how to make the building efficient and easy to manage ... they won't know the places where dust can accumulate, or the features that make pest control more difficult."*

### **Words are not enough**

The operational experts felt that using service providers in an advisory capacity, in design/build projects that exclude soft services, does not produce the same results as when they are involved directly, assuming some of the risks of delivery. Where a service-based design solution is more difficult to implement, or will cost more in the short term, construction and hard FM partners are less likely to assume those risks because they do not have the same long term incentives.

At the same time, if service providers are employed only in an advisory capacity, there is not the same impetus to drive through suggested changes. There is no real motivation to push for compromise in favour of the service outcomes; and there is less incentive to innovate.

The following anecdote describes the case of one project in development at the time of writing in an arrangement including hard FM only:

*"It's a bank-led consortium looking for operators to help with the design – to make it better. We've been approached, but we're not sure whether to go for it because [consulting on design] is not our core business. There is no guarantee they will take our advice. There aren't the same incentives - we wouldn't get involved in arguing and insisting because we wouldn't be delivering the service. As the operator, there is an incentive to insist on what we need."*

Involving service experts makes it less likely that buildings are built that are not fit for purpose. One interviewee described an overseas example of a public courts building contracted under a design-build-maintain project, that did not include services:

*"The company that lost the bid didn't win because they didn't appreciate that in designing the car park, they needed to separate the witnesses from the judges. But why would they? It should have been in the spec, but since it wasn't... – without an expert on board, how would they know?"*

### **Ownership of the design**

Having ownership of the design encourages a more 'can do' attitude when tackling problems or mistakes that are discovered. Rather than blaming the design/build team for a problem, an operator with a stake in the design and construction of the project is more likely to look for solutions:

*"You don't just say, 'Oh, I wish I had an electric socket there'. You say, 'Oh, I should have put a socket there – can I still do that, and what will it take to make the change?' ... It's the difference between renting and buying. If you rent a place, you can either put up with not having a socket where you want it, or you have to approach the landlord, and the whole process might take a very long time, and you still might not get what you want. But if you own a place, then it's up to you, and if you decide you can afford to pay a bit more to get an extra socket just where you want it, then you can do that."*

### 3. Going with the flow

One of the interesting insights from these discussions was the way in which those involved in service design focused on the flow of people and goods within and across the boundaries of the site:

*“The purpose of the design is to facilitate the service solution. The flow of people and goods is key: who and what needs to move around the site?”*

#### **Evidence from the custodial sector**

Experts from the custodial sector said early consideration of the flow of people and goods had created significant service benefits in PPP prisons. These issues are intimately connected with the purpose of the facility in question:

*“The sort of questions we ask ourselves are: ‘do we need to accommodate lorries coming in and out of the facility – as we would in a training prison, where you get a lower volume of people movement, but more vehicle traffic – or is there more people movement, as there is in an educational prison?’”*

PPP prisons have a smaller design footprint than public sector prisons because they are planned to be more efficient, even though they provide the same facilities as the old and larger public sector prisons:

*“[In an educational prison] we have to provide education on a daily basis for all prisoners. So it’s important to have easy access between the education block and the housing wings. We designed our prisons so that the education accommodation is next to the housing wings, so less distance has to be covered when moving prisoners there, which saves time. On the other hand, food is usually brought to the prisoners, so the catering block can be located on the opposite side of the building from the housing wings.”*

Designing the prisons with a more efficient layout minimises the number of staff required to move prisoners around the facility, which makes the establishments less costly to operate.

However, there are wider benefits: because it takes less time to move prisoners around the building, less time is lost from the 'regime' hours spent in training, education and other out-of-cell activities. There are therefore 'decency' benefits from design innovations of this kind.

Similarly, simple steps such as locating showers and telephones on the housing wings have made PPP prisons more efficient than older facilities, since fewer staff are required to manage prisoner movement. It is also more convenient from prisoners' point of view, since they can shower or use telephones more easily, without having to be escorted there and back:

*"In the public sector, prisoners used to get a shower once a week, and they had to book for it. Our guys can have a shower whenever they happen to be on the wing...It provides a more normalised environment – if you were at home, you could have a shower whenever you felt like it."*

*"By locating telephones and showers close to cells, we have changed how we think about the allocation of prisoners' time... We can focus on activities aimed at crime reduction rather than spending time in unlock, escorting prisoners to and from showers..."*

Participants felt there was a significant difference between the innovations that have been achieved in the privately-designed and managed prisons and some of the more modern prisons built by the public sector. Referring to one of the later publicly-designed prisons:

*"It's hugely over-specified; everything's on a large scale; it has lots of individual offices for staff, and those offices are quite a large size; there's lots of dead space – in the back office and even in the main jail; it's a long walk to anywhere, it's spread out, so it's expensive to run; the house blocks have lots of open space – which you have to heat... the noise reverberates around the space, so it's a noisier space; it's difficult to maintain – the ceilings are high, so how do you get up to change a light bulb?; the offices are divorced from the gates, so there are no sight lines..."*

## **Evidence from the health sector**

Further testimony to the significance of flow in the design of public service facilities comes from the health sector. Experts from this sector pointed to one facility in particular, where the client's requirement for segregation of visitor, patient and service staff flows moving around the hospital has been solved through innovative building layout and a world-beating design solution. This facility, built under the PPP model, incorporates a number of novel features, such as the use of robotics to move goods around the facility (everything from food and linen to waste and materials), and pneumatic tubes (like the old Lamson tubes) to transport documents and samples.

*"The client's requirement for total segregation of patients, visitors and FM traffic is about patient dignity. This solution [using robots to move food, linen and other goods], has another benefit for patients, because the porters who would normally spend part of their time moving these trolleys around can focus on moving people, so we're developing their skills in that area – building up their people skills – which is good for the patients, and also good for the staff, because it involves professional training for them."*

And again, the innovative design of the facility brings efficiency benefits:

*"Moving things like boxes and linen trolleys around with robots means we can move these items twenty-four hours a day, because the robots don't get tired, and the client doesn't need to pay us for night shifts and overtime. That gives us more scope to move non-people traffic at night when there's less patient movement and no visitors. So we get more done and there's less disruption for patients."*

## **Evidence from the defence sector**

Experts from the defence sector also agree that people flows are integral to achieving the right building design. Describing one large – and highly successful – Ministry of Defence training facility built under the PFI, a former director of the service contract for the project said:

*"The building is just for that – people flows – you have the accommodation on one side, then the central hub, with the refectory and library, then classrooms on the other side. So, in the mornings, the students get up and wash or shower, then they make their way to the refectory and then on to the classrooms. Then after classes finish, they go back again.*

*The beauty of this arrangement, in terms of cleaning, for example, is that you can clean the refectory and kitchens, and the classrooms, for the morning, and then whilst the students are at classes, you clean the accommodation in time for the evening. This also saves on manpower, you don't have to do all the cleaning at once, so you can have a smaller team".*

The same expert agreed that there are significant benefits to be gained from the right design. Understanding flows is important for every aspect of the service, from the movement of porters delivering goods and services around the building, to the movement of printing resources – paper flows – around the building. He added, 'there's no doubt that the service is improved by involving the service partners in the design stage – you know where you operate from and to'.

This principle applies at every level, from the shape of the building, to the location of specific rooms and functions: 'for example, where the offices are located – the contract director's office is in easy reach of the customer's office, so it is just a short walk when you need to get in touch'.

## 4. A licence to innovate

Those interviewed were adamant that the kind of service innovations that are possible under a PPP – when soft services are included in the project as part of a whole package and the service provider involved from the outset – would not be possible if the design, build and hard FM and soft services elements were separated:

*“What you get through PPP is a licence to innovate. All the risk sits with one party, so it’s a better environment to try new things, and also, you get economies of scope, so you have more flexibility – for staff to multi-task, for money to be re-allocated from one area to another and for all the considerations to be factored in together – so you get better value for money. That’s why you get better facilities – because it’s a total solution.”*

### **A dynamic relationship**

In a service-led project, the dynamic relationship with the design and build team fuels a more innovative approach:

*“You get much more creativity – you can get things done that wouldn’t be possible in a traditionally-built facility, because there is a willingness to take considered risks to achieve better outcomes.”*

With a deepening of the market, service providers are involved in a succession of facilities, and it is possible to modify the design and introduce new innovations as lessons are learned through the actual operation. In a number of prison facilities, there has been a move to all-weather pitches and floodlighting on training fields. This helps the service providers meet contractual performance measures that require prisoners to spend a certain amount of ‘regime’ hours in physical activity. There are also obvious decency benefits for prisoners. Similarly, in one prison laundry, lessons have been developed over time:

*“Our design innovation in the build was to move from having a central laundry, to wing laundries. We knew the rough treatment the machines would get on the wings, so we used robust industrial machines. But*

*of course they got broken anyway. So now we use domestic washing machines and replace them when they break. We keep stocks on-site and replace them as needed."*

Solutions like this are possible because the service provider is in a position to make ongoing decisions about the best way to manage the asset – 'that's the benefit of an ongoing interface between hard FM and soft FM'.

Good interface between the service provider, hard FM provider and construction partners also means that 'you can achieve solutions more quickly'. There is less bureaucracy to tackle and the hurdle of debating a solution between separate parties operating under a different range of incentives is avoided.

### **A long-term perspective**

From a service provider's perspective, delivery is as much about how the service will work in several years time as it is about how it will look when the facility is first completed.

Public services need to be flexible, to respond to changing service needs and policy priorities. There are numerous methods for building flexibility into contractual arrangements. However, the operational experts said they also try to factor flexibility into the design of the building where possible, and where it is likely to be beneficial to future service delivery. For example:

*"At [one of the industrial prisons], we built the workshops in a fixed shape, because we thought we knew who our suppliers were going to be, but in practice that is always changing, because suppliers come and go, and the marketplace for our labour changes. So the design of the building cut down on flexibility. In later establishments, we used a much more flexible design: huge workshops of equal size that can be used by anyone, and can even be sub-divided, and offices created using portacabins."*

The creation of multi-use spaces in public facilities, making the building design

more flexible to respond to whole-of-life service considerations, is an innovation that probably would not have surfaced without input from operational experts:

*"We have experienced the need to make expensive changes, and now we make it easier to change. We have an incentive to look for ways to be flexible."*

### **A service imperative**

The design and delivery innovations described in this paper are not simply creative ways of reducing workforce numbers. As one expert said:

*"The truth is, there aren't enough people to do these jobs and demand is always growing, so these innovations just allow a better level of response to those demands, and to public and political expectations, which just get higher and higher."*

Another commented that 'technology doesn't replace staff, it just makes up for deficiencies'. In other words, innovations like these are a route to better service delivery at a better price. At the same time, there are often new development opportunities for staff:

*"Staff are encouraged to work towards professional qualifications such as BICS cleaning qualifications<sup>+</sup>, and to take pride in the work that they do."*

*"When we're involved from the beginning, we plan ahead using generic working, which gives you flexibility, because you can have the same staff doing a range of roles and cross fertilisation between different areas. There are professional incentives in that a variety of roles encourages staff."*

Those interviewed said that when soft services such as cleaning and catering are contracted, there is a tendency for greater emphasis to be placed on customer service. The services are valued more highly, because they are the service provider's core focus:

<sup>+</sup> British Institute of Cleaning Sciences.

*“In the NHS, clinical services are always valued more highly than FM services. So, if money is tight, then money will often be taken away from the FM budget. The private sector doesn’t do that. The money that’s allocated to the FM services stays with those services, and it’s with them for the life of the contract. The contracting process raises the profile of services like cleaning and domestic services – it gives them a higher value. There is a professionalisation of the services.”*

In many sectors, it is over a decade since soft services such as cleaning and catering were first contracted out. Most efficiencies from cost-cutting have already been extracted, so to generate new efficiencies, as well as the service improvements necessary to meet increasing customer demands and rising service expectations, requires more fundamental innovations, in design, technology, workforce management and service delivery. Contracting for a solution that combines design/construction, and a full range of services makes it easier to achieve this, and to manage potential risks.

### **Flexibility to deliver**

The best innovations are possible when public sector clients ‘specify intelligently’, leaving enough flexibility in the specification for the contractor to exercise their operational expertise and to respond creatively to the specific needs of a particular service. Over-detailed specification stymies original thinking.

Some clients understand this very well, and in part, this comes with experience. For example, one expert said:

*“Our customer is now more flexible... [The design] is less tightly specified, leaving us to deliver the best solution. For example, at [one earlier facility], the admin area had to be built in blocks – whereas it could have been built in one place – so the space is tied to that purpose, even though some of the offices are now unused. In [a later facility] we were given more flexibility and we built the admin area open plan.*

*These days you need less space for admin because technology has advanced, so we're converting some of the open space to other uses."*

Experts working in another sector described the conditions that enabled an innovative solution in one particularly cutting-edge facility:

*Expert A:*

*"It was a Greenfield site, that's the main thing. We could have a totally new layout."*

*Expert B:*

*"Yes, that's a big factor. And there's no retained estate [existing facilities retained under the PPP]. When you have a lot of retained estate, there are severe limits to what you can do."*

*Expert A:*

*"There was also a strong political will behind it. There was a desire to provide a state-of-the-art facility. That's what they were looking for, so they were open to ideas. They wanted a world-beating building. The idea for one innovation came from the United States..."*

*Expert B:*

*"...Although it's also used in [a facility in Ireland]. We went over there to see it in action and understand how it worked, then we adapted it and applied it at [our facility]."*

## 5. Global solutions

Unsurprisingly, those interviewed for this research were of one mind that the best service outcomes from public projects are achieved using solutions that incorporate services from the outset in a global solution, and that 'to create world-beating facilities, the solution should be service-led':

*"There are different ways to separate and package a project. It's hard to compare one project with another because you aren't comparing like with like. But what there can be no doubt about is that the best service is achieved through a total solution."*

### **Appropriate boundaries**

They warned against making artificial distinctions between hard and soft (FM) services. Comparing one project against another and assuming that services will be categorised in the same way is unrealistic, because each service is different, the requirements are different, and the solution has to be different: "What is characterised as a hard FM service in one contract is characterised as a soft FM service in another contract".

Many services are not easily defined by the terms hard or soft. A good example is security, which begins with the layout of the building, and ends with the services delivered by frontline security personnel. The right layout makes it easier to keep a building secure, because it can be designed to avoid blind spots or areas of the building that are difficult to patrol. Security is an important service in many public facilities, and getting the design right to ensure the right level of security is possible is an extremely important risk management tool.

In the words of one participant, "disaggregating design and management means the core services lose out" – whereas making service considerations part of the core management approach from the outset is an effective way to manage delivery and mitigate risk, not only in the design solution, but also in the transition period and ongoing asset management.

One interviewee described an example of how the crossover between design, hard FM and soft FM considerations in one health sector contract reaps benefits for individuals delivering those services at the front line:

*"For [one hospital], we developed an automated waste disposal solution. Its value is not just as a practical solution to reduce the number of staff needed to deliver the service, it's also about risk-management... Most needle-stick injuries are incurred by porters and cleaning staff – not doctors – when they are bundling up bedding. This solution helps prevent needle-stick accidents because the waste handling is automated – less handling equals less risk."*

An important lesson from this example is that by combining hard and soft services, and by factoring in service considerations at the design stage, an innovative solution has emerged that simply would not have happened had the design and services been managed separately. One expert commented:

*"Innovation in relation to solutions is stymied by the separation of hard and soft services... Tight definition of soft services reduces flexibility and makes it more difficult to come up with innovative ideas and approaches."*

### **Space to experiment**

The economies of scope and increased flexibility that come with a global solution provide more space for experimentation, which is often necessary in order to develop changes and improvements:

*"All the risk sits with one party... You're more likely to go ahead [with a new idea] if you manage all the risks. If the project is split into different parts [construction, hard and soft FM], there is more chance of conflict or blame-shifting if things go wrong, which makes you risk averse. It's much harder to try something new under those circumstances."*

With a direct stake in a project, the service provider is in a position to encourage experimentation. There are not the same incentives for a bank or construction-led consortium to invest up front in cutting-edge design from which they will not reap operational benefits.

### **A single point of contact**

One of the overarching benefits for clients from combining design, construction and hard and soft services under one contract is that there is a single point of contact for all aspects of the service:

*"It's much more straightforward, and there are fewer hurdles to jump if you want to get something done...Government only has to go to one body for any defective services."*

The first advantages of a single point of contact come in the form of ease, time and efficiency of management – 'management can spend time managing'. However, there are other benefits: with all the services under one lead they are easier to control and performance is more visible. And fewer resources are expended dealing with disagreements or bureaucracy.

### **Breadth of capabilities**

Many service companies have direct access across their own business to the expertise and capabilities that help drive cutting-edge solutions, ranging from IT to FM. Access to this kind of expertise informs the design process, and helps to ensure that all aspects of the service are considered up front. But when it comes to delivery, service providers will not blindly use their own people if they do not provide the best value for money or the best capabilities. Service providers bearing the risks of delivering service outcomes have an incentive to provide the best deal for their clients, and the operational experts interviewed said that in the PPP contracts they are involved in they frequently sub-contract some of the soft services, which helps to get the best deal. In practice, however, the best deal is often found amongst their own people:

*"We always compete [the soft services] but frequently now our own people offer the best deal because they are experts in this area, in delivering these services."*

However, the need to compete ensures there is a continuous incentive to develop new innovations and value for money solutions.

# Conclusion: Building to serve

The incentive to innovate in order to increase efficiency, improve service outcomes and lead the market at the next tender drives service providers to develop cutting edge solutions. The best opportunity for this comes when operational experts are involved from the outset, leading the project to design and build the facility that they will subsequently operate.

Most of those interviewed for this research said that they would be less interested in delivering services such as cleaning and catering in isolation, rather than as part of a broader project. They felt that by involving the service provider throughout the project, services are accorded greater value. There is more scope to develop innovative solutions, because the operational experts have a say in the design of the building and in ensuring that it is fit for purpose, and (if contracting is done well) the risk lies with the party best able to manage it.

It is by developing design-solutions that deliver the best possible outcomes that service companies differentiate themselves and create world-beating products. One interviewee said that in quieter periods between different projects, individuals from their business division travel the world looking for ideas and insights that will help them to give their next solution an edge. A colleague elaborated:

*“We think outside the box and we’re open to new ideas. We look at the service and think about what we can do with the design of the building to make the service as efficient and effective as possible – and that includes everything from the layout, to the fabric of the building, to the technology that’s in the building, and the way we manage the service.”*

In a separate interview, another participant described the optimum start point for designing a public service facility, under the ideal conditions of a Greenfield site and a flexible specification:

*“You start with a clean sheet of paper and you draw a perimeter [that represents the site]. Then you think about how the service will look, how people will need to move around the site – and that will vary for different facilities – and then you take it from there...”*

The 'clean sheet' described in this example is a key part of what makes a service-led solution effective. The testimonies in this report show that physical facilities are not the starting point in a PPP project that is concerned with the delivery of better services. The starting point is the service. The physical asset flows from that, and is designed, in direct collaboration with service experts, specifically to underpin the delivery of that individual service. This approach increases the potential for service innovation.

There is growing interest within the UK government in using public sector procurement to drive innovation. The starting point for such a project must be to promote innovation in the delivery of public services. In order to achieve such an outcome, government must ensure that those who will bear the risks associated with service delivery have a role at the heart of the design process.

The Serco Institute was established in 1994 by the international services company Serco Group plc, to undertake practical research into public service contracting and the design and management of public service markets.

## **Publications**

### *Research Papers*

Emma Reddington, 'Good People, Good Systems', December 2004.

Megan Mathias & Emma Reddington, 'Good People, Good Systems: What Public Service Managers Say', January 2006.

Briony Smith, 'Built to Serve: The Benefits of Service-Led PPPs', January 2007.

### *Policy Studies*

Gary L. Sturgess, 'A Fair Field and No Favours: Competitive Neutrality in UK Public Service Markets', Policy Study 1, Serco Institute & CBI, January 2006.

Gary L. Sturgess & Briony Smith, 'Designing Public Service Markets: The Custodial Sector as a Case Study', Policy Study 2, September 2006.

### *Case Studies*

Gerald Cranley & Megan Mathias, 'Education Walsall', Case Study 1, April 2006.

### *Discussion Papers*

Gary L. Sturgess, 'Bound for Botany Bay: Contracting for Quality in Public Services', Discussion Paper 1, October 2005

Gary L. Sturgess, 'To Gladden the Heart of Miss Nightingale: Contracting for Complexity', Discussion Paper 2, September 2006.

Physical infrastructure is not the starting point in a public private partnership (PPP) that is concerned with the delivery of effective services. The starting point is the service. The infrastructure is merely part of the service solution, and for that reason, it must be designed with the service in mind.

This report explores the benefits of service-led PPPs, drawing insights from interviews with operational experts involved in the planning and management of service delivery in projects across a range of sectors. Structured around key themes revealed in those interviews, through direct quotations, the individuals explain in their own words what happens when services are placed at the heart of the design process.