

Committee: Governance, Audit and Performance

Date:

Title: Leisure Private Finance Initiative (PFI)

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Summary

1. This report provides members with an overview of the arrangements with regards to the Leisure PFI contract that UDC holds. It is intended to provide information regarding the history of the contract, the current structure and management arrangements along with future ambitions and considerations with regards to ensuring the contract continues to provide value for money to both leisure centre users and the Authority.

Recommendations

2. That members review the information contained in this report and refer any additional queries they may have to council officers present at the meeting.

Financial Implications

3. Significant. The Leisure PFI is the largest General Fund contract that the Council has entered into to date. This is based more on the term of the contract than the value as explained in section 6 below.

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 Leisure PFI contractual documentation
 - National Audit Office – Review of the VFM assessment process for PFI
 - Outline Business Case – PFI Scheme to Provide Sports and Leisure Facilities in Uttlesford (Sept 1998)
 - UDC PFI Board minutes (June 1999 – Sept 2003)
 - UDC Community and Leisure Committee minutes (from Sept 2003 – 2005)
 - UDC Community and Housing - Scrutiny 1 Committee minutes (from Sept 2003 – 2005)

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. The project parties meet regularly in order to ensure effective governance (see section 10).
Community Safety	None
Equalities	None
Health and Safety	Health and Safety processes and reporting are embedded in the governance of the contract and are regularly reviewed (including independent audit).
Human Rights/Legal Implications	None
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

Situation

6. **Background** - It is understood that the Uttlesford Leisure PFI contract ("Contract") was one of the first leisure PFIs to be introduced in the UK under the then Labour government, with the Contract coming into effect on 30 May 2002. The Contract is a 32 year contract with an expiry date of August 2035.

The Contract includes the design, construction/refurbishment, finance, maintenance and operation of three leisure centres (the Lord Butler Leisure Centre in Saffron Walden which was refurbished pursuant to the Contract; and the Helena Romanes Leisure Centre in Great Dunmow and the Romeera Leisure Centre in Stansted Mountfitchet were built pursuant to the Contract). Construction completed in August 2003, at which point the operational services period commenced. The total Unitary Charge is £36.2m over the project life (2002 to 2035), based on actual indexation to date and forecasts to contract expiry. The Council's Unitary Charge under the contract is paid monthly (see section 9 below).

Prior to the PFI Contract the council had outsourced its leisure services provision through a private company, DC Leisure. At this time the council only had full responsibility for the Lord Butler Leisure Centre in Saffron Walden. Both the Helena Romanes Leisure Centre in Great Dunmow and the Romeera Leisure Centre in Stansted Mountfitchet were built as part of the PFI Contract.

7. **Responsibilities** - The contract has been overseen and managed by officers with responsibility for community and leisure activities within the council since its inception in 2002. However, none of the officers involved with the initiation and implementation of the Contract still work at the Authority. The most recent change in responsibility was in January 2016 when the role of the Leisure and Performance Manager was created as part of the re-structure of the Partnerships service area. This role sits within the Corporate Services Directorate and reports to the Assistant Director, Corporate Services. The Community Development Officer within the Leisure and Performance Team currently provides administration support to the Contract.

The Leisure and Performance Manager, as the Authority Representative under the Contract, has been given full responsibility to act on behalf of the Authority for all purposes of the Contract, including agreeing change requests. Any such requests that could potentially have a financial impact on the Unitary Charge are discussed and agreed with the Assistant Director – Resources and/or the Authority’s Section 151 Officer prior to approval.

The client management of leisure and sports centres is delegated to the Chief Executive, as is set out in the Council’s constitution. The Contract falls within the responsibilities of Cllr Ranger as Portfolio Holder for Communities and Partnerships.

Day-to-day management of the Contract is overseen by:

- the Council’s Performance and Leisure Manager;
- the SPV (Linteum (Uttlesford) Limited) General Manager; and
- Leisure Operator (1Life Management Solutions Ltd)

Uttlesford Leisure Contract Manager

Further details can be found in section 8 below and the contract structure detailed in Appendix A.

8. **Structure** – The contractual structure for the PFI project is complex but not untypical; there are several bodies that form part of the core infrastructure through which governance of the Contract is monitored and assured. Details of the full structure and contracting parties can be seen in Appendix A.

In summary:

- the Concession Agreement between the Authority and Linteum (Uttlesford) Limited (the “SPV” or “Linteum”) governs the design, construction/refurbishment, finance, maintenance and operation of the centres and, during the operation phase, determines the provision of the leisure service through Linteum on behalf of the Authority. Linteum

sub-contract the day-to-day management of the project to Pario Limited (a specialist PFI management service provider).

- Linteum sub-contract the operation of all three leisure centres (flowing down Linteum’s obligations under the Concession Agreement) to an Industrial and Provident Society (“IPS”);
- The IPS sub-contract the operation of the centres to a lifestyle and management solutions company, 1Life Management Solutions Ltd (“1Life”);
- 1Life sub-contract the hard facilities management and maintenance of the centres to a maintenance services provider, Emcor Facilities Services Ltd (“Emcor”).

As two of the centres are situated on school premises, Great Dunmow and Stansted, there are various additional management and lease agreements within the structure between the school Governors, the Authority (UDC), Essex County Council and Linteum, as appropriate.

All three centres support the Authority’s key objectives and priorities by providing various sports, leisure and well-being facilities and activities to a wide-ranging demographic within the district.

All of the centres offer a sports hall, fitness suite, Crèche, outdoor floodlit multi-use games area and group training studio. In addition Saffron Walden and Great Dunmow offer a 25m swimming pool (with a teaching pool at SW), a sports injury clinic and café facilities. There is also a full-size floodlit multi-purpose Astro Turf games area at Great Dunmow.

One of 1Life’s contractual obligations is to provide a GP Referral scheme. In addition to this scheme they also offer Specialist classes (pulmonary, stroke, cardiac rehab and neuro) at all three sites and have recently introduced a weekly children’s Inclusion Club.

Overall usage figures show a 3% increase year-on-year over the last two years:

Year	Lord Butler, SW	Helena Romanes, GD	Romeera, Stansted	Totals
2017/18	334,038	255,577	52,805	642,420
2016/17	332,239	236,680	55,883	624,802

- 9. Finances** – As stated in section 6 of this report the current overall Unitary Charge is £36.2m over the life of the project (subject to annual indexation - RPIx). The annual Unitary Charge for the current Contract Year is just over £1m and is paid monthly by UDC to Linteum.

The Authority receive an annual rental income (operator rental payment) from 1Life of approximately £140k (fixed sum increased by RPI each year) plus an additional annual grant payment of just under £450k from the Ministry of Housing, Communities and Local Government (formerly the Department for Communities and Local Government). The purpose of this grant is to provide local authorities with ongoing revenue support for their PFI projects.

Although predominantly self-monitored by Linteum and its subcontractors through a number of prescribed service outputs and the contractual Payment Mechanism, the Authority has the ability to make financial deductions from the Unitary Charge if Linteum does not achieve certain contractually agreed levels of performance or availability.

In addition, the Authority benefits from an annual profit share payment made by 1Life. This is identified as an 'Average Operator Profit' and is determined by calculating the average operator (1Life) profit on the Uttlesford project for the current concession year and the prior two concession years. An incremental scale is used to determine the amount of profit share to be received as shown below:

% Share to Authority	Average Operator Profit (Indexed)
5%	£0 - £200,000
10%	£200,001 - £250,000
15%	£250,001 - £300,000
20%	£300,001 - £500,000
25%	Any sum greater than £500,000

Profit share for the 2017/18 year (April 2017 – April 2018) is yet to be determined and agreed but 1Life are indicating that there has been a significant net profit increase for the year.

10. **Governance** – Since taking on responsibility for the PFI, the Leisure and Performance Manager has worked closely with Linteum/Pario and the 1Life Uttlesford Contract Manager to improve governance of the contract.

In 2016 a full review of the reporting requirements of the contract was completed by Linteum/Pario. As a result of this a number of meeting forums, and new reporting formats were introduced to improve management and monitoring, while ensuring the contractual obligations of all parties continue to be met.

These meetings/reports have enabled all parties to re-confirm their understanding of their contractual obligations and working relationships within the contract structure, ensure all responsibilities are being met and where they aren't discuss and progress solutions and corrective actions and lastly, confirm the contract is providing value for money for the Authority.

The meetings, their frequency and their remit are as follows:

Meeting	Frequency	Representation	Objective(s)
Operational Liaison Meetings	Monthly	UDC 1Life Emcor Linteum/Pario	Review of operational performance (including Payment Mechanism) via monthly Operational Report
IPS Meeting	Quarterly	1Life Linteum/Pario IPS	On-going review of contractual obligations
Sub-contractors meeting	Quarterly	1Life Emcor Linteum/Pario	On-going review of contractual obligations
Principals Meeting	Quarterly	UDC 1Life Emcor Pario Linteum Board IPS	On-going review of contractual obligations and informal escalation of issues
Board Meeting	Quarterly	Linteum Board	On-going review of contractual obligations
Health & Safety Meeting	Annual	UDC 1Life Pario Linteum Board	Review of all H&S data and assessments

11. **Health & Safety** – All parties within the contract, the Authority, Linteum, 1Life and Emcor adopt a proactive approach to Health and Safety reporting, monitoring and corrective action. Linteum engage an independent Health and Safety advisor (Quadriga Health & Safety Ltd) that undertakes annual audits, whilst 1Life also conduct regular internal Health and Safety audits. As detailed above, the project holds annual Health and Safety meetings to review all H&S information and matters arising.

The number of accidents/incidents reported are comparable with other Authority leisure projects.

12. **Improvements** – It is recognised by all project parties that there are further contractual service delivery and governance improvements that can be made within the PFI contract. These include further tightening of the management and monitoring of contractual controls and obligations, continued improvement of governance and reporting processes and the formal reporting of key performance indicators associated with the Contract.

The Authority continues to actively work with Linteum and 1Life to make sure these improvements are identified and implemented thus ensuring the PFI contract is realising value for money, while adopting good industry practice.

13. **The Future** – As the Contract draws closer to the end of its term, the Authority will need to consider how the provision of leisure facilities will be managed in the future (post 2032).

In the meantime, the Authority is actively working with school representatives to ensure the provision of sports activities and facilities meets the demands of an increasing local school-age population. The Leisure and Performance Manager also works closely with the Communities Manager and their Health and Well-Being team to explore and develop opportunities for joint working on health and well-being events and activities.

Risk Analysis

14.

Risk	Likelihood	Impact	Mitigating actions
If the council does not manage the PFI contract effectively due to a lack of partnership working with 1Life then this may lead to a loss of reputation for both the council as the contract owner and 1Life as the leisure operator	2	2	Monthly contract monitoring with Linteum/1Life and quarterly reviews with senior officers/managers as per governance controls in contract
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	2	3	Monthly contract monitoring with Linteum/1Life and quarterly reviews with senior officers/managers as per governance controls in contract

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.

APPENDIX ONE

March 2018

Linteum (Uttlesford) Ltd. PFI Contractual Diagram



