

SLOUGH BOROUGH COUNCIL

REPORT TO: Education and Children's Services Scrutiny Panel

DATE: 28th January 2016

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WARD(S): All

PART I **FOR COMMENT AND DISCUSSION**

PRIVATE FINANCE INITIATIVE (PFI) CONTRACT FOR SCHOOLS

1. **Purpose of Report**

To provide members of the panel with an update on the terms and management of the schools PFI contract and to give panel members an opportunity to comment on the strategy for renegotiation of services provided under the contract.

2. **Recommendation**

The Panel is asked to note the report and provide any comments or observations on the proposed strategy for renegotiation.

3. **The Slough Joint Wellbeing Strategy, the JSNA and the Five Year Plan**

3a. **Slough Joint Wellbeing Strategy Priorities**

By obtaining the best arrangement for Slough Borough Council (SBC), the PFI contract will support the following priorities:

- Economy and Skills
- Safer Communities

Improving the facilities available in local schools will also assist in improving the image of the town.

3b. **Five Year Plan Outcomes**

The PFI contract also supports the following Five Year Plan outcomes:

- Children and young people in Slough will be healthy, resilient and have positive life chances
- The Council's income and the value of its assets will be maximised

4. **Other Implications**

(a) **Financial**

The PFI contract aims to secure the best available services for local residents whilst also ensuring that budgetary issues are the basis for negotiations.

(b) Risk Management

There are no risk management implications to this report.

(c) Human Rights Act and Other Legal Implications

There are no legal implications to this report

(d) Equalities Impact Assessment

No equalities impact assessment has been completed in relation to this report.

5. **Supporting Information**

- 5.1 The Slough Grouped Schools PFI contract has just under 20 years to run. The current annual payments are approximately £6.45m in today's prices. Of this, £3.68m is fixed and £2.77m is indexed. The fixed element includes the cost of building and funding the schools (including the Contractor's pre-contract costs) and the indexed element includes the cost of providing the facilities management (FM) services.
- 5.2 In effect, therefore, this can be viewed as a £2.77m per annum contract with 20 years of the contract term unexpired. SBC can only end the contract in certain circumstances, all of which would be cost-prohibitive. The payments to the Contractor are fixed (but indexed annually) and can be reduced for poor performance; the circumstances in, and amounts by which payments can be reduced are set out specifically in the contract.
- 5.3 The PFI Contractor is a Special Purpose Company (SPC) (QED (Slough) Ltd) now owned by Grosvenor House plc. Its obligations are overseen by a specialist SPC management company, Pario. Pario effectively acts as CEO for the SPC. The FM services are delivered by Pinnacle under an FM Agreement with QED, via which all of the FM and life cycle maintenance risk is "passed down" to Pinnacle.
- 5.4 The contract is self-monitoring (by the Contractor) but in order to ensure it gets best value, the Authority is a) actively managing its obligations under the contract; b) challenging and holding the SPV to account for its performance; and c) planning and preparing for the key contract milestones e.g. benchmarking and market testing.
- 5.5 An initial piece of work has taken place with the objective of making savings on the annual cost of the contract. Savings of c£1.4m have so far been secured with a further £0.15m agreed in principle and further additional savings possible arising from a respecification of the soft services before the next benchmarking exercise and a refinancing of the senior debt over a longer term, extending the PFI contract term (see below).
- 5.6 The principal areas where savings have been made are:
- Transferring the responsibility of procuring utilities back to the Council
 - Securing insurance cost rebates
 - Transferring change in law risk back to the Council (in principle agreement reached)

The Council is about to commence on a process with the contract out to renegotiate the specification and terms of the services provided under the contract with a view to reducing the annual costs further. The principal services are:

- Hard FM (maintenance of the fabric, M&E, fixtures, fittings and equipment)
- Cleaning
- Caretaking
- Grounds maintenance
- Security
- Catering
- Utilities management

5.7 The Council has secured the support of the SPC to the process. The Council's negotiating leverage centres on the market testing provisions in the contract and its right to request some changes to the contract. However, its rights in this regard are governed by tight provisions and the Contractor is in a relative position of strength. Therefore, a carefully managed process in the context of the timing of the benchmarking and market testing processes appears to be the most appropriate way forward.

5.8 We propose to request the PFI Contractor and FM contractor to produce proposals for delivering the required level of saving (to be determined) which will a) give them some ownership of the process and b) incentivise them to deliver (if the savings target is pitched correctly) as a failure to do so would result in the Council using the market testing procedure which could result in a loss of services to to the FM contractor.

5.9 The contractual process is complicated but this can be described in more detail at the Panel meeting.

6. **Comments of Other Committees**

This report is not due to be put before any other SBC Committees.

7. **Conclusion**

The Panel is asked to discuss the arrangements detailed in this report and appraise the best way of ensuring value for SBC in future.

8. **Appendices Attached**

None

9. **Background Papers**

None