

Resource type: Project 13

Project 13 Commercial Handbook – creating a performance baseline

The commercial strategy starts with ensuring alignment with programme outcomes through defining outcome level performance metrics and using these to set a performance baseline for the whole enterprise. This introduces an agreed broader definition of value to the enterprise commercial arrangements.

The performance baseline considers not only capital and whole life cost elements; it also considers the benefits and performance measures.

The following model can be used as a discussion point to identify what constitutes value and the elements of 'high performance' for a specific programme. This discussion should happen between the owner and the investors to agree outcome measures of high performance. These are likely to be drawn from corporate objects, government policy objectives or particular challenges to be addressed with this programme. It is critical they are described in terms of outcomes at the network or asset level in line with Commercial Principles 1. The IPA's Transforming Infrastructure Performance programme and DfT's Transport Infrastructure Efficiency Strategy are looking defining outcome measures for government and transport programmes as part of their benchmarking initiatives.



Setting outcome based performance metrics

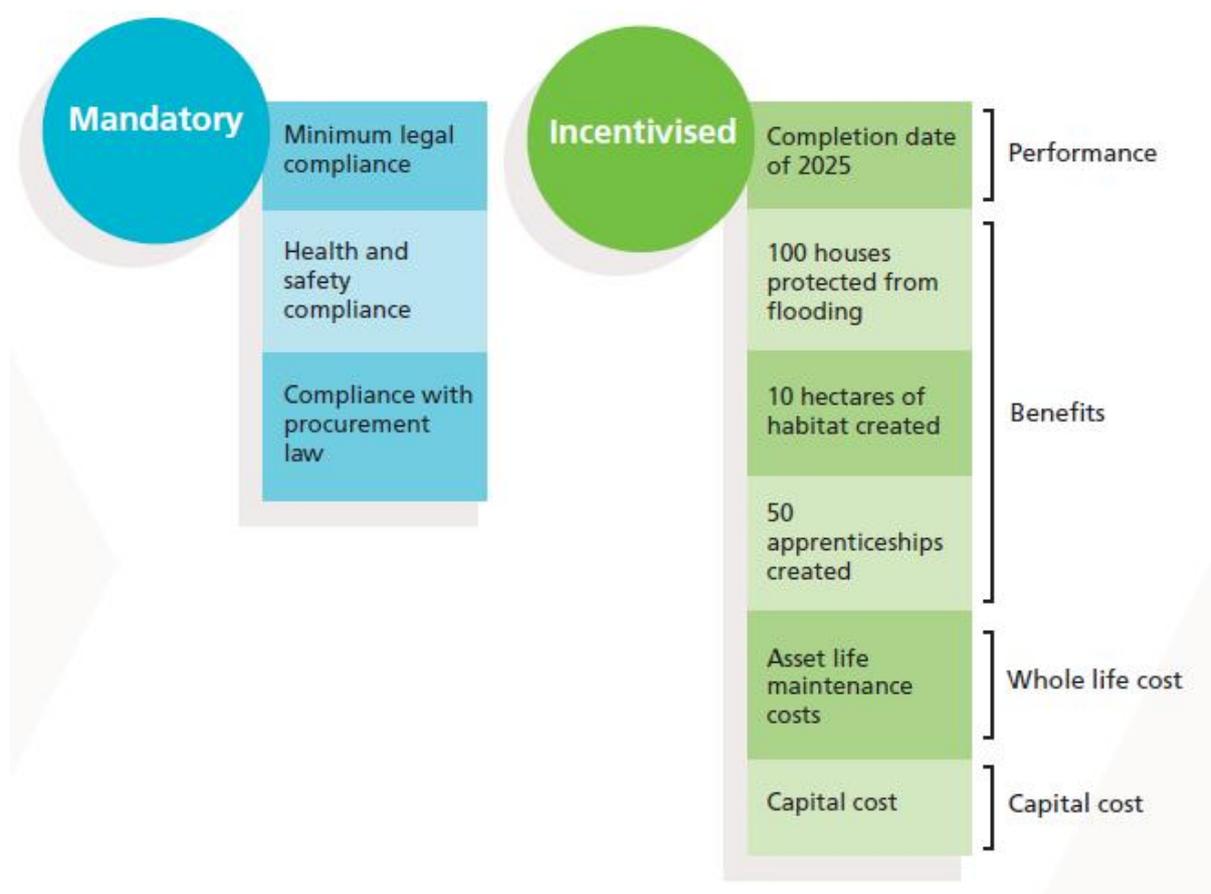
Once these metrics of high performance have been identified there's an opportunity apply benchmarked data to create a performance baseline and set the enterprise an outcome based performance metrics rather than a detailed specification. This approach has already been used successfully by TfL and the Environment Agency on their capital programmes.

How is a performance baseline developed?

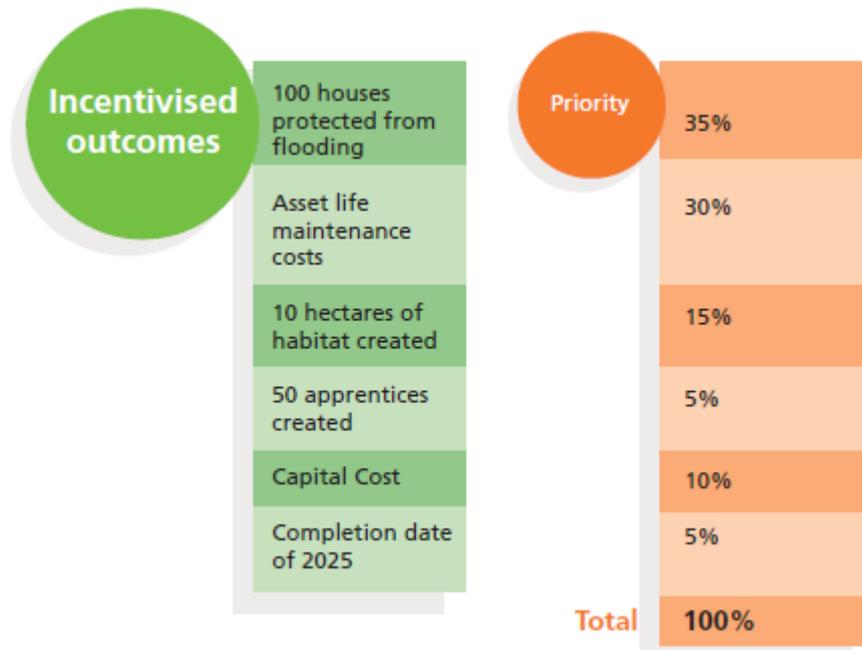
Using the outcome measures identified in figure above, they can then be prioritised in two categories:-

Mandatory – these are outcomes which cover aspects of the programme where there are guaranteed minimum standards, they should be reflected as such in a contract and must be met to achieve acceptable performance and enable access to the additional return from programme shares.

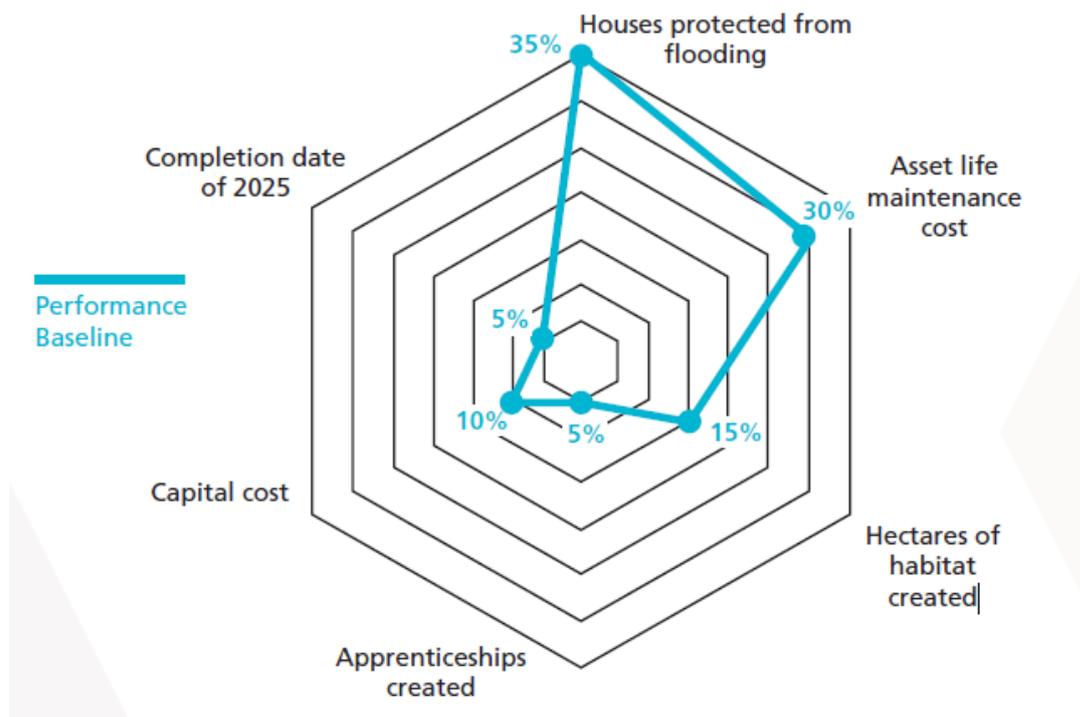
Incentivised – these are the outcomes where the enterprise has the freedom to develop the best options to deliver across a range of outcomes. Performance is determined by the best option to deliver the majority of these outcomes. It is this level of performance which determines the value and therefore return in the programme share pot.



Once the programme outcome measures have been defined by the owner they discuss the outcome measures with the investor. Between them they agree on the prioritisation of these outcomes and assign a % to them. This agreement establishes a performance scorecard to be used in the business case and also the commercial strategy to measure performance.



They then discuss what constitutes 'good performance'. This is likely to be based on benchmarked data which as a standard sets a 'should cost' and benefits against each of the outcomes. This alongside the cost benefit ratio is used to set the cost envelope for the programme.



This performance baseline should be developed at a programme/enterprise level, it can then be used in its entirety for the commercial strategy and as a sub-set to align with performance targets in any individual contracts. It should be noted that individual contract might only have a sub set of this overarching performance baseline included. There is further information on this in section 4 on contracting in an enterprise.

How will the performance baseline be applied?

The performance baseline will be first applied during the development stage of a programme to set the expected level of performance based on sector benchmarked costs and benefits and a weighting for non-direct benefits. The scope and weighting for each of the performance outcomes in the scorecard will be the decision of the investors and owners. This will then inform the performance baseline for the duration of the programme unless they make a decision in future to change the scope or benefits weighting.

As the programme progresses it can be used to measure performance by comparing the actual programme forecasts and deliverables against the performance baseline.

How will it help support an enterprise?

This will establish an enterprise performance baseline which can be used alongside the normal cost benefit ratio to:

- Give a clear steer from the investor and owner to the enterprise on prioritised outcomes to support better options development.
- Mitigating political impacts by having a clearer agreement between investors and owners on priorities i.e. if the investor changes the priorities it will be more formally discussed as it will change the performance baseline, giving the enterprise a chance to re-baseline its performance to reflect the new priorities.
- Set a baseline against which future enterprise performance can be assessed using benchmarked cost data.
- Inform decision making and spending announcements as a simple pre-policy options analysis.
- Provide a framework for economic appraisal of cross sector projects to be evaluated quickly at a strategic level.
- Make better use of benchmarked data in procurement decisions to demonstrate value for money.