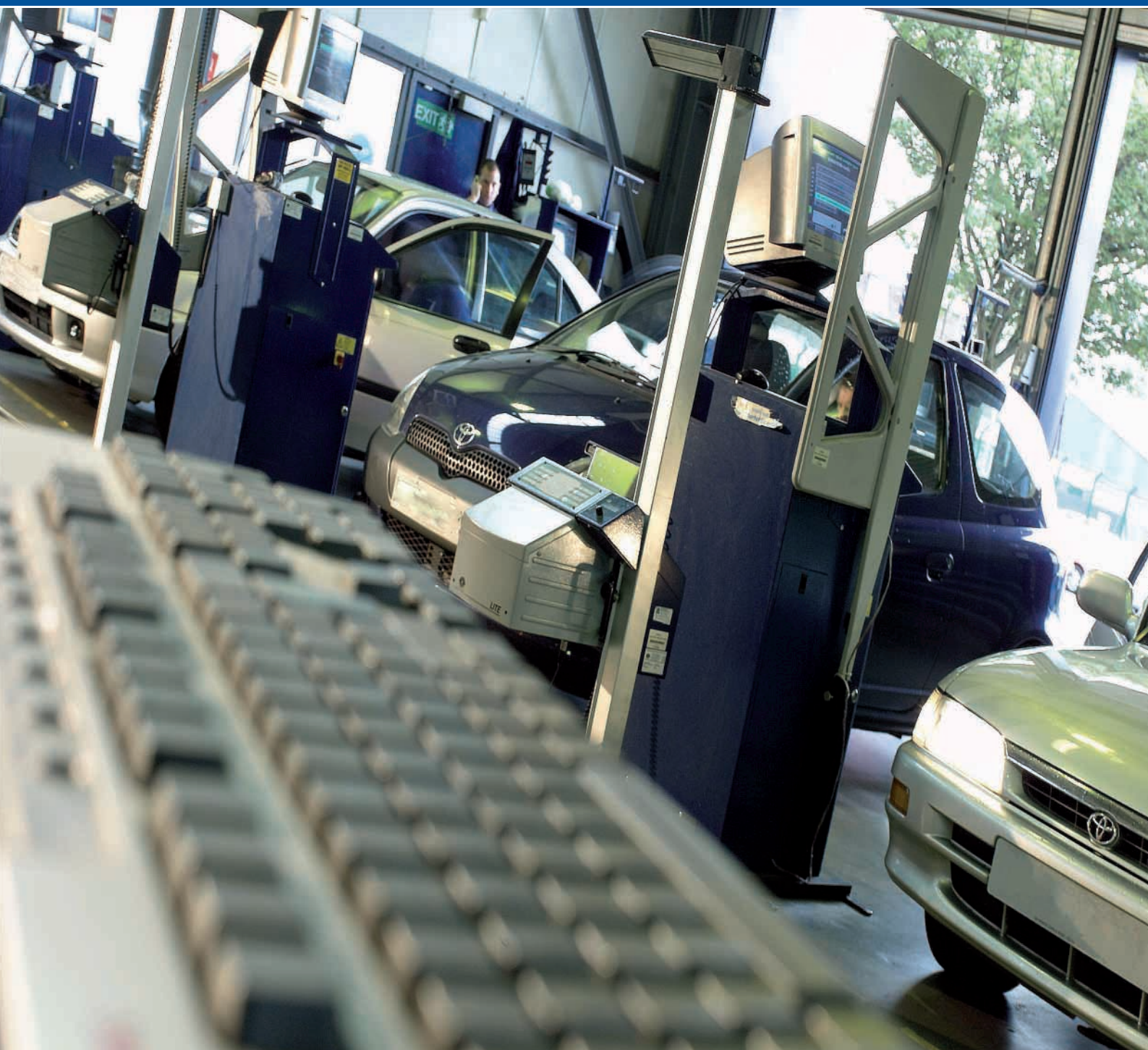


The PFI Contract for Northern Ireland's New Vehicle Testing Facilities

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

HC 952 Session 2005-06, 21 March 2006





Northern Ireland Audit Office

**Report by the Comptroller and Auditor General
for Northern Ireland**

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The PFI Contract for Northern Ireland's New Vehicle Testing Facilities

This report has been prepared under Article 8 of the Audit (Northern Ireland) Order 1987 for presentation to the House of Commons in accordance with Article 11 of that Order.

J M Dowdall CB
Comptroller and Auditor General

Northern Ireland Audit Office
20 March 2006

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For further information about the Northern Ireland Audit Office please contact:

Northern Ireland Audit Office
106 University Street
BELFAST
BT7 1EU

Tel: 028 9025 1100
email: info@niauditoffice.gov.uk
website: www.niauditoffice.gov.uk

Abbreviations

DFP	Department of Finance & Personnel
DVTA	Driver & Vehicle Testing Agency
EU	European Union
HGV	Annual test for Heavy Goods Vehicles of a certain age required by statute throughout the United Kingdom.
ITL	Integrated Test Lane
JWG	Joint Working Group
MOT	Annual test for cars and light goods vehicles of a certain age required by statute throughout the United Kingdom.
MOT2	The new automated vehicle testing equipment procured by DVTA under the Private Finance Initiative in March 2001.
NAO	National Audit Office
PAC	Public Accounts Committee
PFI	Private Finance Initiative
PSC	Public Sector Comparator

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Introduction and Executive Summary

1. In Northern Ireland, vehicle tests (MOTs) are conducted within the public sector by the Driver & Vehicle Testing Agency (DVTA), an Executive Agency of the Department of the Environment for Northern Ireland. DVTA's principal aim is to improve road safety in Northern Ireland, and in this respect, it also conducts driving tests in the region.

2. In undertaking its vehicle testing activities, DVTA carries out annual mandatory checks on the roadworthiness of:

- private cars and motorcycles aged four years and over;
- light goods vehicles aged three years and over;
- trailers, large passenger-carrying vehicles and heavy goods vehicles (HGVs) aged one year and over; and
- buses and taxis from first use.

Part 1: The Driver & Vehicle Testing Agency identified a need to acquire new vehicle testing equipment

3. By the mid-1990s, DVTA's vehicle testing equipment was outdated and increasingly prone to breakdown, and several other factors posed significant risks to the integrity of its vehicle testing processes. Furthermore, the imminent introduction of EU requirements for testing of additional items would place further pressure on capacity (paragraphs 1.3 and 1.4).

4. A 1996 economic appraisal highlighted the potential for procuring the new, automated, equipment through the Private Finance Initiative (PFI). Following very difficult negotiations between DVTA and the preferred bidder, the contract for the project (known as MOT2) was signed in March 2001. With a total cost of £57 million, the contractors were required to design, finance and build 61 computerised and calibrated test lanes at DVTA's 15 test centres between 2001 and 2003, and maintain them for 15 years thereafter. DVTA's

vehicle examiners would continue to be responsible for operating the equipment (paragraphs 1.5 to 1.7).

5. DVTA considered that the signed contract fully transferred to the contractors the requirement to provide sufficient capacity to allow it to achieve its targets related to vehicle testing. Since contract signature, the MOT2 equipment has not been accounted for as an asset in the financial accounts of DVTA, or those of the contractors. Consequently, the issue of which party has assumed the greater proportion of risks and benefits associated with the project does not appear to have been fully substantiated (paragraphs 1.8 to 1.10).

6. To date, DVTA has experienced difficulties in achieving the times specified in the PFI contract for carrying out vehicle tests. To address this, it has been monitoring test times being achieved, and engaged in ongoing negotiations and testing of the equipment with the contractors. As yet, no final solution has been agreed and negotiations are continuing (paragraphs 1.11 to 1.13).

Part 2: Implementation of the project has been difficult and a number of key performance measures have not been achieved

7. This was one of the earliest PFI projects on this scale in Northern Ireland. Consequently, the project team established in 1997 by DVTA to oversee its procurement did not have the benefit of the extensive good practice guidance developed more recently. In addition, the project was innovative and complex in nature, primarily because the preferred bidder's vehicle testing process and methodologies had not been proven, or tested, in a live environment (paragraphs 2.1 and 2.2).

8. Although the contractors completed the phased installation of all test centres by September 2003, this required two centres to be closed at any one time, with testing capacity reduced accordingly. A number of factors external to the project also impinged upon performance in delivering vehicle testing services, including initiatives aimed at

addressing road safety and motor tax evasion. These caused an increase of 20,300 vehicle test applications (10.5 per cent) in the five-month period between May and September 2003, compared with increases of 8,000 applications (4 per cent) for the corresponding period in previous years. Furthermore, the participation of DVTA staff in a Civil Service-wide strike during 2004 resulted in the cancellation of almost 100,000 test appointments (paragraphs 2.3 and 2.4).

9. DVTA has consistently been unable to achieve the key performance indicators specified in the contract, and average vehicle test times have been 23 minutes, five minutes above the 18-minute PFI target, despite the fact that full testing of all items was not introduced until March 2006. Average waiting times for customers rose from 20 calendar days in 2002-03 to 55 calendar days in 2004-05 (paragraphs 2.5 to 2.7).

10. DVTA introduced remedial measures between 2002-03 and 2004-05. These succeeded in minimising waiting times and helped DVTA achieve its formal business target in this regard in 2002-03. However, they were less successful in 2003-04 and 2004-05, and a decision to use 'flexible' examiners solely on vehicle tests resulted in an increase in driving test waiting times to 32 calendar days, against a key performance target of 23 days (paragraphs 2.8 and 2.9).

11. As DVTA's bonus scheme pre-dates MOT2, there are no arrangements for applying deductions to bonus when the contract test times are not achieved. In our view, it is essential that a more broadly based bonus scheme currently being developed by DVTA provides a more direct incentive for staff to optimise productivity (paragraphs 2.12 to 2.15).

12. Because DVTA had to respond to increased waiting times by introducing measures including additional overtime, it incurred extra costs, partly as a result of its problems with the MOT2 contract. Actual overtime costs from 2002-03 to 2004-05 exceeded DVTA's business plan forecasts by a total of £1.8 million. However, we estimate that the full overtime costs arising from the inability to achieve the 18 minute-test between 2002-03 and 2004-05,

could be in the region of £2 million. In addition, extended-day working costs between 2002-03 and 2004-05 were £269,000 greater than business plan forecasts (paragraphs 2.16 to 2.18).

13. In its full business case for the PFI project, DVTA estimated that fees would increase to £23 for a car/light goods vehicle test and £35.63 for an HGV test. However, customers have been paying between an additional £0.70 and £2.50 for a car/light goods vehicle test since the introduction of the new equipment, and the total additional cost to DVTA customers between 2002-03 and 2004-05 amounts to over £3.2 million. Nevertheless, vehicle test fees in Northern Ireland compare favourably with the current fees charged in Great Britain (paragraphs 2.19 to 2.22).

14. DVTA's decision to procure new test equipment was influenced by EU requirements, and bidders for the PFI contract were required to demonstrate that their testing solutions met all these standards. Although installation of the new equipment was completed in September 2003, DVTA did not commence full testing to EU standards until March 2006 (paragraphs 2.23 and 2.24).

15. The lengthy waiting times for vehicle tests which resulted from the industrial action had a major impact on DVTA's customers, with many motorists unable to use their vehicles legally, in the absence of a valid MOT certificate. To address this situation, in August 2004, DVTA introduced certificates of temporary exemption. DVTA issued some 520,000 of these certificates by December 2005, and envisages that their use is likely to continue until March 2006 (paragraphs 2.29 and 2.30).

Part 3: Several factors have contributed to the project's difficulties and there are lessons to be learned

16. The initial estimates for the capital components of the procurement amounted to £5 million, and had increased by contract signature stage to £14 million. The total lifetime value of the contract was finally calculated at £57 million. We consider the decision to invite tenders for this

project on the basis of the initial economic appraisal created the potential for the procurement process to be undermined, as potential bidders may have been reluctant to express an interest in a project that had a relatively small estimated value (paragraphs 3.2 and 3.3).

17. Following the appointment of the preferred bidder, negotiations to conclude the contract were lengthy, and, we consider there were a number of warning signs that indicated potential problems with the project's viability (paragraphs 3.4 to 3.8).

18. During negotiations, DVTA pressed the contractors to demonstrate that their solution could deliver the required outputs, and they agreed to equip and operate a pilot test centre for a six-month development period. However, there were a number of important differences between the test environment and subsequent 'live' operation. We consider that these meant that the pilot centre testing fell short of establishing that the full testing process could be completed and sustained in a live environment within the contract requirement. However, DVTA took the view that it had transferred the full risk for achieving an 18-minute test, and decided to proceed with full-scale implementation of the project. The contractors told us that they had accepted the full risk for the equipment, but not the staff operating it (paragraphs 3.9 to 3.11).

19. DVTA is responsible for providing a certain number of examiner hours per year, and the contractors liability for providing capacity is reduced in direct proportion to any shortfall. DVTA has calculated that the shortfall in comparison to the contractual requirement was the equivalent of some 16 examiners in 2003-04, and 43 examiners in 2004-05. This has resulted in the MOT2 equipment not being fully utilised, and has been a factor in preventing DVTA from achieving the required waiting times for vehicle tests (paragraphs 3.12 and 3.13).

20. This shortfall has contributed to the need for additional unplanned overtime working, costing £1.8 million between 2002-03 and 2004-05, which DVTA may be unable to recover, even if it establishes contractor liability for the productivity

problems experienced. In our view, it is now essential that DVTA establishes precisely the current levels of manpower required, and provided, for vehicle testing, and the optimum times achievable with the current MOT2 equipment, as a basis for determining the extent of each party's liability for inadequate productivity (paragraphs 3.14 and 3.15).

21. Complete and accurate management information on vehicle test times is essential to conduct performance monitoring for the contract. However, DVTA did not take action to collate such information from the outset. Systems to enable the collection of this data were only established in August 2003, and were not fully developed until April 2004. The latest evidence available suggests that two test centres are achieving an 18-minute test (paragraphs 3.17 and 3.18).

22. DVTA's Public Sector Comparator (PSC), completed before contract signature, indicated that the 18-minute PFI solution had a value-for-money benefit of £5.6 million (16 per cent) over the likely cost of DVTA providing the service from its own resources. Consultants who re-calculated this in May 2004, concluded that, even with a 27-minute test, the PFI solution continued to provide a value-for-money margin of 11 per cent (paragraphs 3.20 and 3.21).

Part 4: DVTA has taken steps to address the difficulties and is in the process of determining a way forward

23. A Joint Working Group (JWG), established by DVTA and the contractors in May 2002, achieved little tangible progress in resolving the difficulties being experienced (paragraphs 4.2 to 4.4). In September 2002, DVTA formally notified the contractors that it intended to make limited deductions on the basis that they were failing to meet the 18-minute contract test time at the Larne test centre. However, DVTA did not proceed with this course of action, in light of increased commitment by the contractors to the JWG, and made no further moves to implement deductions (paragraphs 4.2 to 4.4 and 4.6 to 4.7).

24. Consultants have estimated that full

testing, which DVTA introduced in March 2006, could result in tests increasing to between 25 and 29 minutes. Such an outcome would result in capacity becoming exhausted in some test centres as early as 2006-07, and at 10 of the 15 centres by 2010-11 (paragraphs 4.8 to 4.10).

25. DVTA estimated that a move to a 27-minute booking slot would result in additional expenditure of between £26.8 million and £39.8 million. However, there has been a subsequent improvement in test times, and we estimate that the total additional costs are likely to be in the region of £33.3 million (paragraphs 4.11 to 4.15).

26. In our view, it is important that DVTA moves quickly to prepare a complete and accurate estimate of both the total additional expenditure required as a result of the failure to achieve the 18-minute test, and the proportion which it will seek to recover from the contractors (paragraphs 4.16 to 4.18).

27. If DVTA is unable to determine the reasons for the variable productivity across its test centres, it is unlikely that it will be able to demonstrate that the contractors bear any liability for the failure to achieve the 18-minute test. Consequently, it will be poorly placed to implement deductions and will also be unable to terminate the contract. DVTA would then be faced with the likelihood of having to fund the significant costs of providing additional capacity, and having to increase test fees accordingly (paragraphs 4.24 and 4.25).

28. When negotiations on the current contract have been concluded, and before committing itself to any further significant expenditure, we recommend that DVTA undertakes a revised business case for the MOT2 project, which takes account of all additional costs incurred to date, together with any revised estimates for possible future expenditure that it may incur. In order to obtain a fully objective opinion, we consider that this reassessment should be carried out by a party fully independent of those involved in the initial appraisal and procurement processes. The potential for capacity to be exhausted at some centres by 2006-07 means that negotiations with the contractors, and this business case, should both now be completed as a matter of urgency (paragraph 4.26).



Part 1

The Driver & Vehicle Testing Agency identified a need to acquire new vehicle testing equipment

The Driver & Vehicle Testing Agency (DVTA) aims to improve road safety in Northern Ireland

1.1 In Northern Ireland, vehicle tests (MOTs) are conducted within the public sector by the Driver & Vehicle Testing Agency (DVTA), an Executive Agency of the Department of the Environment for Northern Ireland. DVTA's principal aim is to improve road safety in Northern Ireland, and in this respect, it also conducts driving tests in the region.

1.2 In undertaking its vehicle testing activities, DVTA carries out annual mandatory checks on the roadworthiness of:

- private cars and motorcycles aged four years and over;
- light goods vehicles aged three years and over;
- trailers, large passenger-carrying vehicles and heavy goods vehicles (HGVs) aged one year and over; and
- buses and taxis from first use.

By the mid-1990s, acquiring new vehicle testing equipment was a major priority for DVTA

1.3 By the mid-1990s, DVTA's vehicle testing equipment was outdated and increasingly prone to breakdown. Several other factors posed significant risks to the integrity of its vehicle testing processes, and the effective delivery of services to the public, including:

- a significant, and ongoing, increase in demand for vehicle tests;
- considerable health and safety issues for staff related to the testing equipment and facilities;

- capacity restrictions at many test centres, expected to lead increasingly to the use of expensive working practices, such as overtime and extended-day working¹;
- the need to meet increasingly challenging key performance targets for vehicle testing waiting times; and
- the need to improve the consistency and objectivity of vehicle testing, in the interests of road safety.

1.4 In addition, the imminent introduction of EU requirements requiring testing of additional items, such as smoke tests (diesel vehicles) and catalytic converter tests (petrol vehicles), would increase the time taken to carry out vehicle tests and place further pressure on capacity. This would result in significant costs being incurred through the need to construct additional test lanes at most of DVTA's centres.

DVTA opted to procure new testing equipment through the Private Finance Initiative and, in March 2001, signed a £57 million contract for the provision and maintenance of new vehicle testing equipment

1.5 In 1995, consultants commissioned by DVTA to advise on the most efficient method of undertaking its vehicle testing operations concluded that any further productivity improvements could only be achieved through the introduction of new, automated equipment. An economic appraisal, conducted in 1996, concluded that the introduction of an Integrated Test Lane (ITL) concept, would provide the best value for money over the next 10 years, and also highlighted the potential for procuring the equipment through the Private Finance Initiative (PFI).

1. Extended-day working involves the operation of two teams each working three days of twelve and a half hours. While this enables DVTA to double its vehicle testing capacity and reduces the need for overtime, it is, nevertheless, more expensive than standard working practices.

1.6 In line with then emerging best practice, DVTA's outline business case options included acquisition of the proposed ITL facilities through a PFI contract, and this subsequently emerged as the preferred option. In November 1996, the Department of Finance and Personnel (DFP) approved the outline business case, subject to the completion of a full business case before contract signature. When completed, in January 1999, this confirmed PFI as the optimal solution in value for money terms (see paragraph 3.20). Following very difficult three-year negotiations between DVTA and the preferred bidder, the contract for the MOT2 project was signed in March 2001. A detailed summary of the procurement process for the contract is provided at Appendix 1.

1.7 The contractors were required to design, finance and build 61 computerised and calibrated test lanes at DVTA's 15 test centres between 2001 and 2003, and to refresh and maintain them for a period of 15 years thereafter. DVTA's vehicle examiners would continue to be responsible for operating the equipment. The contract cost was £57 million (in cash outflow terms). In addition to payments made to the contractors during the roll-out of the equipment, DVTA is required to make annual, index-linked, unitary payments² (currently £3.25 million) to the contractors for providing and maintaining the facilities.

DVTA considered it had transferred risks appropriately and the contract contained key performance indicators on vehicle test times and customer waiting times

1.8 In attempting to achieve the best value for money in PFI procurement, public sector bodies should seek to transfer the optimum, rather than the maximum, risk to the private sector, by allocating individual project risks to those best placed to manage them.

1.9 DVTA had identified its requirements for risk transfer at an early stage and concluded that the contractors were best placed to manage all the main risks (except for external changes affecting

the demand for the service – such as changes in law). DVTA considered that the signed contract achieved the risk transfer it sought and fully transferred to the private sector the requirement to provide sufficient capacity to allow it to achieve its targets related to vehicle testing. The PFI contract contained relevant indicators in this regard:

- vehicle tests must take no longer than an average of 18 minutes to complete; and
- customer waiting times for tests must not exceed an average of 14 calendar days overall, or a maximum of 21 calendar days at individual test centres.

1.10 However, since contract signature in March 2001, the MOT2 equipment has not been accounted for as an asset in the financial accounts of DVTA, nor in those of the contractors. Given these circumstances, the issue of which party has assumed the greater proportion of the risks and benefits associated with the project does not appear to have been fully substantiated. Appendix 2 provides further background information on the accounting treatment for the MOT2 equipment.

However there have been difficulties with the project and contracted vehicle test and customer waiting times have not been achieved

1.11 In early 2002, during installation, waiting times for vehicle tests rose substantially and remained high at a number of test centres throughout the summer. However, DVTA took successful corrective measures and made sufficient reductions to achieve an overall average for 2002-03 (20 days) that surpassed its 21-day business target.

1.12 When waiting times began to increase again in the Spring of 2003, due primarily to an increase in demand for vehicle tests (see paragraph 2.4), DVTA took similar corrective measures. However, they proved less effective this time, and waiting times remained very high for the remainder of 2003, peaking at 51 days in one centre. As a result, considerable inconvenience was caused to both private and business motorists.

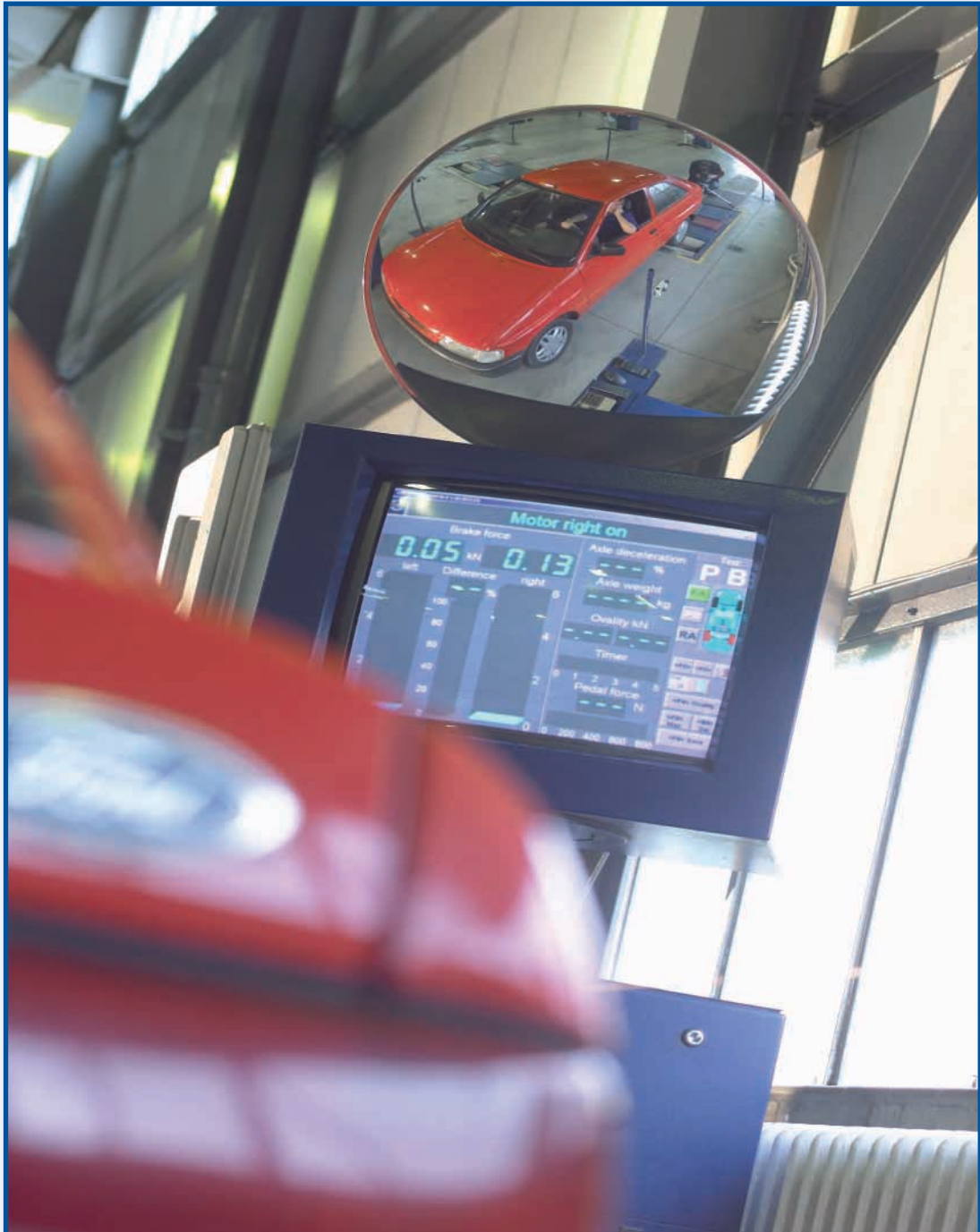
2. The annual amount paid to the contractors in return for provision of the service.

1.13 Since the first of the new facilities was installed, DVTA has experienced difficulties in achieving the times specified in the PFI contract for carrying out vehicle tests. To address this, DVTA has been monitoring the test times being achieved, and has engaged in ongoing negotiations and testing of the equipment with the contractors, in an attempt to identify and rectify problems that are hampering productivity. As yet, no final solution has been agreed and negotiations are continuing.

Scope of our examination

1.14 Against this background, we examined:

- the implementation of the MOT2 project, and the impact of this on DVTA's business performance (Part 2);
- the factors which have contributed to the project's difficulties, and the lessons arising from these (Part 3); and
- the steps taken by DVTA to address the difficulties encountered, and the progress made to date in determining a way forward (Part 4).



Implementation of the project has been difficult and a number of key performance measures have not been achieved

MOT2 was a complex and challenging project and it was implemented in a difficult operational environment

2.1 This was one of the earliest PFI projects on this scale in Northern Ireland. Consequently, the project team established in 1997 by DVTA to oversee the procurement process did not have the benefit of the extensive good practice guidance that has been developed more recently. At the time, there was a limited pool of knowledge, skills and experience in the field, and many of the general lessons learned from PFI procurement had yet to emerge. For example, the Public Accounts Committee (PAC) had only considered, and reported on, a small number of individual early PFI projects at this stage.

2.2 The project was innovative and complex in nature, primarily because the vehicle testing process and methodologies being proposed by the preferred bidder had not been fully proven, or even tested, in a live environment. In addition, the fact that the operation of the equipment was to remain the responsibility of DVTA presented it with key responsibilities and risks.

2.3 The project was also challenging because the new vehicle testing equipment was to be installed on a phased basis and, although the contractors achieved the challenging target of completing the phased refurbishment of all test centres between September 2001 and September 2003, this process required two of the 15 test centres to be closed at any one time, with overall testing capacity reduced accordingly.

2.4 In addition to the specific challenges of the project itself, DVTA faced a difficult operational environment, and a number of factors external to the project also impinged upon performance in delivering vehicle testing services since the project commenced:

- **new road safety and road tax initiatives**
– new initiatives aimed at improving road

safety and reducing motor tax evasion in Northern Ireland (including mobile camera detection and Statutory Off-Road Notification) had been launched in 2002 by Driver and Vehicle Licensing Northern Ireland, another Agency within the Department of the Environment. These initiatives caused an increase of over 20,300 applications (10.5 per cent) in vehicle applications received in the five-month period between May and September 2003, compared with increases of approximately 8,000 applications (4 per cent) for the corresponding period in previous years, and resulted in particular peaks in vehicle test applications; and

- **Civil Service industrial action**
– the extensive participation of DVTA staff in a Civil Service-wide strike during 2004 had a major impact on operational capability, with nine test centres completely closed and others partially affected. This resulted in the cancellation of almost 100,000 test appointments in the period May to August 2004.

DVTA has been unable to achieve the targets for vehicle test times and customer waiting times specified in the PFI contract, despite taking a number of remedial actions

2.5 In September 2001, the phased installation of the new equipment in DVTA's 15 test centres commenced, and the refurbishment of the first centre (Cookstown) was completed in November 2001. Initially, the new equipment was used for demonstration purposes for staff from other test centres and actual live testing of vehicles did not commence until December 2001. The phased installation of equipment was completed for all test centres, on schedule, by September 2003.

2.6 The PFI contract contained key performance indicators for vehicle test times and customer waiting times (see paragraph 1.9). However, shortly after the commencement of live operations,

problems with achieving the 18-minute test time required by the contract became apparent, with tests taking as long as an average of 27 minutes. Particular problems arose due to lengthy times being taken to complete manual inspections at the final test stage (see Appendix 3), as this often resulted in a queue of vehicles forming in a lane.

2.7 Since the inception of the project, DVTA has consistently been unable to achieve the key performance indicators specified in the PFI contract (see paragraph 1.9 and Figure 1 below). Over the three-year period from 2002-03 to 2004-05:

- average vehicle test times have been 23 minutes, five minutes (28 per cent) above the PFI target, despite the fact that full testing of all items was not introduced until March 2006 (see paragraphs 2.24 and 2.27);
- annual average waiting times for customers rose from 20 to 55 calendar days in 2004-05, significantly above the PFI target of 14 calendar days. However, performance in 2004-05 was significantly influenced by the Civil Service-wide strike (see paragraph 2.4); and
- waiting times at some individual centres were very high (see Appendix 4) with one centre peaking at 51 calendar days in July and August 2003, more than twice that specified in the PFI contract (21 calendar days).

Figure 1: Actual performance compared with the PFI contract requirements

Performance Category	PFI contract requirement	2002-03	2003-04	2004-05 *
Vehicle Test Time (minutes)	18	23	23	23
Average Waiting Time (calendar days)	14	20	30	55
Maximum Waiting Time (calendar days)	21	34	51	179*

Source: DVTA

* Performance in 2004-05 was affected by the participation of DVTA staff in a Civil Service-wide strike during 2004 (see paragraph 2.4)

2.8 In order to address the MOT2 productivity problems and the other factors which were affecting DVTA's operational performance, and to counteract the subsequent backlog of test applications and increased waiting times, DVTA introduced a number of remedial measures between 2002-03 and 2004-05. These included:

- deferring the introduction of full testing of smoke emission, catalytic converter and headlamp beam alignment (required by EU and domestic legislation – see paragraph 1.4), partly due to the potential impact this would have on customer waiting times;
- introducing the extensive use of overtime (see paragraphs 2.16 to 2.18 below);
- introducing extended-day working by staff at a number of test centres earlier than had been envisaged by the terms of the PFI contract;
- using 'flexible' examiners (i.e. those qualified to conduct both vehicle and driving tests) solely on vehicle tests; and
- providing additional training in 2003-04 for its examiners in the use of the new equipment, in order to familiarise staff with the additional test items, and in an attempt to reduce test times.

2.9 These measures succeeded in minimising waiting times and helped to ensure that DVTA achieved its formal business target in this regard in 2002-03. However, they were less successful in this regard in 2003-04 and 2004-05 (see paragraph 2.10 and Figure 2), due to the ongoing difficulties with operation of the MOT2 equipment, and other operational factors (see paragraph 2.4). DVTA told us that it had succeeded in reducing average waiting times to just over 14 calendar days in early 2004, but that the subsequent industrial action (see paragraph 2.4) had been a major factor in these increasing significantly. The use of flexible examiners solely on vehicle tests (see paragraph 2.8) contributed to driving test waiting times increasing from 2002 onwards, with the overall average waiting time in 2002-03 and 2003-04 rising to 32 days, against a key performance target of 23 days.

Payment of performance bonus has been reduced because DVTA has had difficulty in meeting its formal targets for customer waiting times

2.10 DVTA’s business plan contains formal targets for customer waiting times in relation to vehicle tests but does not contain formal targets for vehicle test times. It does contain forecast test times, and these were set at higher levels than the 18-minute target specified in the PFI contract. Although DVTA generally met these forecast times over the period 2002-03 to 2004-05 (except in 2002-03 when the productivity problems were first experienced), it achieved its formal targets for customer waiting times only in 2002-03 (see Figure 2 below).

Figure 2: DVTA performance compared with its business plan forecasts for MOT2 test times and formal targets for customer waiting times 2002-03 to 2004-05

Performance Measure		2002-03	2003-04	2004-05
Vehicle Test Times (minutes)	Forecast	19	23	24
	Actual	23	23	23
Customer Waiting Times (calendar days)	Target	21	21	21
	Actual	20	30	55

Source: DVTA

2.11 A number of factors contributed to the setting of forecast test times that were longer than those specified by the PFI contract:

- 2002-03 – the business plan was finalised just before the roll-out of the new equipment commenced, and was based on an assumption that the introduction of MOT2 would result in a 19-minute vehicle test (see Figure 2 above). This was one minute longer than required by the contract (to allow for examiners to familiarise themselves with the operation of new equipment). Combined with the assumption that tests conducted with the old equipment would take 23

minutes, the overall forecast in the business plan was for an average time of just over 21 minutes;

- 2003-04 – in preparing this business plan, the problems with achieving an 18-minute vehicle test were more evident. Consequently, the plan was based on an assumption of a 23-minute test. However, although this was five minutes longer than the contractual requirement, it still did not contain provision for the diesel/smoke emission test, which had been included in the contract specification (see paragraphs 2.24 and 2.27); and
- 2004-05 – the business plan envisaged an average vehicle test time of 24 minutes, with provision for the introduction of the diesel/smoke test during the year. In the event, the prolonged Civil Service campaign of industrial action during the year, together with the ongoing problems with test times, meant that DVTA was unable to introduce these test items.

2.12 DVTA currently operates a scheme under which each member of staff becomes entitled to bonus when the Agency’s key financial performance target (the Standard Hour Cost) is achieved. Payment of bonus is reduced if key business performance targets for waiting times and customer satisfaction are not achieved. As the scheme pre-dates the introduction of MOT2, there are no arrangements for applying deductions to bonus when the test times required by the MOT2 contract are not achieved.

2.13 Consequently, despite the failure to achieve its PFI contract test times in 2002-03, no deduction was applied to the bonus as DVTA achieved its formal business target for vehicle test waiting times (the business target was set at 21 calendar days and an average of 20 calendar days was actually achieved).

2.14 DVTA did not meet its waiting time targets in the subsequent two years. Despite this, in 2003-04, when the average vehicle test waiting time (30 calendar days) was far in excess of the formal business target (21 calendar days), and when DVTA achieved only three of its seven business targets, it

paid a group staff bonus of £296,000. DVTA told us that the bonus was based on a pre-determined formula which reflected the fact that it had achieved its key financial performance target, but also took account of the failure to achieve the four business targets. Consequently, bonus was reduced by 30 per cent. No bonus was paid in respect of 2004-05, when the Civil Service-wide strike (see paragraph 2.4) seriously undermined DVTA's ability to meet any of its key financial or performance targets.

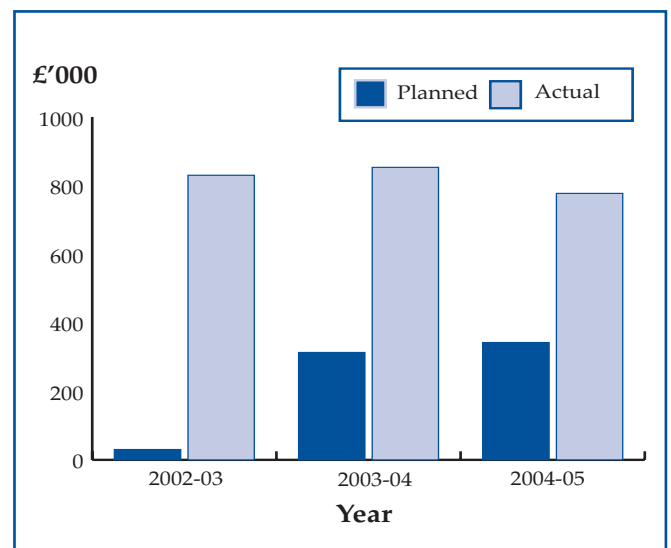
2.15 DVTA told us that it is in the process of developing a more broadly based bonus scheme, which balances the requirement for increased efficiency, with the need for a high-quality test and excellent customer service. DVTA envisages that this will deliver improved productivity as a by-product, and that this approach would also have the advantage of addressing the requirement for improved performance across the full range of the Agency's responsibilities, including driver testing. However, in addition to quality and customer satisfaction, we consider that the bonus scheme should provide a more direct incentive for staff to optimise productivity. We therefore recommend that one component of the bonus calculation should be an explicit link to achievement of the optimum test time deliverable with the MOT2 equipment. DVTA will be in a better position to identify this optimum time following the introduction of the full test at the end of 2005-06 (see paragraphs 4.20 and 4.21).

DVTA incurred additional overtime and related costs

2.16 Because DVTA had to respond to the increased customer waiting times by introducing, among other things, additional levels of overtime, it incurred extra costs, partly as a result of its problems with the MOT2 contract. Actual overtime costs incurred from 2002-03 to 2004-05 exceeded those forecast in DVTA's successive business plans, by a total of £1.8 million (see Figure 3). Of this figure, DVTA has estimated that at least £0.68 million was incurred as a result of operational problems with MOT2 in 2002-03 and 2003-04.

2.17 We note, however, that DVTA's estimate is based on a comparison of outturn with business plan forecasts. As the business plan forecasts were set at higher levels than the PFI contract requirements (see paragraph 2.10), these estimates do not represent the full costs incurred as a result of the inability to achieve the 18-minute test specified in the contract between 2002-03 and 2004-05. We estimate that, when compared with the requirements of the contract, the extra costs could be in the region of £2 million.

Figure 3: DVTA overtime costs 2002-03 to 2004-05 (planned and actual)



Source: DVTA

2.18 In addition to the significant overtime costs incurred, extended-day working costs amounted to £682,000 between 2002-03 and 2004-05, compared to £413,000 estimated in the business plans for this period. DVTA told us that much of this expenditure resulted from the increase in demand for vehicle tests rather than the failure to achieve an 18-minute test.

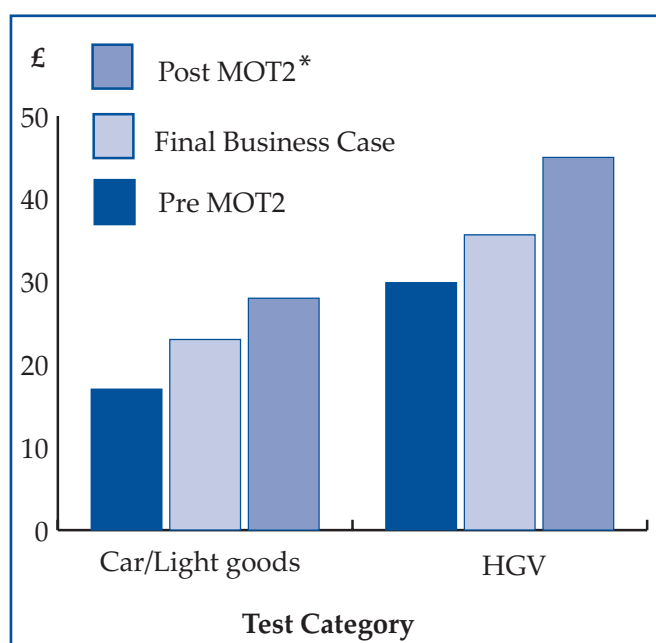
Although MOT charges increased because of ongoing problems with the PFI contract, they still compare favourably with Great Britain

2.19 Because DVTA has operated as a Trading Fund³ since April 1996, it is required to recover the full costs of its activities from the income that it generates. Consequently, the costs of any major procurement impact on the fees charged to customers.

3. A means of financing the trading operations of a Department or Agency, involving the use of receipts to meet outgoings.

2.20 In its full business case for the PFI project, completed in March 2000, DVTA estimated that fees would increase to £23 for a car/light goods vehicle test and £35.63 for a HGV test. Since the introduction of the new equipment, fees have increased at a greater rate than DVTA had envisaged and, by April 2003, the cost of a car/light goods test had risen to £28, and the average fee charged for a HGV test was £45.

Figure 4: Cost of DVTA Vehicle Tests



Source: DVTA

* MOT2 tests include items not tested with the previous equipment, and this is reflected in the respective fees.

Figure 5: Additional costs to DVTA customers for vehicle tests (car/light goods vehicle) arising from productivity problems

Year	Actual cost of test (£)	Cost of test if completed in 18 minutes (£)	Additional cost of vehicle test (£)	No. of car/light goods vehicle test	Total additional cost to DVTA customers (£ million)
2002-03	25.00	24.30	0.70	415,647	0.291
2003-04	28.00	26.20	1.80	449,741	0.810
2004-05	28.00	26.00	2.00	488,777	0.978
2005-06	30.50	28.22	2.28	524,955	1.197
Totals				1,879,120	3.276

Source: DVTA

2.21 The ongoing inability to achieve the required MOT2 test times has resulted in DVTA setting fees on the basis of between 21 and 24 minutes' actual labour time, instead of the 18 minutes required by the contract. Consequently, as Figure 5 below shows, customers have been paying between an additional £0.70 and £2.50 for a vehicle test (car/light goods vehicle) since the introduction of the new equipment. The total additional cost to DVTA customers between 2002-03 and 2004-05 amounts to over £3.2 million.

2.22 Before the introduction of the MOT2 equipment, vehicle test fees had traditionally been lower in Northern Ireland than in Great Britain (where tests are conducted by private garages). Despite the recent fee increases, the cost of vehicle tests in Northern Ireland continues to compare favourably with fees currently charged in Great Britain (see Figure 6).

Figure 6: Comparative costs of MOT and HGV tests in Northern Ireland and Great Britain

Vehicle Test Category	DVTA Northern Ireland Fee (£)	Fee charged in Great Britain (£)
MOT (car/light goods)	30.50	44.15 (maximum)
HGV	40.56 (average)	51.50

Source: DVTA and Vehicle & Operator Services Agency (Great Britain)

DVTA has been unable to introduce several important test procedures

2.23 DVTA’s decision to procure new test equipment was influenced by a number of EU Directives that had either been issued or were pending (see paragraph 1.4). These contained requirements to test three key items (headlamp beam alignment, diesel smoke emissions and catalytic converters) to increasingly stringent standards. Consequently, bidders for the PFI contract were required to demonstrate that their proposed testing solutions met all the standards and requirements of both EU and domestic legislation.

2.24 Although installation of the new equipment was completed at all test centres in September 2003, DVTA only introduced mandatory testing of headlight beam alignment in March 2005. Furthermore, it did not commence smoke emission and catalytic converter testing to the standards laid down by current domestic and EU legislation until March 2006. Consequently, until this date, DVTA was testing vehicles to a less stringent standard than the rest of the United Kingdom.

2.25 DVTA told us that it did not introduce headlamp alignment testing to the standards operated in Great Britain until March 2005, because early research had shown that the failure rate would be very high. DVTA said that this testing would not have been practical against

the background of the 2004 industrial action (see paragraph 2.4 above), as it would place a further strain on waiting times, which were already at very high levels. The introduction of this testing had the potential to place considerable further strain on DVTA’s capacity, as evidence from testing in the Republic of Ireland indicated that the initial failure rate was in the region of 65 per cent, reducing to 12 per cent as the testing standards required became more fully established.

2.26 However, DVTA said that preparatory steps it took, including publicity and extensive liaison with the garage trade, had resulted in the failure rate for the new headlamp test increasing by only three per cent (to 26 per cent compared to 23 per cent for the previous test), minimising the impact on its capacity. DVTA also told us that improvements introduced by the contractors had allowed it to identify potential failure rates and plan accordingly for them.

2.27 Although currently required by domestic legislation⁴, the introduction of mandatory testing of smoke emission levels and catalytic converters on a pass/fail basis was deferred, pending resolution of specific problems associated with the first stage of the vehicle test, and with the lengthy times being taken to complete the overall test. Although these are still unresolved, DVTA introduced the test fully in March 2006.

2.28 DVTA told us that, although the contractors had offered to make some amendments to the first test stage (i.e. smoke emissions and catalytic converters – see Appendix 3), the extent to which these would deliver the improvements required was not apparent, and stringent conditions had been attached to this offer (see paragraphs 4.11 and 4.12). While there is the potential that considerable additional expenditure will be required to resolve the problems encountered (see paragraph 4.14), the financial implications for DVTA and the contractors will not be fully apparent until negotiations are concluded.

4. Statutory Rule No 517 (2003).

Customer satisfaction with booking arrangements declined, although reaction to the use of the new equipment has been positive

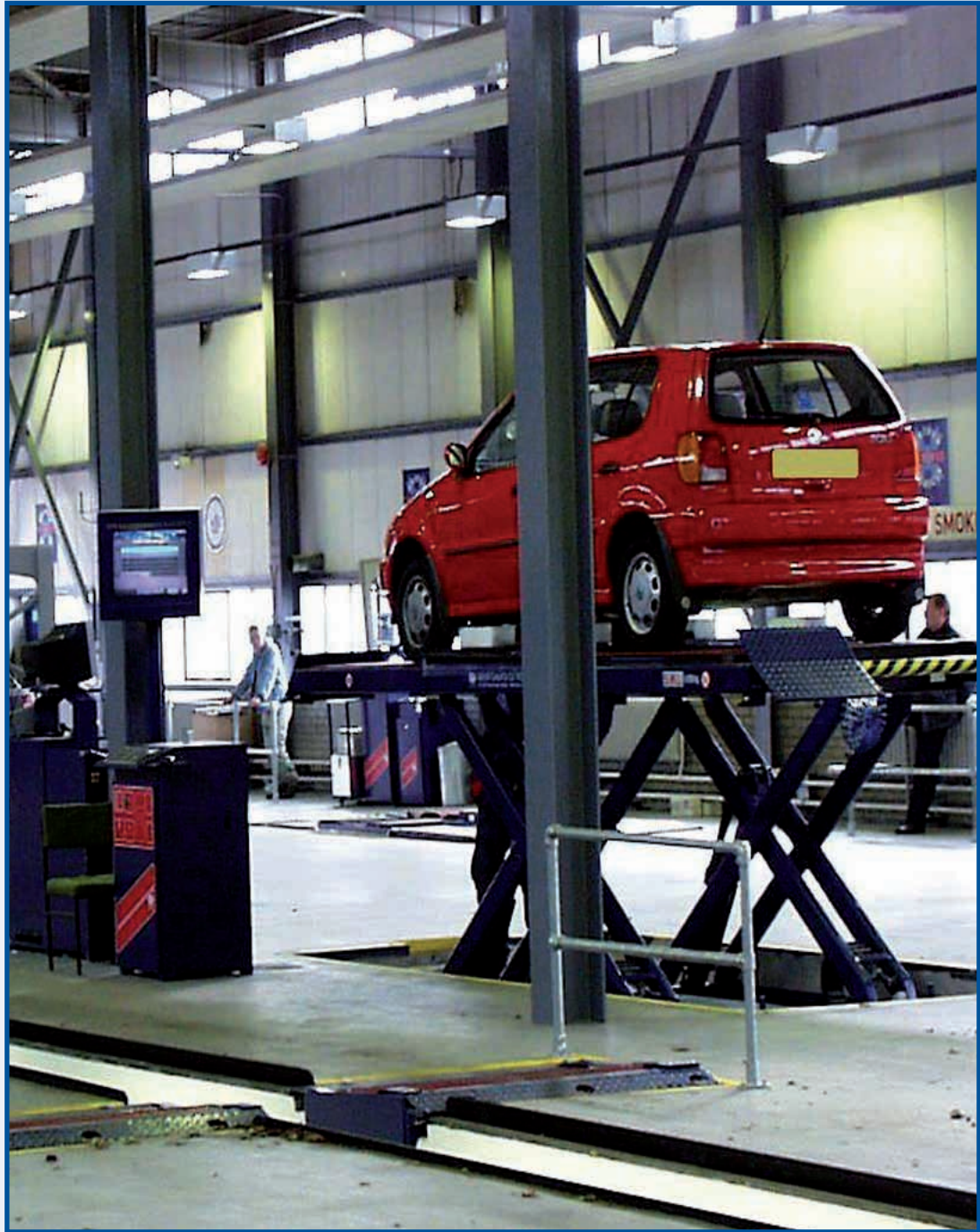
2.29 The emergence of lengthy waiting times for vehicle testing and the measures taken to alleviate waiting times had a major impact on DVTA's customers and their satisfaction with the vehicle testing service:

- **booking arrangements** - the level of customer satisfaction with booking arrangements fell to 68 per cent in 2003-04, compared with the key business target of 92 per cent. Although this increased to 82 per cent in 2004-05, it still fell short of the 92 per cent target;
- **customer complaints** - the number of customer complaints about booking arrangements increased from 96 in 2000-01 to 206 in 2003-04. Similarly, while formal complaints by customers about waiting times had been virtually non-existent in previous years, almost 200 were received in 2003-04 (although, as DVTA undertakes over 500,000 vehicle tests annually, the level of these complaints is relatively low); and
- **overall satisfaction** - customers' satisfaction levels with their overall experience of the test also reduced, falling from 95 per cent in 2002 to 88 per cent in 2003.

2.30 The outcomes described above indicate the level of inconvenience experienced by both private and business motorists between 2002-03 and 2004-05. Because of the delays that resulted from the industrial action (see paragraph 2.4), many found themselves unable to use their vehicles legally, in the absence of a valid MOT certificate. To address this situation, in August 2004, DVTA introduced certificates of temporary exemption, which permit a vehicle to be driven on the road without a valid test certificate for the period in which motorists await a date for the vehicle test. Some 520,000 of these certificates have been issued between August 2004 and December 2005, and DVTA envisages that their use is likely to continue until March 2006. In addition to the need to clear the backlog following the end of the industrial action, DVTA

told us that the continued use of these certificates has been necessary because of the need to re-deploy flexible examiners (see paragraph 2.8) to deal with a backlog in practical driving tests. This was exacerbated by a reluctance by vehicle examiners to take up the option of increased overtime working then required to meet demand for vehicle tests.

2.31 Despite the problems with long waiting times, a 2002 DVTA survey, undertaken during roll-out of the new equipment, indicated high customer satisfaction levels with the vehicle test procedure for both the MOT2 equipment (95 per cent), and the old testing equipment (94 per cent). Further surveys, carried out in respect of 2003-04 and 2004-05, after all test centres had been re-equipped, found that satisfaction levels had fallen slightly, but remained high, at 91 and 86 per cent respectively.



Several factors have contributed to the project's difficulties and there are lessons to be learned

DVTA's project team complied with much of what was subsequently regarded as good practice in PFI procurement

3.1 MOT2 was a relatively early PFI project within Northern Ireland and the project team did not have the benefit of the extensive good practice guidance that was developed subsequently (see paragraph 2.1). Although only limited guidance was available at the time, we found that DVTA's project team had complied with much of what was later to be regarded as good practice in the procurement of PFI projects. We also found that, in compiling its final business case for the project in March 2000, DVTA took a number of important steps, including carrying out a review of significant project cost increases that had occurred since the appointment of the preferred bidder (see Appendix 1), and reappraising the affordability and value for money of the project. However, DVTA did not conduct any formal reviews, of the sort recommended in a National Audit Office (NAO) report, published in August 1999⁵, to assess the ongoing viability of the project. Such reviews became a requirement (after procurement of MOT2) as part of the Office of Government Commerce's Gateway process.

Bids were invited on a basis that had underestimated the nature, extent and cost of the project

3.2 The initial estimates for the capital component of the procurement had amounted to £5 million, but the final figure for the capital element in the contract was £14 million. DVTA told us that the initial estimates had been derived from the 1996 economic appraisal (see paragraph 1.5), which had been based on a conventional approach to the procurement of testing equipment, and which had considerably underestimated the costs of the construction required. It also told us that much more had been procured under the PFI solution than had been envisaged by the 1996 appraisal,

including information systems, test centre doors, flooring, painting, lighting and cleaning. There was also a considerable element of risk transfer. The total lifetime value of the contract, including all the additional items, was finally calculated at £57 million (see paragraph 1.7).

3.3 In our view, the decision to invite tenders for this procurement on the basis of the initial economic appraisal, which had significantly underestimated the nature, extent and cost of the project, created the potential for the procurement process to be undermined, as potential bidders may have been reluctant to express an interest in a project that had a relatively small estimated value.

3.4 Following the appointment of the preferred bidder, negotiations to conclude the contract were lengthy, and a number of problems arose. In our view, there were also a number of warning signs during the procurement process (see paragraphs 3.5 to 3.8) that indicated potential future problems with the project's viability.

Negotiations during the procurement process were protracted and difficult

3.5 Before the announcement of the preferred bidder, one of the three short-listed bidders withdrew. DVTA told us that this was due to the fact that the preferred bidder would have to commit significant funding to the project before contract signature, with no guarantee that this would be recouped if the project did not proceed. In addition, we consider that one of the two remaining bids was not PFI compliant, due to the absence of any realistic proposals for risk transfer. In our view, this left DVTA with only one viable bid.

5. "Examining the value for money of deals under the Private Finance Initiative" (HC 739, Session 1998-99).

3.6 Experience gained on later PFI projects in other organisations has shown that failure to attract a significant number of bidders may indicate potential problems with the viability of proposed projects. Some organisations have reimbursed a proportion of bidders' costs for major PFI projects, in order to encourage competition and secure an appropriate range of bids. In January 2003, the NAO commented that "Departments should take it as a warning sign that their proposed PFI projects may not be workable if few bidders show initial interest and others withdraw as the procurement process continues."⁶ This view was subsequently reinforced by the Public Accounts Committee (PAC) who stated that "a single bid for a major complex project is seldom likely to achieve value for money."⁷

3.7 Treasury Taskforce (TTF) guidance on PFI procurement specifies terms for compensation that should be awarded in the event of a contract being terminated due to operator default. DVTA told us that it viewed the acceptance of these terms as crucial in concluding contract negotiations, but, after the preferred bidder was appointed in April 1998, it encountered difficulty in finding a bank willing to accept these terms. One bank was unwilling to conclude a contract on this basis, and there were prolonged negotiations with another on the matter before it agreed to provide funding.

3.8 The software suppliers initially appointed by the preferred bidder withdrew from the project, and were unwilling to disclose the reasons for their withdrawal. When replacement suppliers were appointed, they carried out a re-appraisal of IT requirements and identified potential additional costs of almost £7 million. However, following negotiations, DVTA succeeded in reducing this to £5.2 million.

The new system was piloted before installation, but not in a 'live' environment

3.9 The contractors' proposed testing solution involved vehicles being examined at four main stages, with the requirement for DVTA examiners to carry out manual inspections at the final stage (see Appendix 3). Because of the innovative nature

of the proposed vehicle testing solution, DVTA had pressed the contractors, during negotiations, to demonstrate that its concept could deliver the required outputs. The contractors agreed to equip and operate a pilot test centre with the equipment for a six-month development period, following contract signature, in order to establish whether or not the equipment could achieve the level of productivity required. In the event that its feasibility was not demonstrated adequately, the contract terms allowed either party to withdraw, before full-scale implementation.

3.10 Testing undertaken at the pilot centre, between April and September 2001, indicated that it was possible for a car/light goods vehicle test to be completed in 18 minutes. However, because the equipment was not configured in the manner in which it would be used at the actual test centres, there were a number of important differences between the test environment and subsequent, 'live' operation, including:

- vehicles were examined individually, instead of the continuous flow process that would operate in an actual test centre. Consequently, waiting times that could occur when a queue of vehicles developed at the four different stages of a test lane, were not apparent (see Appendix 3);
- testing was carried out on relatively new vehicles, which probably had fewer defects than many of those typically requiring an MOT test; and
- some IT requirements, such as the printing of test results and certificates, had not been fully developed and were not tested.

6. "New IT Systems for Magistrates Courts" (HC 327, Session 2003-04).

7. "New IT Systems for Magistrates Courts" (HC 434, Session 2003-04).

3.11 In our view, these limitations meant that the pilot centre testing fell short of establishing that the full testing process could be completed and sustained in a live environment within the 18 minutes required by the contract. DVTA officials highlighted the potential to the contractors for particular problems arising when testing was conducted in a live environment. However, DVTA took the view that it had transferred the full risk for achieving an 18-minute test to the contractors (see paragraph 1.9) and, on this basis, it decided to proceed with full-scale implementation of the project. The contractors told us that they had accepted the full risk for the equipment, but not the staff operating it. This fundamental difference of opinion as to which party is responsible for inability to achieve the contract test times has been a significant factor in the unresolved difficulties that materialised shortly after the commencement of live operations (see paragraph 1.13).

DVTA has not supplied the level of examiner hours required by the contract

3.12 In order to achieve the test times required under the contract, DVTA is responsible for providing a certain number of examiner hours per year. If the stipulated number of hours is not provided, the contractors' liability for providing sufficient capacity is reduced in direct proportion to the shortfall.

3.13 In October 2003, DVTA acknowledged that it "did not appear to have provided the number of days and the number of minutes per examiner per day agreed in the contract". DVTA had not then produced complete records showing the hours per examiner actually provided, but it has subsequently calculated that the shortfall in comparison to the contractual requirement was the equivalent of 16 examiners in 2003-04, and 43 examiners in 2004-05, when the ongoing industrial action (see paragraph 2.4) was a significant factor. The inability to provide the contractual level of examiner hours has resulted in the MOT2 equipment (for which DVTA makes ongoing unitary payments) not being fully utilised. This has been a factor in preventing DVTA from achieving the required waiting times for vehicle tests (see paragraph 2.10 and Figure 2).

3.14 This shortfall has been one of the causes of the long waiting times for vehicle tests since 2002, and has also contributed to the need for additional unplanned overtime working costing £1.8 million between 2002-03 and 2004-05 (see paragraph 2.16 and Figure 3). In addition, DVTA told us that the requirement to recruit additional staff to address capacity problems caused by longer test times and reduced manpower had brought about the need for additional extended-day working. The shortfall in manpower provision also means that, even if DVTA establishes contractor liability for the productivity problems experienced (see paragraph 3.19), it may be unable to recover the full additional salary and overtime costs incurred since the introduction of the new equipment.

3.15 In our view, it is now essential that DVTA establishes precisely the current levels of manpower required, and provided, for vehicle testing, and the optimum test times achievable with the current MOT2 equipment. This would serve as a basis for determining the extent of each party's liability for inadequate productivity, and the consequential effect on customer waiting times.

DVTA has not yet decisively ascertained whether its operation of the equipment is a factor in the inability to achieve an 18-minute test

3.16 In negotiations, the contractors have largely maintained the view that DVTA is mainly responsible for problems with vehicle throughput and waiting times. Since December 2002, an extensive DVTA programme of remote monitoring at its test centres, involving the analysis of some 62,000 test times, has shown that:

- test times were generally significantly lower compared with those achieved during formally-monitored time trials undertaken by a Joint Working Group, which had been established by DVTA and the contractors (see paragraph 4.4), and with the booking slots⁸ being operated by DVTA (see paragraph 2.11 and Appendix 5);

8. Intervals in which DVTA chooses to book vehicle tests.

- the 18-minute test time required by the PFI contract was being achieved at a number of test centres. However this did not represent the full vehicle test, as it was not inclusive of smoke emissions; and
- there was evidence of significant variances in the average test times being achieved by different test centres and by individual vehicle examiners.

These results have hampered DVTA's attempts to demonstrate to the contractors the extent to which their equipment and methodologies may be responsible for failing to achieve the 18-minute test.

3.17 Complete and accurate management information on vehicle test times is essential to conduct performance monitoring for the contract. However, DVTA did not take action to collate such information from the outset. Systems to enable the collection of this data were only established in August 2003, and were not fully developed until April 2004. The absence of performance data, for a period of almost two years after live operations commenced, hindered DVTA in:

- determining which test centres were achieving good or bad test times, and identifying the reasons for this;
- establishing whether there were specific problems with the way in which its staff were operating the MOT2 equipment;
- identifying the scope for introducing shorter booking slots at better-performing test centres, and thereby increasing throughput; and
- ascertaining whether any of the range of measures available to penalise the contractors for inadequate performance (see Figure 7 below), could be initiated and, if so, to what extent.

3.18 The latest monitoring evidence available suggests that two test centres are achieving an 18-minute test and, following a programme of

monitoring conducted in 2004, DVTA is satisfied that proper quality standards are being adhered to in achieving this performance. DVTA told us that one of the main benefits in introducing MOT2 has been the delivery of a more objective test process. DVTA also said that, in order to underpin operational standards on an ongoing basis, it is developing a comprehensive and more broadly based quality control regime, which will ultimately result in the processes operated by the Agency for both the practical driving test and the vehicle test receiving ISO accreditation⁹. DVTA is aiming to achieve ISO accreditation for all its test centres by the end of March 2006.

3.19 In our view, the early introduction of these arrangements is essential, as it will assist DVTA in establishing the extent of liability which each party bears for the failure to achieve an overall average test time of 18 minutes.

DVTA has estimated that the deal will still represent good value for money, even if test times cannot be reduced

3.20 DVTA's Public Sector Comparator (PSC)¹⁰, completed before the contract was signed, indicated that the 18-minute PFI solution had a value-for-money benefit of some £5.6 million (16 per cent), over the likely cost of DVTA providing the service from its own resources. Consultants engaged by DVTA in May 2004 to recalculate the PSC, in light of the longer test times, concluded that, even with a 27-minute test, the PFI solution continued to provide an adequate, albeit reduced, value-for-money margin of 11 per cent.

3.21 In addition to this finding, DVTA told us that the test times achieved with the MOT2 equipment have never exceeded those achieved with the older equipment by more than 30 seconds. It also told us that the project has delivered a number of significant benefits, including:

- replacement of the previous equipment, which was old and obsolete, increasingly

9. The International Organisation for Standardisation (ISO) is a non-governmental network of standards institutes from 156 countries. The ISO accreditation which DVTA is aiming to achieve for all its test centres by March 2006 is BS EN ISO 9001:2000, which will provide assurance on the Quality Management Systems being operated by the Agency.

10. A Public Sector Comparator is a benchmark of the cost of providing the proposed service by a conventional procurement, from a public body's own resources, against which the cost of a PFI solution can be compared.

unreliable and prone to high maintenance costs, with a more suitable alternative;

- the provision of integrated software, which has enabled vehicle testing to be performed to a more objective standard;
- the equipment procured allowed for the introduction of headlamp beam testing from March 2005, and the commencement of testing of smoke emissions and catalytic converters from March 2006 (see paragraph 2.24);
- removal of a considerable number of civil engineering health and safety risks, which were apparent in the old testing systems and facilities; and
- the risk of equipment breakdown costs has been transferred to the private sector contractor.

3.22 It is useful that DVTA re-calculated the cost of the MOT2 project, to verify the value for money of the PFI solution (see paragraph 3.20). However, we noted that:

- DVTA incurred substantial costs (including relevant internal administrative and consultancy costs) after contract signature, which the revised PSC did not include. In addition, the PSC only contained estimates of the likely additional manpower costs, and more accurate outturn figures are now available; and
- the re-calculation of the initial PSC was undertaken by the same consultancy firm that had acted as financial advisers for DVTA up to contract signature. DVTA told us that the staff involved in the re-calculation of the PSC had not been involved previously in the project.



DVTA has taken steps to address the difficulties and is in the process of determining a way forward

DVTA conducted extensive trials to identify the extent and nature of the problems

4.1 In January 2002, shortly after the problems with achieving the 18-minute test time specified by the PFI contract became apparent (see paragraph 2.6), DVTA wrote to the contractors to notify them of the difficulties being experienced. In response, the contractors:

- denied that their equipment was responsible for the problems, and said it was capable of delivering an 18-minute test;
- indicated that they considered DVTA staff to be responsible for the lower-than-expected productivity; and
- initially argued that they could only be held responsible for the time taken by their equipment to carry out test procedures (i.e. 'machine time'), but not for the overall time taken to complete a vehicle test, which included waiting times caused by a queue of vehicles developing in a test lane, and the amount of time taken by examiners to complete manual inspections at the final test stage, and return to stage 1 to begin testing the next vehicle. (DVTA told us that the contractors have modified this view in subsequent communication, and have indicated that they are responsible for more than machine time.)

4.2 In early 2002, DVTA conducted extensive trials with the MOT2 equipment. These confirmed the extent of problems with long test times, with a full vehicle test (inclusive of smoke emissions and catalytic converters) taking an average of 26.5 minutes to complete. DVTA considered that these trials highlighted problems with the contractors' testing solution, related to equipment provision and layout, which were impacting negatively on test times. Overall, DVTA concluded that, although a combination of improvements was required at both the first and final stages of the test, there was little potential for reducing times significantly at

any test stage with the current testing procedures and equipment.

4.3 DVTA estimated that a 27-minute test would halve the vehicle testing capacity that the contractors' solution had been expected to provide. Consequently, to meet future test demand levels, it would be necessary to recruit extra staff, introduce additional overtime and extended-day working, and provide and equip new testing facilities. However, because it considered that it had transferred the risks associated with capacity (see paragraph 1.9), DVTA took the view that the contractors would be liable for the costs associated with these measures, and that the responsibility for identifying and introducing areas for improvement in test processes and methodologies would be theirs. DVTA told us that, while it took this view, it also accepted that the onus would lie with it to demonstrate to the contractors that it had fulfilled all its obligations under the contract.

DVTA worked closely with the contractors in an attempt to improve performance during the installation period

4.4 In light of DVTA's findings, and in an attempt to establish the best time that could be achieved with the testing equipment and processes, the two parties established a Joint Working Group (JWG) in May 2002. As Appendix 5 indicates, despite an extensive and prolonged process of negotiations and collaborative effort, the JWG achieved little tangible progress in resolving the difficulties, with the potential for a 23-minute test having been identified by the time it had completed final time trials in October 2003. Furthermore, DVTA considered that a 23-minute test could only be sustained in a 26-minute booking slot, considerably longer than the 18 minutes required by the PFI contract, and an outcome that would not eliminate the need to provide considerable additional capacity. DVTA told us that, because these trials were conducted using a three-man lane with very limited equipment, the 26-minute test

time could be considered a 'worst-case scenario', and that lower times were being achieved during live operations at some test centres.

4.5 In spite of the efforts of both parties, problems with achieving the required test times remained after the MOT2 equipment was fully installed in all test centres in September 2003. DVTA said that, despite these problems, the times being taken to conduct vehicle tests during this period were almost identical to those that had been achieved under the old system. However, the longer-than-anticipated test times, together with the substantial increase in demand for vehicle tests (see paragraph 2.4), and the phased closure of test centres during installation (see paragraph 2.3), led to a significant increase in customer waiting times for vehicle tests during 2002 and 2003. The situation was further exacerbated in 2004-05 by the Civil Service-wide campaign of industrial action (see paragraph 2.4).

Despite operational problems, DVTA has not implemented potential sanctions against the contractors

4.6 The contract payment mechanism is intended to encourage the contractors to deliver a satisfactory service, and to protect the commercial and operational interests of DVTA. If the contractors fail to provide the required outputs and performance levels (see paragraph 1.9), DVTA can implement a range of sanctions, ranging from financial deductions to contract termination (for serious or consistent performance shortfalls - see Figure 7).

Figure 7: Summary of MOT2 contract requirements and penalties/asures for inadequate contractor performance

- If the service is unavailable, due either to equipment breakdown, or to vehicle tests taking longer than an average of 18 minutes to complete, DVTA may make deductions from the contractors' unitary payment (the period of unavailability determines the extent of deductions). Test fees may also be reclaimed from the contractors if unavailability of the service results in cancellation of vehicle tests;
- If test waiting times exceed 14 days overall, or 21 days at any time, at any test centre, DVTA may recoup from the contractors the costs of any changes made to working patterns, or of any overtime worked to meet demand for vehicle testing. DVTA may also instruct the contractors to provide additional testing facilities (equipment, test lanes or test centres) if the capacity provided is insufficient to meet actual demand for vehicle testing; and
- If deductions from the unitary payment exceed 5 per cent in one month, or 2.5 per cent for three consecutive months, DVTA is entitled to award performance points against the contractors. Should nine or more performance points be awarded within a 12-month period, DVTA becomes entitled to terminate the contract.

Source: MOT2 contract

4.7 In September 2002, DVTA formally notified the contractors that it intended to make limited deductions from their unitary payment on the basis that they were failing to achieve the 18-minute test time required by the contract, for cars/light goods vehicles at the Larne test centre. However, DVTA did not proceed with this course of action, in light of increased commitment by the contractors to the Joint Working Group (see paragraph 4.4), and made no further moves to implement deductions during negotiations, in order to provide the best possible environment for resolving the problems.

DVTA has introduced new booking arrangements and revised test procedures in an attempt to resolve problems

4.8 The PFI contractors' assumption that a vehicle test could be completed within an 18-minute booking slot was the cornerstone of their vehicle testing solution. On this basis, they estimated that there would be adequate capacity for vehicle testing for the lifetime of the contract, and for DVTA to begin testing cars at three years old, in line with the current practice in Great Britain. However, until September 2004, MOT centres operated booking slots of between 21 and 25 minutes. Furthermore, in 2004-05, the first year in which it had intended to introduce the full vehicle test as specified by the contract, DVTA's business plan provided for a 24-minute test, six minutes longer than the contractual requirement. DVTA told us that, although many test centres had been achieving lower test times prior to this, booking slots had not been reduced accordingly.

4.9 In October 2004, following the end of the industrial action (see paragraph 2.4), DVTA introduced new booking slots, based on test times actually being achieved at its 15 test centres, which ranged from 19 to 22 minutes, but which still did not include the full range of test items required by the contract. However, as test centre managers have traditionally had the discretion to leave slots unbooked for contingency purposes, we consider that there is a risk that the improved productivity envisaged from the revised arrangements may not be achieved. DVTA told us that the policy of permitting managers to leave slots unbooked was part of its long-term strategy of developing a culture of accountability, with managers being given added responsibility for centre performance. DVTA considers that this will achieve improved results in the long term. However, this also has the potential to weaken DVTA's position in ongoing negotiations with the contractors.

In view of this, we recommend that DVTA carries out regular, ongoing reviews of the levels of unbooked slots across each of its centres to assess the impact of these on overall productivity levels.

4.10 Consultants engaged by DVTA have estimated that full emissions testing, which DVTA introduced in March 2006, could result in booking slots increasing to between 25 and 29 minutes. Such an outcome would result in capacity becoming exhausted in some test centres as early as 2006-07, and at 10 of the 15 centres by 2010-11. Furthermore, these estimates are based on DVTA's current practice of testing cars at four years old or more, and any move to testing three-year-old cars (see paragraph 4.8) would result in capacity at test centres being exhausted even earlier. Even if DVTA succeeds in reducing test times to an average of 21 minutes, it envisages a requirement to begin constructing new lanes at some centres within the next two years.

A conditional offer from the contractors to expedite matters may not deliver the test times required and could result in significant additional costs for DVTA

4.11 In March 2004, the contractors offered to introduce a number of the modifications and improvements tested in the final Joint Working Group time trials, which had identified some scope for reducing test times (see paragraph 4.4 and Appendix 5). These included:

- modification of existing testing equipment;
- supplying a number of additional lifts to alleviate waiting times that developed on test lanes; and
- amendments to improve the flow at the first stage of the test.

4.12 The contractors considered that these modifications would provide test times of between 20 and 22 minutes, depending on lane and manpower configuration. In making this offer, the contractors stated that they had already fulfilled all contractual obligations, and that completing this work was conditional upon them being relieved of all future liability in respect of additional capacity requirements.

4.13 DVTA estimates that the conditional offer made by the contractors could involve expenditure on their part of around £1 million. As it is not

certain whether the contractors' offer would ensure an average test time of 18 minutes, we consider it unlikely to address the fundamental issue of future capacity for vehicle testing. Consequently, if DVTA were to accept the offer, it would be taking back a large element of capacity risk, with the likelihood that it would have to commit significant additional expenditure to solve the problem.

4.14 As Figure 8 (below) indicates, shortly after the test time problem became apparent, DVTA estimated that a move to a 27-minute booking slot would result in total additional expenditure of between £26.8 million and £39.8 million. This would arise from the need to recruit extra staff, greater use of extended-day working and overtime, and the need to construct and equip additional testing facilities to provide the necessary additional capacity.

Figure 8: Summary of estimated maximum additional costs of 27-minute vehicle test

Background to additional expenditure	Estimated cost (£ million)	Estimated total cost (£ million)
Additional staff costs (additional staff, overtime, extended-day working)	1.3 - 2.3	16.9 - 29.9
Construction and equipping of additional testing facilities	n/a	9.9
Total	1.3 - 2.3	26.8 - 39.8

Source: Consultants' report commissioned by DVTA

4.15 These estimates were carried out as part of a review to determine whether the project continued to represent value for money (see paragraph 3.20) and were based on a 27-minute test, which was considered to be a 'worst-case scenario' (see paragraph 2.6). A subsequent improvement in actual test times has resulted in DVTA preparing its business plan forecasts for 2006-07 on the basis of a 24-minute test. On this basis, we estimate that the total additional costs are likely to be in the region of £33 million, composed of £26 million in manpower costs and £7 million related to the need to construct and equip further facilities to meet demand for testing. Such costs will be incurred unless future productivity improvements

can be brought about by modifications to the testing methodology or equipment, or through changes to working practices.

DVTA engaged consultants to review its options

4.16 In view of both the Joint Working Group's inability to fully resolve the test time issue, and the contractors' conditional offer, DVTA engaged consultants, in May 2004, to review the possible options available to it under the contract. The consultants identified these as being:

- initiating steps to terminate the contract;
- imposing deductions from the contractors' unitary payment, with a view to renegotiating the contract; or
- proceeding with the process of negotiations with the contractors.

4.17 Termination of the contract was not considered a reasonable course of action. In addition, DVTA concluded that it was not currently in a position to implement deductions for non-availability of the service, nor in respect of overtime and extended-day working costs actually incurred, until such time as it had identified conclusively why required test times were not being achieved, and where responsibility for this rested. Only at that stage will it be possible to determine how much, if any, of the additional cost is the responsibility of the contractors.

4.18 In our view, it is important that DVTA moves quickly to prepare a complete and accurate costing of both the total additional expenditure incurred as a result of the failure to achieve the 18-minute test, and the estimated proportion which it will seek to recover from the contractors (see paragraph 4.6 and Figure 7).

DVTA is establishing its baseline position with a view to determining a way forward

4.19 As it has not yet determined whether the current equipment and methodologies are partly, or wholly, responsible for the failure to provide the

outputs required by the contract, DVTA considers that it has little option but to continue negotiations with the contractors. However, this process may not yield a better offer from the latter, given that it has already been ongoing for close to three years and has achieved only limited improvements.

4.20 In order to identify the factors preventing the achievement of an 18-minute test, and the associated costs, DVTA has now introduced the full vehicle test, inclusive of all items, at all test centres with effect from 1 March 2006. This will assist in:

- identifying the baseline time for each test centre, particularly Larne, where modifications and additional equipment have been introduced by the contractors (see Appendix 5); and
- confirming that testing is being performed to adequate quality levels at each test centre.

4.21 In taking this course of action, DVTA's objective is to establish its baseline position, which will enable it to decide whether to recommence negotiations with the contractors, or to seek contractual redress. While we welcome this development, we consider that it is somewhat belated. In our view, taking more timely and pro-active steps to identify the best times achievable at each test centre, through providing the requisite levels of manpower and by monitoring and managing the working practices of its examiners more closely, would have enabled DVTA to determine the strength of its negotiating position, and may have allowed the matters in dispute to be resolved more promptly. In the event of fault on the part of the contractors, DVTA would then have been better placed to recoup overtime and extended-day working costs already incurred, or to avoid incurring them in the first place, if the problems turned out to be matters within its own control.

4.22 The complex and difficult situation in which DVTA now finds itself underlines the conclusion reached by Public Accounts Committee (PAC) in December 2001¹¹ (after the contract for MOT2 had been signed) that: "For major, mission-critical, tailored and bespoke projects, there should be proper piloting of technical solutions to address the full service requirement, rather than reliance on part-functional demonstrations." Full pilot testing at the outset would have assisted DVTA in determining whether the contractors' proposal was capable of providing the required outcomes under operational conditions, and in deciding whether it should proceed with the full-scale implementation of the project, or consider re-tendering, in an attempt to obtain a better deal. It would also have enabled DVTA and the PFI contractors to identify more easily and quickly the source of problems and to assign responsibility for rectifying them.

4.23 DVTA told us that, when this PFI contract was being procured, it was regarded as best practice for design and development risks to be borne by the private sector contractors, and that the contractors would have been unwilling to incur the significant expenditure required to develop the system fully prior to contract signature. In recognition of such constraints, the PAC report noted that "Departments may have to consider part-funding pilots and should also consider awarding a separate contract for the design and development of systems, before contracting with the developer for full implementation of the successful pilot."

4.24 If DVTA is unable to determine the reasons for the variable productivity across its test centres, it is unlikely that it will be able to demonstrate that the contractors bear any liability for the failure to achieve the 18-minute test time. Consequently, it will be:

- poorly placed to implement deductions, or initiate the process of awarding penalty points against the contractors, as any referral of the matter to the arbitrator for expert determination may result in a ruling against DVTA; and

11. Third report, Session 2001-02: The Cancellation of the Benefit Payment Card Project (HC 358).

- unable to terminate the contract, as it would have to pay out punitive costs and also be responsible for managing the service currently provided by the contractors, while the problem with vehicle test times remains unresolved.

4.25 DVTA would then be faced with the likelihood of having to continue to fund the significant costs of providing additional capacity for vehicle testing, which could involve expenditure of up to £39.8 million over the remaining life of the contract (see paragraph 4.14 and Figure 8). Additional expenditure of this nature would inevitably have a significant impact on motorists, as DVTA would have to increase vehicle test fees accordingly.

4.26 When negotiations on the current contract have been concluded, and before committing itself to any further significant expenditure, we recommend that DVTA undertakes a revised business case for the MOT2 project. This should take account of all additional costs incurred to date, together with any revised estimates for possible future expenditure that DVTA may incur. In order to obtain a fully objective opinion, and to gain assurance on the completeness and robustness of key assumptions and costings, we consider that this reassessment should be carried out by a party fully independent of those involved in the initial appraisal and procurement processes. In addition to enabling DVTA to determine whether the MOT2 project continues to represent value for money, in spite of increased costs, we consider that such a business case is important in order that the full project costs are identified for accountability purposes (see paragraph 3.22). The potential for capacity to be exceeded at some centres by 2006-07 (see paragraph 4.10) means that negotiations with the contractors, and this business case, should both now be completed as a matter of urgency.

Appendices

Summary of procurement process for MOT2 PFI contract

Date	Development
October 1995	Consultants commissioned by DVTA conclude that major improvements to vehicle testing could only be achieved through the introduction of new, automated testing equipment.
October 1996	Economic appraisal concludes that the introduction of an Integrated Test Lane concept would deliver best value for money, and highlights potential for procurement of this under the Private Finance Initiative (PFI).
November 1996	DFP approves an Outline Business Case for the replacement of DVTA's vehicle testing equipment, with an Integrated Test Lane concept, to be procured under the Private Finance Initiative.
May 1997	Preliminary Interest Notice placed in the Official Journal of the European Union. Estimated value of contract stated as £5 million, based on the initial economic appraisal. This grossly underestimated the cost of items such as civil works and the transfer of risk, and did not take account of necessary items such as IT systems, replacement of test hall doors, painting, lighting, flooring, equipment maintenance and replacement, software updating and training.
June 1997	Notices placed in Official Journal of the European Union and the local press inviting interested parties to register an interest in bidding for the project. Information seminar held to provide prospective bidders with background on the project.
July 1997	Information Memorandum issued to contractors who expressed an interest in the project. Closing date for submission of these is August 1997.
September 1997	Shortlist of three applicants prepared.
October - November 1997	Invitation to Negotiate documentation issued to three shortlisted bidders. One of the shortlisted bidders withdraws.
January 1998	Closing date for initial bids. Bids submitted by two remaining contractors.
February 1998	DVTA seeks clarification on initial bids.
March 1998	Best and Final Offers received from two remaining bidders, and assessed by suitably qualified assessment panels. Only one of the two bids considered to be fully PFI compliant.
April 1998	Preferred bidder for PFI contract appointed. Net Present Value of preferred bidder's solution estimated to be £18.8 million.
April – December 1998	Post-tender negotiations.

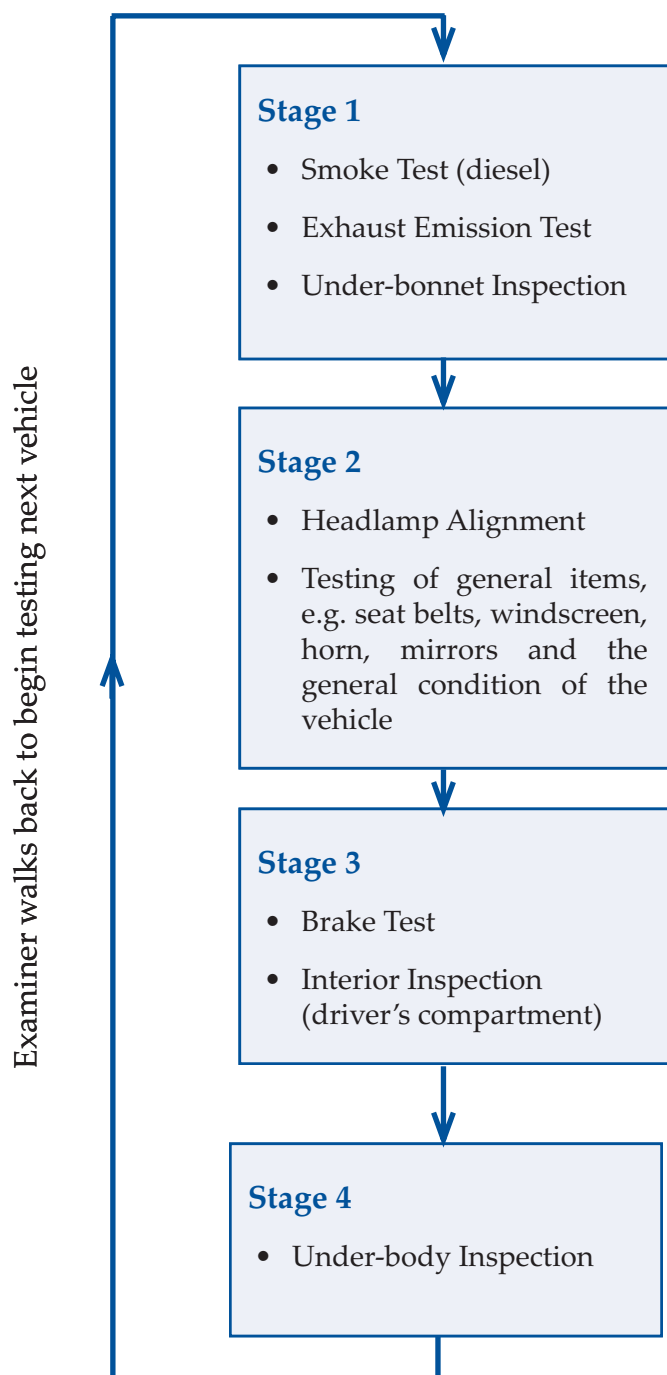
Date	Development
December 1998	Preferred bidder has to change funder, as bank which had initially agreed to finance the project was unwilling to accept DVTA's terms for compensation in the event of the contractors defaulting on the contract.
January 1999	Initial full business case for the project approved by DFP. Net Present Value of project now estimated to be £24.57 million, with total cash outflow of £40.8 million. This also confirms PFI as the optimal value for money solution.
June 1999	Contractors appoint new IT provider after initial supplier withdrew from the project.
November - December 1999	Project costs now greatly increased (Net Present Value now £29.6 million and cash outflow of £47.6 million). Negotiations on costs with IT provider. Re-evaluation of Best and Final Offers submitted by both bidders concludes that the preferred bidder would still have been appointed, even if the project cost increases had been apparent at the time of the initial evaluation.
February 2000	Contractors have to change IT supplier again after funder expresses reservations.
April 2000	Addendum to full business case for project which takes account of project cost increases is approved by DFP.
May 2000 – March 2001	Final negotiations with contractors.
March 2001	Contract signed. Final financial model indexed to take account of inflation in accordance with terms of contract. Total contract value in cash outflow terms now £57 million.

Background information on accounting treatment for the MOT2 equipment

1. When determining the appropriate accounting treatment for a PFI transaction, it is generally accepted that, when the assets associated with the deal appear on the balance sheet of the private sector contractors' financial accounts, but not on that of the procuring Department, the greater proportion of the risks and benefits associated with the project have been passed to (and accepted by) the private sector contractors.
2. In January 1999, consultants engaged by DVTA to advise on the likely accounting treatment for the MOT2 project stated that the contract sought to make provision for not just vehicle testing equipment, but rather "a comprehensive vehicle testing service incorporating information technology services," and that the commercial effect of this was "to transfer most significant rights to benefits and exposure to risks from DVTA to the private sector." Consequently, the consultants concluded that the new equipment could be treated as off balance sheet from the perspective of DVTA.
3. In February 1999, DVTA sought our opinion on this advice. We concluded that, under the interim Treasury guidance available at the time¹², the project could be accounted for as off balance sheet. However, we also noted that:
 - because the proportion of equity in the contractors' funding structure (10 per cent) was at the lower end of the range of what could be considered normal for a PFI project of this nature, any decision to account for the project off balance sheet could be construed as a borderline one; and
 - the credibility of risk analysis within the full business case would have been considerably enhanced if probabilities (ranging from best case, to most likely outcome, to worst case) had been attached to the various scenarios.
4. Since contract signature in March 2001, the MOT2 equipment has not been accounted for as an asset in either DVTA's accounts or those of the private sector contractors. Our examination of the DVTA accounts for 2003-04 and 2004-05 has reiterated our initial opinion that, under the terms of the PFI contract, the correct accounting treatment for the MOT2 equipment is that it should be off the DVTA balance sheet. However, as the equipment has not been accounted for on the contractors' balance sheet either, the issue of the transfer of the greater proportion of the risks and benefits associated with the PFI contract has not been fully substantiated.

12. Guidance on the interpretation of FRSS5 in a PFI context, issued by Treasury in September 1997.

Summary flowchart showing MOT2 test process



Appendix 4 (paragraph 2.7 - 2.9)

Average waiting times (number of calendar days) for vehicle tests at DVTA test centres - March to November 2002

Test Centre	March 2002	April 2002	May 2002	June 2002	July 2002	Aug 2002	Sep 2002	Oct 2002	Nov 2002
Armagh	c	c	c	12	14	14	13	13	21
Ballymena	28	c	c	c	16	20	21	20	15
Belfast	26	22	22	19	15	c	c	c	12
Coleraine	c	c	26	29	30	31	24	23	25
Cookstown*	24	27	33	31	22	23	20	14	11
Craigavon	15	16	15	11	8	16	15	c	c
Downpatrick	20	21	21	18	15	14	c	c	c
Enniskillen	24	29	c	c	c	c	22	29	27
Larne	12	17	24	25	26	16	11	10	10
Lisburn	c	17	20	14	14	15	16	18	14
L'derry	17	25	25	20	28	31	19	20	c
Mallusk	19	24	29	27	27	22	24	20	22
Newry	21	21	28	29	24	15	14	14	14
Newtownards*	19	26	28	31	32	27	30	30	25
Omagh	22	23	33	34	33	34	28	20	17
Overall	21	23	26	24	24	22	21	19	18

c = test centre fully closed due to roll-out of MOT2 equipment.

* = test centre partially closed due to roll-out of MOT2 equipment.

Average waiting times (number of calendar days) for vehicle tests at DVTA test centres - March to November 2003

Test Centre	March 2003	April 2003	May 2003	June 2003	July 2003	Aug 2003	Sep 2003	Oct 2003	Nov 2003
Armagh	30	33	37	40	44	41	30	19	13
Ballymena	17	23	37	27	41	43	36	31	27
Belfast	22	27	45	40	44	48	41	29	20
Coleraine	11	15	25	32	31	34	39	35	31
Cookstown*	22	28	19	36	47	49	50	34	36
Craigavon	11	25	33	45	38	34	26	17	12
Downpatrick	16	20	24	26	24	28	24	23	14
Enniskillen	29	39	39	46	43	34	23	16	13
Larne	15	23	32	37	33	35	31	24	16
Lisburn	15	23	24	28	39	30	24	23	18
L'derry	29	39	29	30	51	51	40	34	28
Mallusk*	18	17	c	c	c	c	34	31	14
Newry	c	c	31	37	46	37	37	29	13
Newtownards*	27	35	30	35	49	47	45	35	18
Omagh*	23	c	c	c	38	34	27	22	20
Overall	20	27	31	35	42	40	35	28	19

c = test centre fully closed due to roll-out of MOT2 equipment.

* = test centre partially closed due to roll-out of MOT2 equipment.

Average waiting times (number of calendar days) for vehicle tests at DVTA test centres - March to November 2004

Test Centre	March 2004	April 2004	May 2004	June 2004	July 2004	Aug 2004	Sep 2004	Oct 2004	Nov 2004
Armagh	33	33	51	85	110	51	58	61	80
Ballymena	18	28	38	64	75	84	56	40	42
Belfast	26	28	50	101	114	55	52	62	41
Coleraine	15	22	35	64	66	58	51	73	69
Cookstown	22	28	50	74	83	72	62	68	71
Craigavon	29	31	35	50	101	67	65	86	44
Downpatrick	25	29	45	71	95	77	60	61	50
Enniskillen	33	31	44	58	68	60	49	55	46
Larne	13	14	31	55	82	63	28	35	47
Lisburn	31	40	43	76	96	85	75	78	65
L'derry	16	26	36	78	79	70	71	84	68
Mallusk	22	25	27	6	72	27	39	40	45
Newry	36	36	53	56	94	51	110	96	72
Newtownards	23	29	47	72	102	52	38	46	42
Omagh	16	19	23	59	74	49	43	79	75
Overall	23	28	41	69	86	61	58	63	55

Summary of action taken by the Joint Working Group (JWG) to resolve the problem with vehicle test times

Date	Development
June 2002	Time trials undertaken at Lisburn indicate that full tests (including testing of smoke emission and catalytic converter) are taking between 25 and 29 minutes to complete, but confirmed that a 27-minute test was generally the norm.
October 2002	Objectives of the JWG extended to specifically include the identification of issues which are preventing the achievement of an 18-minute test.
November 2002	Time trials conducted in Larne on the basis of new layouts, set-ups and sequences fail to show any scope for improvement on the 27-minute test.
April 2003	JWG meet to discuss results of further time trials conducted in Belfast and Cookstown in February and March 2003. Agreement reached that a full test can be completed in 27 minutes, within a 30-minute booking slot, with the existing equipment and processes. These trials demonstrated that Stages 1 and 4 of the test were consistently in excess of the contract's performance indicators, and that times were improved when fewer than three men were working on a lane, due to waiting times being reduced.
June - July 2003	Meetings of JWG and of DVTA's and contractors' 'principals' conclude that 6 minutes of the 27-minute test time is attributable to waiting times between test stages. Agreement is reached on 13 main items that had the potential to reduce test times. Contractors agree to arrange to have modifications developed and introduced at Larne over the next two months, so that a "final" set of time trials could be conducted.
November 2003	JWG meet to discuss final time trials conducted at Larne. The introduction of modifications and additional equipment show some improvement in test times. Contractors consider that these indicate that a 23-minute test within a 23-minute booking slot is possible. However, analysis of results by Central Statistics and Research Branch ¹³ indicates 95 per cent confidence that the overall time for cars sampled is between 22 minutes 39 seconds and 23 minutes 57 seconds. On this basis, DVTA conclude that a test time of 23 minutes could only be sustained in a 26-minute booking slot. However, the contractors are unwilling to accept that a 26-minute booking slot is required. At a subsequent meeting of DVTA and contractors' 'principals', the contractors agree to produce a report that will outline recommendations on resolving the test time problems. One conclusion of the contractors' report was that the time taken by examiners to complete the under-body inspection at the final stage of the test had been much longer during monitored time trials than during live operations.

13. Department of the Environment statisticians.

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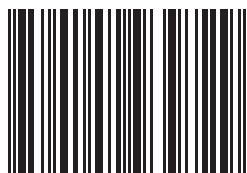
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