

Committee: Governance, Audit and Performance Committee

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Title: PFI Contract Update

Report Author: Oliver Knight, PFI and Performance Officer

OKnight@uttlesford.gov.uk

Paula Evans, Customer Services &
Performance Manager

PEvans@uttlesford.gov.uk

Summary

1. This report provides members with an overview of the contract and operational arrangements for the Uttlesford Leisure PFI contract. It provides a summary of the history, structure and governance of the contract, and explains the Council's current approach to contract monitoring. This report also presents the future challenges and ambitions of the contract; ensuring the contract continues to provide value for money to both leisure centre users and the Authority over the contract duration. The structure of the contract is complex; Appendix A provides an overview of the main contractual documents, and the structure between parties.

Recommendations

2. None

Financial Implications

3. There are no financial implications associated with this report. However, members should note that the Leisure PFI contract is the largest General Fund contract that the council has entered into to date. This is based on the term of the contract rather than the value.

Background Papers

4. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report:
 - Uttlesford PFI Contract Documentation
 - National Audit Office – Review of the VFM Assessment process for PFI (2001)
 - Outline Business Case – PFI Scheme to Provide Sports & Leisure Facilities in Uttlesford (September 1998)
 - UDC PFI Board Minutes (June 1999 to Nov 1998)
 - Leisure Contract Management Working Party Minutes (March 1995 to September 2005)
 - UDC Community and Leisure Committee (Sept 2003 to Sept 2005)

- Amenities Sub-Committee, Contracts Board, Policy & Resources Committee and Council Minutes (1997 to 2003)
- House of Commons Forty-Sixth Report of Session 2017-19: Private Finance Initiatives (June 2018)
- National Audit Office report – HM Treasury: PFI & PF2 (Jan 2018)
- Governance, Audit & Performance Committee Report, entitled Leisure Private Finance Initiative (Sept 2018)

Impact

5.

Communication/Consultation	Contract governance and compliance processes have been established to ensure all necessary communication and consultation requirements within the contract structure are met. Effective governance is delivered through scheduled contract meetings, and dedicated authority resource on monitoring/managing the contract.
Community Safety	None
Equalities	None
Health and Safety	Health & Safety is embedded in the governance of the contract and regularly reviewed at monthly liaison meetings and the Annual Health & Safety meeting.
Human Rights/Legal Implications	None
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

Situation

- 6. Contract History** – Uttlesford District Council began discussions on the procurement of a new outsourced leisure provision in 1995. Prior to the PFI contract, the council outsourced its leisure services through a private company – DC Leisure – who operated the Lord Butler Leisure Centre in Saffron Walden. Following resident consultations it was agreed that the geographical extent of the authority’s leisure provision should be extended.

The PFI project involved the submission of both outline & full business cases to the Department of the Environment, Transport and the Regions. Following

this a complex tendering process was undertaken, resulting in Linteum's selection as the preferred bidder, and awarded the contract post-negotiations. The Uttlesford Leisure PFI contract was signed in May 2002 and has a 33 year duration, expiring in August 2035. There are no break causes, except in the event of significant default by contract parties. The Uttlesford Leisure PFI contract was one of the first leisure PFIs to be introduced in the UK.

The PFI contract encompasses three leisure centres:

- ◇ The refurbishment, ongoing maintenance, financing and operation of the Lord Butler Leisure Centre in Saffron Walden.
- ◇ The design, construction, ongoing maintenance and operation of two new leisure centres – the Mountfitchet Romeera Leisure Centre and the Great Dunmow Leisure Centre.

All of these works were completed in August 2003, and the operational services period then commenced.

The authority finances the PFI agreement through a Unitary Charge, set at £36.2m over the contract duration. This is based upon actual indexation and forecasts to the contract expiry. This Unitary Charge includes clauses for Sculpting, which takes into account financial variations in Planned Maintenance fund usage.

Although situated at the same site as the Lord Butler Leisure Centre, Turpin's Indoor Bowls Club sits outside of the PFI contract, and is therefore managed independently of the contract.

7. **Contract Structure** – This contract has a complex structure but this is required due to the several parties which form the core infrastructure of the contract. There are various signed agreements between these bodies which govern contract management. Details of the full structure can be seen in Appendix A, with a summary of the main contractual documents and an accompanying diagram showing the contract parties' structure within the agreement.
8. **Project Purpose** – Two purposes are identified in the contract:
 - ◇ To ensure that people of Uttlesford receive high quality and valued leisure facilities and services to meet user needs at an affordable price.
 - ◇ To provide new and improved facilities and services to enable schools in the district to meet PE curriculum requirements, and to encourage participation in sport and development of sporting potential among pupils.

To meet these aims, all of the centres offer a sports hall, fitness suite, crèche, outdoor floodlit multi-use games area and group training studio. Lord Butler Leisure Centre & Great Dunmow Leisure offer a 25m swimming pool, sports injury clinic and café facilities. There is also a full-size floodlit multi-

purpose Astro Turf at Great Dunmow Leisure Centre. Both the Mountfitchet Romeera and Great Dunmow Leisure Centres occupy land owned by the school; there are various management and lease agreements within the structure between the School Governors, the Authority, Essex County Council and Linteum, as relevant.

All three centres support the authority's Health & Wellbeing priorities, by providing various sports, leisure and well-being facilities and activities to a wide-ranging demographic across the district.

The table below shows customer usage for the last two years:

Year	Lord Butler, SW	Helena Romanes, GD	Romeera, Stansted	Totals
2017/18	334,038	255,577	52,805	642,420
2018/19	364,488	230,189	54,452	649,129

9. **Responsibilities** – The management of the contract has been under the responsibility of council officers for community and leisure activities since its inception in 2002. Since February 2016 the Customer Services & Performance Manager has been given full responsibility to act on behalf of the Authority for all actions and decisions relating to the contract.

In January 2019 the role of PFI & Performance Officer was created as part of the restructure of the Customer Services, and Leisure & Performance departments. Previous to this date the Community Development Officer provided administrative support to the contract, now the PFI & Performance Officer has this responsibility, and is a dedicated resource who undertakes day-to-day contract monitoring and management. Reporting to the Customer Services & Performance Manager, this new role sits within the Corporate Services Directorate, and in turn reports to the Assistant Director – Corporate Services. The Contract falls within the responsibilities of Cllr Armstrong as Portfolio Holder for Sports and Leisure.

Support from other authority departments is provided as necessary. Any contract variations which have considerable financial impact for the authority are discussed and agreed with the Assistant Director – Resources and/or the Director of Finance and Corporate Services prior to approval. The council's solicitor provides legal advice, and the PFI team work frequently with the Health & Wellbeing Team to enhance the PFI's leisure provision in alignment with UDC's Health & Wellbeing priorities.

The day-to-day management of the contract is overseen by:

- ◇ The council's Customer Services & Performance Manager;
- ◇ The council's PFI & Performance Officer;

- ◇ The SPV (Linteum Uttlesford Limited) General Manager;
- ◇ The Leisure Operator (1Life Management Solutions Ltd), and its Uttlesford Contract Manager. Planned and responsive maintenance is sub-contracted to Emcor.

This management is facilitated through the following scheduled meetings:

Meeting	Frequency	Representation	Objective(s)
Operational Liaison Meetings	Monthly	UDC, 1Life, Emcor, Pario	Review of operational performance
IPS Meeting	Quarterly	1Life, Pario, IPS	Ongoing review of contractual obligations; Determination of funding applications.
Sub-Contractor's Meeting	Quarterly	1Life, Emcor, Pario, Linteum	Ongoing review of contractual obligations
Principal's Meeting	Quarterly	UDC, Emcor, Pario, Linteum Board	Ongoing review of contractual obligations and informal escalation of issues
Board Meeting	Quarterly	Linteum Board	Ongoing review of contractual obligations
Annual Health & Safety Meeting	Annually	UDC, 1Life, Pario, Linteum Board	Review of H&S data, policies and assessments.

10. Performance Management – The Contract's Payment Mechanism provides a method through which operational performance can be measured and monitored. There are 9 key performance indicators, each of which has a performance standard. The Operator provides a monthly monitoring report to the Council, which details their performance against each of the performance standards. If a performance standard is not met, then consequently the Operator incurs a financial penalty; this is recovered through reduction in the Council's monthly unitary charge payments.

The following table provides a summary of nine Key Performance Indicators (KPIs), and their respective Performance Standards:

Number	Service Standard	Monitoring	Performance Standard
1	Lifecycle – The Contractor shall maintain schedules and procedures for carrying out planned lifecycle and preventative maintenance.	Quarterly	95% of all critical tasks
2	Cleaning – The contractor will ensure that all facilities are cleaned within agreed schedule and standards.	Monthly	90% of tasks completed
3	Staff Training – The Contractor is to provide the staff with necessary operational and technical competence as appropriate.	Quarterly	90% of planned training completed
4	Programming – The contractor will provide a programme of group exercises, competitions, school holiday activities and coached courses.	Quarterly	90% of planned programme
5	Marketing – The contractor will provide an Annual Marketing strategy, detailing activities to be completed.	Quarterly	90% of activities
6	GP Referral Scheme – The contractor will provide a GP referrals scheme at each facility.	Quarterly	Yes/No
7	Customer Satisfaction – The contractor will undertake an annual satisfaction survey for users of each Facility which will be externally analysed. <i>*This KPI is currently under review*</i>	Annual	Upper Quartile of National Survey
8	Quest – The contractor will obtain, and retain QUEST accreditation for all three sites.	Annual	Yes or No
9	School Provision – Provide access for Helena Romanes School & Forest Hall Academy to use entirety of their Actual Usage Provision.	Monthly	Yes or No

Alongside these KPIs, the Payment Mechanism has provision for financial penalties based upon the non-availability of the facilities. Zone Data Sheets for each area (e.g. Swimming Pool; Dance Studio) dictate availability criteria and a Rectification Period if a facility closes. If the issue is not resolved within the relevant Rectification Period, an unavailability Deduction is applicable. This ensures all facilities are available to the specification of the contract, and that any issues are resolved efficiently. The Payment Mechanism ensures the contractor provides a high-level of service, whilst giving the authority oversight of all key operational aspects.

Authority's New Approach: Contractual Monitoring

11. Since taking on responsibility for the day-to-day contract management and monitoring, the PFI & Performance Officer has advanced contract monitoring and governance. This has been achieved through utilising a rigorous attention to detail when assessing operational documents, and research into the different parties' contractual obligations when relevant. All issues are escalated efficiently and effectively through the relevant structure to ensure their expedient resolution, and minimise the impact on service provision. This enhanced critical framework aims to ensure increased authority governance of the contract, but also works to ensure that the contract is providing value for money for the Authority. Alongside this, the following monitoring and management actions are in progress:
12. **KPI Monitoring Procedures** – The authority is working with the contractor to gain the necessary electronic access to remotely monitor performance. For each contractual KPI, a documented monitoring procedure is in development; involving set instructions to be adhered to and comprehensive record keeping. Working firstly on the Cleaning KPI, the authority now has access to 1Life's cleaning system - Agility. This is used to monitor the completion of scheduled cleaning tasks on a real-time basis, and to investigate complaints when relevant. Scheduled remote checks are now in place to ensure ongoing oversight.
13. **Non-Contractual KPIs** – The authority intends to introduce some key performance indicators to extend current performance management arrangements. It is intended these will focus upon such areas as: Customer Complaints, Customer Usage Provision and Membership Attrition Rates. These will be introduced for the 2020/21 year, and be reported to Governance, Audit & Performance Committee.
14. **Staged Contractual Review** – It is intended that each contractual document will be reviewed and analysed to ensure we are aware of all contractual obligations, as relevant. This will produce a PFI monitoring calendar; a centralised resource to be used by the authority to enable effective monitoring of all parties' contractual obligations.
15. **Annual Service Plan** – In addition to the Payment Mechanism, the contractor is required annually to provide a range of documents to support the ongoing assessment of their performance. Examples of these include: an Annual Programming Schedule and the Annual Cleaning Schedule. The authority has

begun closely monitoring performance against these documents, and asking questions wherever necessary to ensure the best standard of service is provided to users. To consolidate this process, we are also working with the contractor to develop a report which collates all of these separate requirements relating to annual planning into a single Annual Service Plan. Once this format has been finalised, this can be used as a document to monitor performance on a regular basis.

16. **Monitoring & Integrating Customer Feedback Proposal** – The authority has begun to consider how to combine customer feedback into annual development/service plans in a structured approach. There is currently a KPI measuring Customer Satisfaction, however no action is taken as a result of its annual customer survey. We are currently working on a proposal where parties annually meet to evaluate the customer satisfaction survey results in alignment with the outcomes of the Annual Service Report. This will aim to integrate Customer feedback with developing service goals, and be reflected in the following year's Annual Service Plan.
17. **Monitoring Customer Demographics** – Aligning with Uttlesford District Council's current Health & Wellbeing Strategy, the PFI contract aims to extend its leisure service provision to as many residents as possible. It is the Council's intention to monitor demographics of the leisure centre users, to enable us to identify demographic groups who do not utilise the facilities at the centres. This information can be used by the contractor to encourage greater use of the PFI facilities by those under represented amongst users.
18. **IPS Funding** – Under the PFI Agreement, the Industrial & Provident Society is given a stipend annually by the contractor, which they can award as grants based upon proposals. Such funding proposals can originate from the PFI realm, but more broadly can also contribute to UDC's Health & Wellbeing priorities. In this manner, the PFI team will continue to work with the council's Health & Wellbeing Team and support all other project partners in creating effective and socially-beneficial funding proposals. A recent example of such projects would be the introduction of a weekly Yoga4Health session which is being held at the Garden Room, Saffron Walden.
19. It is hoped the new actions advised in Points 12 to 18 will further improve contract monitoring; increasing the council's overall governance of this contract. As they proceed they will develop, and new actions will also be integrated. Progress updates will be provided to Governance, Audit & Performance Committee, as relevant.

The Future

20. **Market Competition** - Local authority leisure provision is being increasingly squeezed in a changing market, with growing competition from the commercial sector. The opening of the PureGym (a nationwide provider of discount leisure services) in Saffron Walden this month is an apparent concern for the PFI contract. We will continue to invest in the facilities, with projects at Lord Butler Leisure Centre including:

- Replacement Sauna
- Redesign of Reception Area; including new furniture
- Repairs to the Steam Room
- New treadmills, cross trainers & step machine
- Installation of MyZone Virtual Class Offering

To maintain and increase its market share, 1Life is promoting its unique offerings which commercial sector competition does not provide; for example – the recent inclusion of racquet sports within membership. 1Life has also developed a more robust local marketing campaign to highlight their leisure offer. The PFI team is supporting 1Life, and working with them to enhance and differentiate the public sector leisure facilities and services.

21. GP Referral Scheme - Following a successful funding with the IPS, during Autumn 2019 1Life will be extending the GP Referral and Specialist Class scheme currently offered. The PFI team identified that class attendance was often nearing capacity, and initiated discussions regarding the extension of this program. Following consultation with both 1Life and UDC’s Health and Wellbeing team, it has been agreed that offering a class outside of normal working hours would provide another potential alternative. 1Life has also recently secured IPS funding to further extend the Specialist Class scheme to include sessions aimed at those suffering/recovering from cancer-related illness.

22. Handback - As the contract matures towards the end of its term (August 2035), the authority will need to consider how the provision of leisure facilities will be managed in the future. The PFI team is initiating discussions with Linteum and the Local Government Association on relevant PFI handback protocols and procedures. This is a standing Agenda Item for Principal’s Meetings, with all parties raising any relevant issues. At this initial stage, this has involved the auditing and organising internal records, and discussions on procuring up-to-date building floorplans for the three centres.

23. Handback will pose opportunities for the Authority to reflect upon our wishes for leisure provision landscape in the post-PFI era. The PFI team will be looking to engage members in any additional discussions regarding how this will be managed.

Risk Analysis

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Risk	Likelihood	Impact	Mitigating actions
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<p>If the council does not manage/monitor the PFI contract effectively due to lack of partnership working with all contract parties, then this may lead to a loss of reputation for the council as the contract owner, and 1Life as the leisure operator.</p>	<p>2</p>	<p>2</p>	<p>Monthly contract monitoring with Linteum/Pario/1Life Representatives. Multi-faceted contractual monitoring by UDC staff of the contract.</p>
<p>If the PFI leisure contract does not provide value for money due to ineffective contract management then there may be a negative impact on the investment made by the council</p>	<p>2</p>	<p>2</p>	<p>Monthly monitoring of Payment Mechanism. Management of governance controls relating to contract finance and operational performance.</p>

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project