

Dear Councillor

SCHOOLS' FORUM - THURSDAY, 17TH JANUARY, 2019

I am now able to enclose, for consideration at next Thursday, 17th January, 2019 meeting of the Schools' Forum, the following reports that were unavailable when the agenda was printed.

Agenda No Item

10 **Private Finance Initiative and Unitary Charge (Pages 1 - 10)**

[To receive an update on PFI and Unitary Charge]

If you have any queries about this meeting, please contact the democratic support team:

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City of Wolverhampton Council

SCHOOLS' FORUM

Date	17 January 2019
Report title	Private Finance Initiative (PFI) and Unitary Charge
Contact Officer	Bill Hague
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Summary

There are two Private Finance Initiative (PFI) schemes in operation in the City of Wolverhampton. The attached letter at Appendix 1 has been distributed to the relevant schools/academies and is presented to Schools' Forum to provide transparency around the operation of schemes.

Decision

Members of the Schools Forum are asked to:

1. Note the PFI arrangements that are in place in the City.

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CITY OF
WOLVERHAMPTON
COUNCIL

The Chair of the Trust Board
via email

Dear Chair

Earlier this year I committed to providing clarity to Governors around the PFI arrangements for PFI schools as requested by St Matthias School, particularly around how the contract operates and the Unitary Charge that is associated with the scheme. I have looked into the operation of the scheme and set out in the following report how PFI works in respect of all PFI schools in the City.

I appreciate that this is a lengthy report but am hopeful that it serves to better the understanding of the PFI arrangements that are in place for the school. I appreciate that this may give rise to specific questions from you. Please be assured that I want to work together to ensure that the PFI contract works well for all parties. To this end I will be arranging to meet as a collective to discuss how we can work closer together to manage the PFI schemes in the City.

Yours sincerely



Meredith Teasdale
Director of Education
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cc. Headteacher/Principal

Private Finance Initiative (PFI) schemes in the City of Wolverhampton

The following report outlines the operation of the two PFI schemes in place for schools in the City of Wolverhampton.

1.0 The Contract

- 1.1 There are two PFI schemes in Wolverhampton and these schemes encompass four schools. All the PFI schemes involved brand new schools being built under the Building Schools for the Future (BSF) programme in which the government invested in secondary school buildings. The delivery of the programme was overseen by Partnerships for Schools (PFS), a non-departmental public body formed through a joint venture between the Department for Education (DFE) (formerly DCSF and DfES), Partnerships UK and private sector companies.
- 1.2 Wolverhampton was one of the last Councils to receive BSF funding and having achieved approval for the outline business case (OBC) in Feb 2009, went on to sign the project agreements in 2010. This was for the sample phase – i.e. the first schools through the process.
- 1.3 The two PFI schemes in Wolverhampton are:
 - PFI1: Highfields & Penn Fields (special) co-located in a single building on the Highfields site. The agreement was signed between Council and inspiredspaces Wolverhampton (ProjectCo1) ltd in 2010.
 - PFI2: Heath Park & St Matthias (formerly Deansfield) as separate schools on their original site. The agreement was signed between Council and inspiredspaces Wolverhampton (ProjectCo2) ltd in 2012.
- 1.4 For each of the PFI contracts, the council is in receipt of credits from the EFSA in the form of a revenue grant towards the cost of PFI schemes¹. PFI1 are in receipt of £4.9m: PFI2 are in receipt of £4.3m (this revenue is paid quarterly).
- 1.5 The PFI agreements are in place for 25 years from service availability.
 - PFI1 service availability commenced 2012 and will complete in 2037
 - PFI2 service availability commenced 2015 and will complete in 2040

ICT equipment was provided as part of the BSF programme as an implemented kit drop for the schools to manage and maintain going forwards.

¹ The revenue support provided by the credits was not intended to match or correlate directly to the payments that arise under a PFI contract. However, the Government committed to supporting good PFI projects and to assisting the development of PFI in the local authority sector.

- 1.6 The agreement provides for Facilities Management (FM) services (Hard & Soft) to defined specifications. This is referred to as an output specification.

Hard FM services refers to:

- heating
- lighting
- plumbing
- fire safety
- air conditioning
- ventilation
- building maintenance (including mechanical & electrical)

Soft FM services refers to the such things as:

- cleaning
- window cleaning
- security
- waste management
- grounds maintenance
- deliveries

Catering is excluded from both PFI contracts.

- 1.7 The agreement is in place for 25 years at which point the school is handed over in new/nearly new condition. To enable this there is a lifecycle amount built-in to the cost of the PFI contract to ensure that furnishings and building repairs are taken care of through the life of the contract. This is managed by a Special Purposes Vehicle (SPV) - the inspiredspaces Wolverhampton (ProjectCo), details of which are included in Section 5.
- 1.8 During the course of the contract a variety of replacements will take place which include floor coverings (carpet, tiles, vinyl etc), loose furniture (desks, tables, chairs), fixed furniture (wall cupboards, fixed units etc) and decorating. Some works are carried out without necessarily impacting on the running of the school – primarily around hard FM replacement parts, equipment repairs etc. However, other items are planned with the school to fit with the priorities of the school, for example decoration, flooring and furniture. It should be noted that PFI2 is in its 3rd year therefore the lifecycle work is still light touch with most items still within their original expected lifespan.
- 1.9 Please note that lifecycle does not cover what is termed Authority damage i.e. damage caused by occupants of the school which is charged back to the school. Any damage caused by the school is investigated by the SPV before being agreed.

2.0 Payments

- 2.1 At the beginning of each month an invoice (one per contract) arrives with the Council which is checked and arrangements for the payments are made (via CHAPS payments).

- 2.2 The invoice consists of:

- monthly unitary charge for the month (fixed annually in April when Retail Price Index (RPIX) is applied)
- total unavailability deductions for the contract month, e.g. has the building not been available at any point?
- service performance deductions, e.g. have the kpi's been met for window cleaning?
- reporting deductions for contract month e.g. if contractual monthly reports have not been submitted on time
- monthly utility services payment e.g. payment for gas and electric etc.
- pass through costs for contract month i.e any costs incurred as a result of requests from the school and any authority damage
- variations (these can be one off or ongoing) e.g request for additional air conditioning as a one off cost then the ongoing additional costs of providing it.

2.3 The invoice also contains a means for the council to:

- claim step-in adjustment for contract month (cases where the Council has to take control of an issue following failure by the provider)
- claim reimbursements against the annual service plan
- claim ROCs/LECs (money back from the grid)

2.4 When the service fails to achieve the appropriate performance standard (KPI) or impact the availability as defined in the contract, deductions are made in accordance with the contract, These are defined within schedule 2 of the Project Agreement.

3.0 Payment of the Unitary Charge

3.1 PFI 1

3.1.1 The Project Agreement was signed in April 2010 for Highfields and Penn Fields schools, co-located in the same building. The Unitary Charge is the fee payable by the Local Authority in consideration of the obligations performed by the contractor under the agreement calculated in accordance with schedule 6 of the contract – the payment mechanism.

3.1.2 A Monthly Unitary Payment is requested via invoice, comprising of the following:

Monthly unitary charge

- Unindexable Element of the Unitary Charge £ 5,122,921 per annum (2018/19)
- Indexable Element of the Unitary Charge £ 2,417,057.83 per annum (2018/19)
- Total £7,539,978.83 per annum or £628,331.57 per month (2018/19)

Monthly Utility services payment

- The utilities rate was originally fixed for 3 years at £18152.30 per month (Highfields) & £8150 per month (Pennfields)
- A further fixed contract is now in place at a cheaper rate, this benefits the schools as costs have reduced. Current rates are £17,624.63 per month (Highfields) & £6932.74 per month (Pennfields)

Pass through costs for contract month (recharged to the individual school)

- NOVs (notice of variation) where the school have asked for additional items in the school e.g. blinds, air-conditioning, external tap, separation wall, extra sockets; and the NOV includes as applicable FM, Maintenance, Lifecycle charges

3.2 How much does each school pay? (Contract Defined relevant Proportion)

Highfields: £1,820,352 indexed by actual RPIX.

Penn Fields: £432,986 indexed by actual RPIX.

3.3 PFI 2

3.3.1 The Project Agreement was signed January 2014 for Heath Park and St Matthias schools on separate sites. The Unitary Charge, as before, is the fee payable by the Authority in consideration of the obligations performed by the contractor under the agreement calculated in accordance with schedule 6 of the contract.

3.3.2 A Monthly Unitary Payment is requested via invoice, comprising of the following:

Monthly unitary charge

- Unindexable Element of the Unitary Charge £3,755,118 per annum (2018/19)
- Indexable Element of the Unitary Charge £ 1,964,149.79 per annum (2018/19)
- Total £5,719,267.79 per annum or £476,605.65 per month

Monthly Utility services payment

- Contract remains in the initial fixed for 3 year period
- Indications are that to gain maximum cost benefit, this will be fixed for another 3 years
- Currently £28647.03 per month Heath Park and £18074.77 per month St Matthias (2018/19)

Pass through costs for contract month

- NOVs (notice of variation) where school have asked for additional items in the school and the NOV price includes as applicable FM, Maintenance, Lifecycle charges
- These costs as they come through are marked for recharge to school

3.4 How much does each school pay? (Contract Defined relevant Proportion)

St Matthias: £812,000 indexed by actual RPIX.

Heath Park: £1,218,000 indexed by actual RPIX.

4.0 The role of the LA

4.1 To recap, the Local Authority entered into two PFI contracts in Wolverhampton for the delivery of four schools –

PFI1: Highfields & Penn Fields (special) where the agreement was signed between the LA and inspiredspaces Wolverhampton (ProjectCo1) Ltd in 2010.

PFI2: Heath Park & St Matthias (formerly Deansfield) where the agreement was signed between LA and inspiredspaces Wolverhampton (ProjectCo2) Ltd in 2012.

- 4.2 Both these contracts continue for 25 years from their service commencement date to delivery the services required within the contract (and any subsequent Variations to the original agreement). The LA therefore has a continuing role within the contract in ensuring the obligations of the contract are met and the partnerships are managed. Responsibilities range from payment and contract management to monitoring and maintenance of contractor performance.
- 4.3 Whilst there is open and regular communication with ProjectCo and their operational staff, on a monthly basis all aspects of the operational performance are reviewed for the previous month with the delivery team. This includes, but is not limited to, reviewing and challenging (as necessary) performance, looking into issues, reviewing damages on the site, concerns about delivery, staffing, applying relevant deductions, reviewing change documentation and looking for service improvements.
- 4.4 Similarly, the LA regularly meets onsite with school representatives and FM staff to monitor performance and collaborate on achieving smooth running of an operational school environment. FM site managers in general have a daily dialogue with the individual schools to ensure continuity of service.

5.0 The Role and Value of Amber Infrastructure

- 5.1 Inspiredspaces Wolverhampton (ProjectCo1) Ltd and Inspiredspaces Wolverhampton (ProjectCo2) Ltd, also known as the Special Purpose Vehicles (SPVs), were ultimately owned by Carillion PLC when they were established. The controlling interest in each company was then purchased by Amber Infrastructure Ltd (AMBER) to take forward post construction. Amber manages the relationship with the funders who originally financed the contracts with design and construction companies. They also place contracts for maintenance, FM and other services.
- 5.2 The LA pays for this arrangement (new building and services) through pre-arranged unitary payments, combining service charges with the availability charge, effectively paying for the funding of the construction of the buildings plus interest, lifecycle service charges and principal repayment – note all of these have to be checked by the LA as the invoices arrive.
- 5.3 In effect the SPVs have control of the schools/assets and occupy them for the lifetime of the 25-year contract. They provide and manage all the services to the contracts and satisfy the lenders about their investments.
- 5.4 The SPVs are responsible for:

- The running of the PFI contract, monitoring performance (in accordance with the service specification) and reporting back to the Council.
- Ensuring that the building is safe, secure and that the fabric of the building is maintained along with the furnishing purchased through the contract.
- The performance and monitoring of the FM contract, reporting back to the Council and addressing any performance issues.
- Managing audits on the operation of the scheme and providing reassurance to the funders.
- Lifecycle funding
- Purchasing and reporting on utilities

5.5 Amber have managed the impact of the collapse of Carillion including the transfer of FM to OCS Ltd. All defects & liabilities left by Carillion have been picked up and dealt with via Amber as Carillion were their sub-contractors.

