

PUBLIC FINANCE INITIATIVE (PFI) CONTRACT MANAGEMENT

Joint Report of the Chief Officer for Highways, Infrastructure Development & Waste, and the Head of Digital Transformation & Business Support

1. Summary

This report provides information on Public Finance Initiative funded projects for which the County Council hold ongoing contracts.

2. Background/Introduction

Following the June 2017 meeting of this Scrutiny Committee it was agreed that the matter of PFI contract management be carried forward to its new work programme; the matter having previously been proposed for the programme by the former Corporate Services Scrutiny Committee.

3. Exeter Schools PFI Contract

The County Council entered into a 28-year contract term with Modern Schools (Exeter) Ltd (MSEL) who designed, built and financed the five *secondary schools and one **primary school. The private finance initiative (PFI) is a procurement method which uses private sector investment in order to deliver public sector infrastructure and/or services according to a specification defined by the public sector. Each of the Exeter PFI schools incorporates state-of-the-art facilities and were built to assist in the long-term goal of improving the educational standards of the pupils.

The schools were completed in 2006 and enabled Exeter to reorganise and move from a system of first, middle and high schools to a primary/secondary school model. The contract runs until 31 August 2033 and will have a full-term cost in excess of £350 million, the majority of which is central government funded. The Authority pays this on a monthly basis to MSEL via the Unitary Charge.

At the end of the contract the "ownership" of the schools will return to the Local Authority, Academy or the Diocese in the case of a Voluntary Aided school.

The contract is administered by the Project Agreement which outlines the Authority's Requirements for the fully serviced buildings, including details of service output, service failures and rectification periods. The Authority's Requirements are structured to demonstrate the commitment, management and co-ordination, quality of resource, standard of service and experience needed to deliver a successful facilities management service.

MSEL sub-contract the facilities management services within the six schools to the FM provider; Sodexo. This function covers a range of activities divided into Soft and Hard Facilities Management;

Soft FM falls into the following categories:

- Management / Operation Systems
- Security
- Grounds Maintenance

- Caretaking and Portering
- Cleaning & Pest Control
- Energy Management and Utilities Supply
- Catering

Hard FM relates to the maintenance of the buildings, site services and furniture, fittings and equipment (FF&E).

To maximise partnership working within the Exeter PFI project, the project structure has been set out to enable strong working relationships at all levels between the local authority, schools, the FM service provider and MSEL with clear lines of communication and reporting procedures. (see Fig 1)

Managing service performance involves monitoring achievement of the contracted service outputs, ensuring appropriate payment deductions are made, and ensuring that contractual performance improvement processes are put in place to ensure performance returns to the required level. It should also ensure that the service provider is operating in a safe manner in compliance with all the appropriate statutes, regulations and policies.

Contract administration ensures that the obligations and responsibilities defined under the contract are met and under-performance, risks, payments, reporting and variations to the contract are all managed effectively so that best value is achieved.

The formal governance of the contract includes:

- Cost monitoring and payment procedures
- Management reporting
- Managing change control procedures and variations
- Overseeing benchmarking and market testing to ensure best value
- Monitoring of effective performance measures, KPI's and audit systems
- Processing monthly payments/invoicing/deductions to the service provider and schools
- Ensuring effective measures for improving service delivery are implemented when required and to rectifying non-compliance
- Reviewing the quality and standard of the service providers output against service specification
- Overseeing changes in legislation within the contract
- Monitoring and managing risk, safety and statutory compliance
- Business planning to enhance service delivery and improve value for money.

Where contracted standards are not fulfilled, the local authority apply payment mechanisms, established in the contract, to rectify any under-performance in the provision of the services.

The payment mechanism determines the monthly unitary charge payments the local authority makes to MSEL which are made up of the revenue streams for capital investors (i.e. re-paying principal debt and interest) and the costs of FM provision for service providers.

The contractual requirements of the Project Agreement remain unchanged when schools become Academies

*Secondary Schools: St Peters, St Luke's, St James, West Exe, Isca.

**Primary School: Wynstream

4. South West Devon Waste Partnership (SWDWP) PFI Contract

Devon County Council, along with Torbay and Plymouth City Councils, is one of three partner authorities who have in place a PFI contract with MVV Devonport Ltd to deliver and operate an Energy from Waste plant which processes residual waste arising from Torbay, Plymouth and South Western Devon areas.

The contract is administered through Plymouth City Council and there is a Joint Working Agreement between the 3 councils. It is administered by a SWDWP Contract management team and overseen by a Joint Committee that now meets annually. Devon County Council's members who currently sit on this Committee are Councillor Andrea Davis (Vice-chair until the first meeting of the Joint Committee after 1 May 2018) and Councillor John Hart. The local member may also attend, as an observer.

The plant became fully operational in September 2015 and processes around 245,000 tonnes per annum of which 2/3 is from the SWDWP councils and the remainder is commercial and industrial waste. In 2016/17 the actual out-turn expenditure was £16.54 million which was supported by a DEFRA PFI grant of £7.14m. Devon County Council paid £5.03million and received PFI support of £2.54 million.

In 2016/17 MVV achieved 99.84% diversion from landfill helping the County Council reduce its reliance on landfill and a net plant efficiency of 49.7% by selling heat and electricity to the adjacent Her Majesty's Naval Base Devonport which helps to offset the cost of operating the plant.

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Electoral Divisions: All

Cabinet Member for Schools: Councillor James McInnes

Cabinet Member for Infrastructure, Development and Waste: Councillor Andrea Davis

Local Government Act 1972: List of Background Papers

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Background Paper	Date	File Reference
1. Nil		

Fig 1 Project Management Structure

