

# London Centre of Excellence

## Linking payment to performance in public contracts

*An argument in favour*



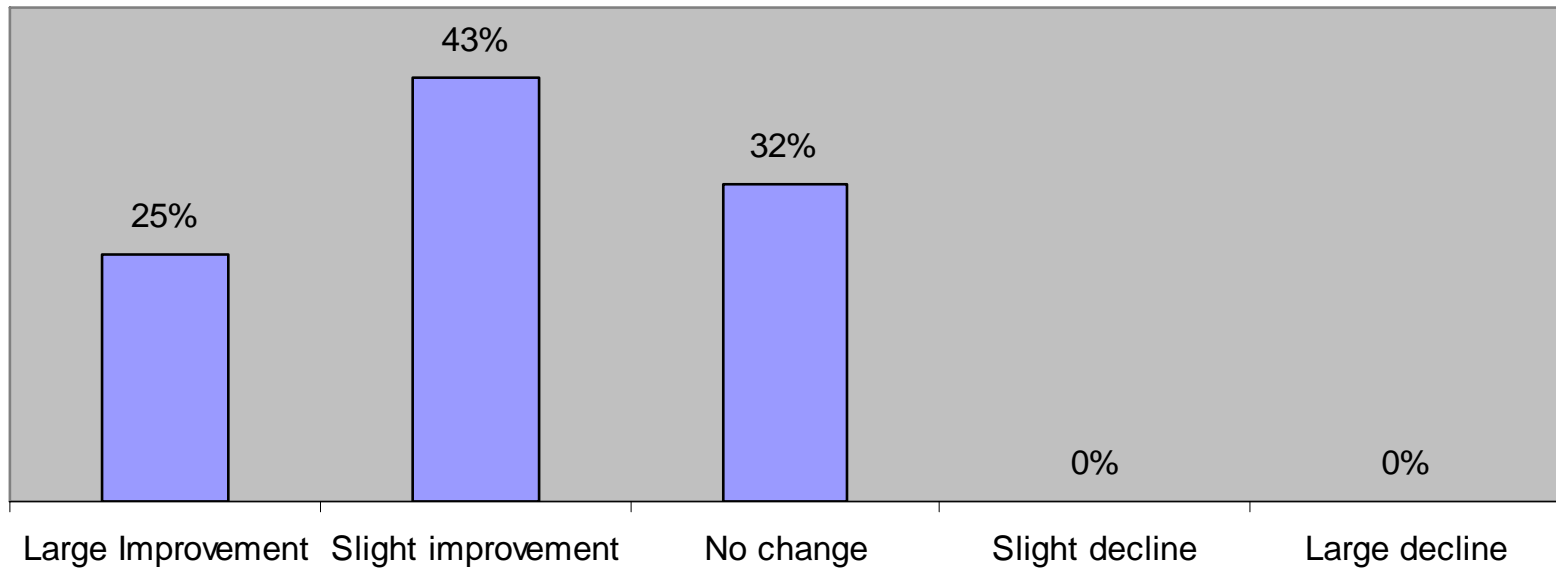
LONDON FIRE & EMERGENCY PLANNING AUTHORITY



# Behaviour of rational firms

- Rational firms will always seek ways to reduce costs and maximise revenue. If corners can be cut without apparent harm to the business, they will do it.
- Money is the language firms understand. It is the reason they exist.
- Transferring risk to the private sector is part of the VfM test. If deductions are part of the negotiated contract, it is our duty to impose them.
- Some bids will have a line of costs to meet fines in the breakdown of the price. So negotiate these out! Firms should at least put their margins at risk – more in extreme cases.

## Impact of Payment Deductions on Performance in PFI Contracts (Source: Partnerships UK)



# Some high-profile examples

- Wembley Stadium and Multiplex
- London Underground and Metronet
- Criminal Records Bureau and Capita

# Deductions and Relationships

- We want to work in partnership. We want good relations.
- BUT all good relationships have boundaries. We don't really want the money. Rectification periods incentivise correction of the sub-standard condition.
- Partnerships UK: *“The imposition of contractual sanctions does not, for the most part, adversely affect any partnership working.”*
- Contracts need teeth to be effective if standards fall. We hope deductions are exceptional, not the norm. The alternative is termination. Deductions offer *proportionality*.

# Further Reading

- *Report on Operational PFI Projects, Partnerships* UK, March 2006
- *PFI: Strengthening Long-Term Partnerships*, HM Treasury, March 2006