

# Complex Management Simplified: Lessons Learned from the DFTS Private Finance Initiative Programme

by John Seale MBE

*John Seale is the Senior Business Director of the Defence Fixed Telecommunications Service (DFTS) at BT. DFTS is one of the earliest and most successful projects to be managed under the UK's Private Finance Initiative and here John Seale discusses the lessons learned during the first seven years.*

The Defence Fixed Telecommunications Service (DFTS) is one of the oldest and most successful technological Private Finance Initiative (PFI) contracts let by the UK Government, and the initial ten-year contract has just been extended by five years to July 2012, bringing the total value of the DFTS contract to over £3Bn. The partnership between the Defence Communication Services Agency (DCSA) and BT is heralded as unprecedented and highly successful. It involves a whole raft of skilled and experienced companies managed by BT in order to bring MoD's wide area communications into the 21st century.

There is no doubt that because of DFTS, the typical business environment of the MoD and the UK Armed Forces has changed radically over the last seven years. The organisation is more joined-up and modern, and more able to manage critical information effectively, and to make this readily accessible to everyone who needs it, securely and wherever and whenever this might be.

Importantly, DFTS has exceeded many of its original targets for cost efficiencies and operational benefits, so far resulting in a saving for the MoD of over £70M a year. Projects have been consistently delivered on time and within budget due to a strong programme management ethos.

The National Audit Office (NAO) and the Public Accounts Committee have both agreed that the savings that BT claimed the MoD would make have already been realised. The NAO also stated that the DFTS is a 'good deal' for the MoD, and that it could not cite a single other MoD project that has met its milestone dates as efficiently.

## Challenges

That said, I don't think anyone would be astonished to learn that there have been, and still are, challenges in this contract for both the commercial and the public partner.

***"BT had to move away from the technically focused 'box and wires' approach."***

DFTS was originally let as a PFI in July 1997, the flourish of the MoD and BT pens signalling the start of the biggest-ever transformation of the UK's military communications. At the time it was the UK Government's largest PFI contract and BT's largest outsourcing contract. Its aim was to transform the MoD's wide area network within the UK by replacing the 19 networks and 46 services all operated separately by the individual Armed Services with one unified network and six services.

## Commercial and Technological Risk

Within the deal, BT, as the prime contractor, assumed all commercial and technical risks. At the very outset, the MoD wanted to transfer the risk of technology becoming obsolete on to BT, as the commercial partner was better positioned through its own core business to manage this aspect. BT has also

assumed risk in the areas of design, construction, operation and performance, volume/usage demand and project finance for the new services that it has implemented, and will implement in the future.

Before BT began delivering DFTS, it had to go through a rigid MoD tendering process. Between 1992 and 1994, BT took part in a Project Definition Study (PDS) led by GPT.

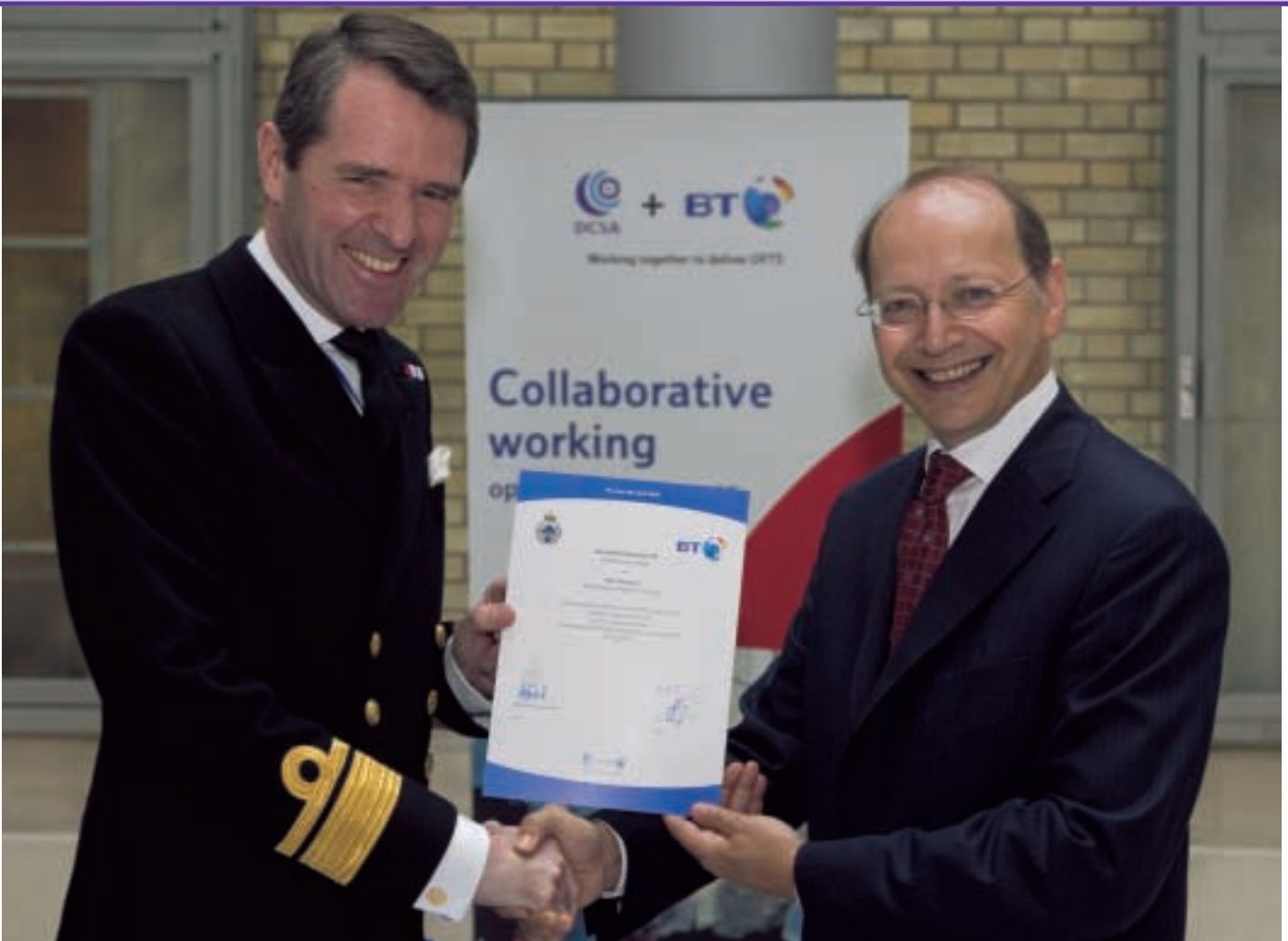
Following the PDS, the MoD published an initial Cardinal Points Specification (CPS) in March 1995 and invited six companies to submit firm-priced proposals for the implementation, together with optionally the ongoing operation, of DFTS. Management control and technical direction would remain the MoD's responsibility.

Bidders were invited to consider the PFI approach to DFTS. The request essentially positioned the eventual DFTS contract as a service-based PFI compliant deal.

## Partnership Goals

Behind the bid were strategic challenges that BT felt it had to undertake in order to achieve its partnership goals with the MoD. Importantly, BT had to move away from the technically focused 'box and wires' approach, which characterised other MoD communication procurements, and had to focus more on its strength as a service provider.

BT also wanted to assume responsibility for all day-to-day wide area network (WAN) operations, with the MoD retaining an oversight and supervision role. Essentially, this represented a new concept of operations for the MoD. Under the proposals, MoD would effectively outsource its technical and operational expertise to BT and would retain a role



Rear Admiral Rees Ward, CEO, DCSA and Ben Verwaayen, CEO, BT Group at the signing of the extension of the DFTS contract in April 2005. The contract has been extended from 2007 to 2012 and is now valued at £3 billion.

primarily as a liaison, procurement and financial management organisation.

In addition, BT's approach would require ongoing investment in technology to enable effective and continual modernisation.

Right from the beginning, both parties identified that changes would be necessary but we worked through the issues as a team, formulating ways to deal with significant cultural change.

#### Planning and Trust

Good planning, teamwork and trust that developed over time between the two organisations meant that there were surprisingly few problems, despite the size of the operation. With 250,000 users across thirteen countries, the integrated communications infrastructure provided by DFTS handles 750,000 voice calls each day and 26 million emails across the internet each year. There are over four million lines of information, making the

DFTS monthly telecoms bill the largest of its type in Europe.

If you marry this scale of activity to the paramount need for secure, assured but also value-for-money connectivity, you can see how important it is to get voice and data communications right for defence – not just for the MoD community, but also for the nation at large.

#### Cultural Change

PFI, and in particular DFTS, brings a huge cultural change in government departments. It transformed the MoD from being an owner of assets and a direct provider of services to a purchaser of those services from the private sector providing better quality, value-for-money services to the taxpayer.

Managing cultural change was handled jointly, and in stages, over a couple of years as systems and staff were transferred across to the industry partner. Success was measured by service delivery. When

people start to see the service deliver what they expect, then the initial suspicions start to diminish. This provided the foundation for a partnering approach to delivering DFTS, the key to its success.

The project has faced many challenges, but despite the rapid changes that have occurred in the world of data and telecommunications over the last decade, technology has not been the most significant factor driving change. Change in DFTS is driven by the need to understand the customer, his needs and then to utilise what has been built to meet those needs. Developing future services within DFTS is about being in tune with the customer and recognising that – even though you have fixed contracts – the needs of the customer will change. You cannot ignore that fact if you want to succeed over the longer term.

A further major lesson to learn is that you can never do enough

communicating with the customer and with each other, and that you must work together as a single business.

Within the DFTS contract, BT and the MoD share strategic objectives and share offices. In fact, 91 BT people work shoulder-to-shoulder with MoD personnel at a military site in Wiltshire in order to respond dynamically to customers, streamline internal processes and avoid duplication of effort. When you see people in the car park or the canteen talking together, you can sense a more consensual approach to problem solving developing.

***“It took three years to understand each other’s positions.”***

BT has delivered services to the MoD for decades, but it had never been there on the ground actually working with the MoD as closely as we do on DFTS today. New services are being introduced faster than previously, so the co-located model has been a major breakthrough. Time-to-market for MoD customers will always place expectations on the DFTS business to deliver faster.

**The Working Partnership**

Yet, everything takes time, patience and understanding and you have to juggle everyone’s needs, and that includes the needs of the parent organisations and numerous stakeholders.

Critical to establishing a successful partnership that involves public finance is openness, so we discuss what the corporate company – in our case BT – expects in return from its investment, and the public body – MoD – will have its own financial constraints. With the right working relationship, both MoD and BT can declare a significant number of commercial and financial interests and know the information is secure.

It is important to have direct responsibility and know that what is agreed in a DFTS board meeting stays agreed, and is not overruled at a higher level. It is therefore crucial that DFTS

governance and direction is sanctioned at a higher level for both MoD and BT. This is provided through the Strategic Relationship Board (SRB), a 2-star body jointly chaired by MoD and BT.

It took three years to understand each other’s positions. It also took three years to migrate the legacy systems and put them on to BT platforms. 1997–2000 were the building years and in 2001–2002 we actually started to understand each other.

In 2000-2003, we decided that the only way forward was for the MoD and ourselves, its industry partner, to work closely together to achieve a win-win result. The challenge was to make a fair business return from BT’s investment, whilst the MoD were being asked to do more and more with less and less in real terms. So, in 2002-2003 we reviewed our joint strategy and from April 2004 all employees of DFTS, whether MoD or BT, were set the same joint objectives aimed at improving long-term efficiency and effectiveness.

These joint objectives relate directly to our joint Strategic Objectives, namely:

- Deliver capability to DFTS customers
- Create a centre of excellence and a great place to work
- Accomplish value for money
- Deliver emerging technology to meet future business needs
- Grow the DFTS business

**Value for Money**

One of the key challenges we faced was how to prove value-for-money in the long run; if you are in a partnering agreement and you are expanding as a changing business, how do you then continue to demonstrate value-for-money? We have worked together to come up with a protocol that enables us to operate and, in fact, we are sharing it with the NAO because it might be of benefit to other Government departments and their industry partners. We now have fully documented procedures, which allow us

to take the spark of an idea, wherever it comes from, and manage it all the way, establishing value-for-money before a service is offered to a User.

***“For a successful PFI or PPP, there have to be clear lines of communication and goals.”***

**The Bones of Success**

Customer-relationship management is at the heart of everything we do. We make the customer more aware of technological change and of how there is always a better way of doing things. It has totally changed the way the customer does business and has been brought about by a Continuous Improvement culture on DFTS.

To summarise, I would say that, for a successful PFI or PPP, there have to be clear lines of communication and goals and the two partners have to operate as a joint business. The right communication, the right skills and the right people are the keys to building a PFI partnership, which is all based on trust and integrity.

I am confident that we will achieve equally in the future. Customer satisfaction is very strong indeed, and delivering MoD capability in return for a fair business is at the heart of what we do on DFTS.

There are undoubtedly exciting times ahead as technology and the ways in which the MoD wishes to do business change dramatically. Today, the MoD is facing further challenges with new Ways of Working and with the implementation of Network Enabled Capability. BT and DFTS play an enormous role in ensuring that the MoD can communicate efficiently, securely and can exploit the emerging knowledge-based society.

The DFTS model for using PFI is a sound mechanism for UK PLC. Working together, BT and the MoD have brought together the diverse skills of the private and public sectors to produce a successful PFI blueprint that can assist others in every industry sector. ■