



Haringey Council

Agenda item:

[No.]

Cabinet

On 22nd January 2008

Report Title: Secondary Schools Private Finance Initiative – Interim Suspension of PFI agreement during BSF works.

Forward Plan reference number

Report of: Joint Report of the Chief Financial Officer and Director of the Children and Young People's Service

Wards(s) affected:

Report for: Key Decision

1. Purpose

1.1 This report updates members on progress with resolving the issues arising from implementing the Building Schools for the Future programme with the operation of the current Schools Private Finance Initiative and sets out a way forward for resolution of these issues.

2. Introduction by Cabinet Members

2.1 Cabinet Member for Children and Young People

2.1.1 I welcome this report and support the actions being taken to resolve the concerns of both the council and its schools about the operational delivery of the facilities management services in those schools within the PFI. I also support the resolution of the issues to allow the implementation of the Building Schools for the Future programme (BSF) to proceed as planned. The key outcome should provide a secure financial base for schools to move forward in delivering further improvements to their performance.

2.2 Cabinet Member for Resources

2.2.1 This report provides a solution to aligning the Secondary Schools PFI contract with the BSF programme to enable the construction and refurbishment programme to proceed whilst managing the costs of the facilities management service during this period. This will allow the council to consider at the completion of the BSF programme the most appropriate way to deliver the facilities management in secondary schools taking into account the quality and value for money of future arrangements.

3. Recommendations

- 3.1 Cabinet agrees to suspend, on an interim basis, the obligation of Haringey Schools Services Limited to provide facilities management services to those schools currently within the Secondary Schools Private Finance Initiative from 31st January 2008 .
- 3.2 Cabinet authorises the Chief Financial Officer and the Director of Children and Young People's Service to complete negotiations and to enter into such documentation as is required to formally suspend the service within the PFI contract.
- 3.3 Cabinet authorises the Head of Legal Services to issue a certificate under section 3 of the Local Government Contracts Act 1997 in relation to the suspension agreement at section 3.2 above in reliance on Counsel's advice that a certificate can be issued in relation to the proposed arrangement and Cabinet confirms that in giving the certificate the Head of Legal Services would be covered by the Council's indemnity policy to the extent that he acted in good faith and reasonably believed that the issue of the certificate was within his powers and that he was required or entitled to take such action as part of his duty as an employee.
- 3.4 Cabinet agrees the transfer of employees from Jarvis Accommodation Services Ltd into the council's employment on or before 1st February 2008 under TUPE regulations.

Report Authorised by: Chief Financial Officer and Director Children and Young People's Service

Contact Officer: Tim Dauncey Interim Director of Special Projects

4. Head of Legal Services Comments

Legal services confirm that Counsel's opinion has been received which states that the council has power to certify the suspension agreement under the Local Government (Contracts) Act 1997. Eversheds has also advised on the powers of the council more generally to enter into the proposed contractual arrangement. Legal services agree with Eversheds' advice that the council has the power (capacity) to enter into the suspension agreement and is intending to exercise that power in a proper manner and in accordance with procedure.

5. Local Government (Access to Information) Act 1985

5.1 Report entitled 'Private Finance Initiative Deed of variation 'Cabinet July 26th 2007

6. Strategic Implications

6.1 The implementation of the Building Schools for the Future programme is a major strategic objective for the council that will modernise all secondary school buildings and ICT facilities in the borough and build a new secondary school and sixth form centre by 2010.

7. Financial Implications

7.1 The deed of variation negotiations were not successful in providing a satisfactory outcome primarily because it was clear that the PFI provider was using the negotiating position to transfer significant risks and costs back to the council and schools for the remainder of the existing contract.

7.2 Appendix 1 sets out a summary of the most advantageous options to the council and concludes that option 1 to suspend the delivery of the FM services for an interim period of the BSF being the most advantageous to the council in terms of VFM and facilitating the delivery of BSF.

7.3 With all of the options, the cost to schools will increase as a result, in particular the risk on energy prices is currently with the PFI contractor, which offers considerable protection to schools. However there are costs savings for the preferred option as the contractors risk margins and management costs are removed. Broadly there is a small increase to schools, although the incentive to reduce costs will now rest with the schools directly

7.4 The PFI credit revenue grant is £5.669m per annum until 2025. This primarily is to fund the financing costs of the PFI investment and to provide lifecycle funds for the schools assets over the life of the contract. The schools' budgets for maintenance costs etc. are funded from within the dedicated schools grant.

7.5 Under option1 the PFI grant payments will meet the capital financing costs through HSSL and will also continue to build up the lifecycle fund for schools. (Appendix 3) The PFI reserve will have a balance of funds after this change in the PFI arrangements. This will be retained for lifecycle costs and could assist schools with funding backdated costs of benchmarking and historic variations.

7.6 At the point of termination the council will receive the balance of the lifecycle funds currently held by HSSL. These lifecycle funds provide for future major repairs and maintenance of the school buildings. These funds are currently estimated to be £1.3m, the final amount will be determined at the point of suspension of the FM services. The management of these funds will be undertaken by the council on behalf of the schools to ensure that sustainability on the school buildings into the future.

7.7 At the point of termination of services and the TUPE transfer of staff into the council's employment, JAS will be responsible for the payment of any deficit arising due to shortfalls in the pension fund as a result of the TUPE transfer. The council has

provided JAS with the actuaries report on the deficit and there is a contractual commitment for this to be paid at the point of termination.

7.8 The original scheme had an affordability gap, which the council intended to close as the contract progressed. An annual budget provision was agreed by the council to meet the gap. However recently, the council has been successful in obtaining additional PFI credit from the Government and a further saving as a result of a change in the way the Government paid the grant when it moved to an annuity basis. This provision, funded from council tax, will now be a saving for the council.

7.9 As a result of the council's negotiations on implementing single status there is likely to be an impact leading to increase costs of those staff returning under TUPE regulations to the council's employment. Estimates are being prepared on this. However final costs will not be known until agreement with the Trade Unions on a final settlement.

7.10 There will need to be changes to the accounting treatment as a result of the suspension of the FM services. The PFI contract will need to be treated as a direct finance arrangement with the likelihood of the asset values coming back onto the balance sheet together with the corresponding debt. A provision for debt repayment will be required in the revenue account and this will largely be offset the principal debt repayment in the revised unitary charge. Initial discussions have been held with our new external auditors on this.

7.11 The proposal to terminate the contract with JAS and suspend the delivery of FM services and the associated financial consequences, including the need to prevent delays to the BSF programme, provides the council and the schools with the most beneficial value for money outcome.

8 Legal Implications

8.1 The council entered into a PFI agreement with Haringey Secondary Schools Ltd. (ultimately owned by Jarvis PLC and Barclays Infrastructure Group LTD) in 2000 to undertake refurbishment and construction works on a number of secondary school sites. Ownership of the holding company of HSSL has subsequently transferred to Secondary Market Infrastructure Fund UK PLC (SMIF). HSSL continues to engage Jarvis Accommodation Services Ltd (JAS) to provide the facilities management services to those schools involved in the PFI. The council does not have contractual arrangements with JAS and therefore will need to work closely with HSSL to ensure any compensation due to JAS through terminating their contract is managed tightly and acceptable to the Council and its schools.

8.2 Following the BSF works the council can give notice to HSSL of its intention to recommence the provision of the FM services; however, it will however be necessary to negotiate new arrangements with HSSL. As HSSL will have effectively no risk during the period of the suspension, it will be in a strong bargaining position in relation to any re-negotiation. However in the draft Suspension Agreement clauses have been included whereby the amendments to the Principal Agreement should maintain the

existing risk allocation and margins and represent best value for the council .The council has also sought to introduce provisions which require HSSL to negotiate promptly and in good faith to incentivise HSSL not to delay matters.

8.3 During the period of the suspension , the council will take back some of the risk which currently rests in HSSL and forgo claims against HSSL in respect of any defects at the Schools. The council has sought to minimise this risk by arranging for surveys to be undertaken on the roofs of 3 schools which are believed to present the greatest risk.

8.4 All the buildings identified within the PFI will remain insured although responsibility for this will pass to the council (who can insure at a lower cost than HSSL). The council has also secured an agreement in principle the HSSL foregoes any claims which it may have against the council.

8.5 The payment of the annual grant of PFI credits is paid at the discretion of the Department of Children, Schools and Families. The council has sought confirmation from Government departments that the PFI credits in respect of the capital expenditure under the PFI scheme will continue. (The council's section 151 Officer is obliged to complete an annual return confirming that the assets are still being used for the required purpose. Since the buildings will remain as secondary schools, the council will remain in a position to give this confirmation).

8.6. The Department of Children, Schools and Families have confirmed that they do not object to the proposed arrangements for the suspension of the PFI contract and the TUPE arrangements whereby staff will transfer from JAS to the council. However they have commissioned Partnerships UK to undertake a broader review into the alignment of PFI and BSF arrangements.

9. Powers

9.1 Whenever a local authority contemplates entering into a transaction of this complexity, it is essential that it gives the fullest consideration to its powers to enter into the transaction.

9.2 Consideration of local authority powers falls under two broad headings:

- Capacity - i.e. has the council got the statutory powers to act?
- Exercise - i.e. assuming that it has the capacity, has it exercised the power reasonably and procedurally correctly?

9.3 The council will be keen to be satisfied about both the capacity and exercise issues, since it will not wish the agreement to be set aside under judicial or audit review. The council can rely on the "Safe Harbour" provisions of any Local Government (Contracts) Act Certificate to confirm (whether or not they had them or had exercised them properly) that the council has the requisite powers and has exercised them properly.

Capacity

9.4 The Council is a creature of statute and derives all of its powers from Parliament.

These powers are either express or they may be implied from the wording of statute or they may be incidental i.e. derived from the provisions of Section 111 of the Local Government Act 1972. This means that the council, in order to be able to enter into this transaction, must be able to identify a relevant statutory power enabling it so to do. For the most part in this transaction, the local authority will rely on express powers in statute.

9.5 Of particular relevance to this transaction are the following:

9.5.1 As a Local Education Authority (LEA), the council has general statutory duties

9.5.2 under the Education Act 1996 (“the 1996 Act”) both in terms of a general responsibility for education (section 13) and through the duty to secure sufficient schools for the provision of (inter alia) secondary education. The duty of sufficiency relates to the number, character and equipment required to provide for pupils the opportunity of appropriate education. This duty is found in section 14 of the 1996 Act.

9.5.3 The council also has more specific duties under section 22 of the School Standards and Framework Act 1998 (“the 1998 Act”) for the maintenance and funding of schools. It is these which are particularly relevant to the PFI contract. Section 22(1) provides the basic duty to maintain the schools, which through section 22(3) is explained as including the duty to defray all the expenses of maintaining it and the duty of making premises available to be used for the purposes of the school.

9.5.4 The council has a general power, linked to any of their functions, under section 120 of the Local Government Act 1972 to acquire land by agreement.

9.5.5 The council may also rely upon the subsidiary powers set out in section 111 of the Local Government Act 1972. These provide the council with a power to do anything which is calculated to facilitate, or is conducive or incidental to the discharge of any of its functions. This includes the borrowing or lending of money, or the acquisition or disposal of property.

Exercise

9.6 However, having the capacity to enter into the transaction is only part of the issue.

In order to comply with a power, duty or function, the council needs to comply with any restrictions or prohibitions, any process (for example if there are any preliminary steps to follow before utilising a particular powers) and that the council directs itself properly in law, takes account of relevant considerations, discounts irrelevant considerations and does not come to a decision that no reasonable authority could reach.

10 Consultation

10.1 Schools

10.1.1. There has been regular consultation and discussions with secondary headteachers to make them aware of the issues of the negotiations for the Deed of Variation and the options to move forward. The proposal to suspend the provision of Facilities Management services within the PFI contract is unanimously supported by the secondary school head teachers and their governing bodies.

10.2 TUPE Consultations with affected Trade Unions and Employees

10.2.1 Consultations concerning the TUPE transfer of employees from Jarvis Accommodation Services Ltd to the council's employment have been proceeding satisfactorily since 1st October 2007 and are expected to be concluded within the timescale to allow to be completed on or before 1st February 2008.

11 Background

11.1 The implementation of the Building Schools for the Future programme is a major strategic objective for the council that will lead to the modernisation of secondary school buildings and ICT facilities as well as the building of a new secondary school in Wood Green by 2010. BSF funding has also been used to build the new sixth form centre which opened in September.

11.2 A Schools Private Finance Initiative (PFI) scheme was entered into in 2000 to refurbish and undertake construction projects on a number of secondary school sites. Part of the risk transference necessary in a PFI contract included the provision of a facilities management services (including utility costs, day-to-day facilities services, routine repairs and maintenance and longer term lifecycle repairs) for a period of 25 years to be provided through HSSL by Jarvis Accommodation Services (JAS). The PFI scheme brought major improvements to our school buildings.

11.3 In order to implement the new refurbishment and construction Programme for Building Better Schools during the period 2007 and 2011, the council needed to negotiate a Deed of Variation to the current PFI agreement with Haringey Secondary Schools Ltd (HSSL) to allow the current school buildings to be handed back to the council during the period of the construction work and then passed back to HSSL on completion. (HSSL is the company the council is contracted to for the period of the PFI. They sub-contract the facilities management services to JAS and own the equity and debt which was used to fund the original construction works under the PFI deal).

11.4 The negotiations for a Deed of Variation between the council and HSSL had not been successful in reaching a final agreement and negotiations had stalled. The key reasons for failing to reach an agreement relate to the commercial issues of a risk of increased costs to schools through a repricing of the facilities management services and the transfer of risk liability currently resting with HSSL back to schools and the council.

11.5 The increased costs relate mainly to JAS's requirement to reprice the costs of the facilities management service to schools affected by the new and refurbished buildings arising from BSF with no cap on the potential increase in costs to schools. They proposed to undertake this on a school by school basis. In addition HSSL required the risk of latent defects arising from the original work undertaken through the PFI contract to become the council's responsibility. Council officers were not prepared to accept this open risk of uncapped significant increase in costs and therefore were unwilling to recommend to Cabinet or schools that the Deed of Variation should be agreed.

11.6 Cabinet considered a report on July 26th 2007 entitled ' Private Finance Initiative – Deed of Variation ' and agreed:

- That, in accordance with Paragraph 1.4 of Section F of Part Four of the Constitution, authority to take decisions relating to the resolution of the issues associated with the ongoing impact of the Secondary Schools Private Finance Initiative on the implementation of the Building Schools for the Future Programme be delegated to the Acting Director of Finance and the Director of the Children and Young People's Service in consultation with the Leader and the Cabinet Members for Resources and Children and Young People.
- That the Interim Assistant Chief Executive Policy, Performance Partnership and Communication and the Acting Director of Finance be authorised to negotiate a satisfactory draft outcome.

11.7 Further discussions with HSSL identified options for moving forward .These are summarised below :

- to continue with the PFI Deed of Variations negotiations;
- to continue with the PFI Deed of Variation negotiations, but to enforce a replacement of JAS;
- to terminate the JAS contract for contractor default;
- to voluntarily terminate the entire Secondary Schools PFI contract;
- to terminate JAS contract and suspend delivery of FM services for the period of the BSF Programme.

Following extensive negotiations the following option has been identified as the most cost effective way forward for the council and its schools. There were detailed negotiations to achieve a voluntary termination of the PFI contract; however this option was rejected due to unacceptably high corporation tax liabilities falling on the council. A summary of the options appraisal is attached at Appendix 1.

11.8 It is proposed to terminate the contract with JAS to deliver the facilities management service and suspend the obligation for HSSL to provide a facilities management services for the period of the BSF implementation. It is then proposed to

retender the FM service when construction is completed, evaluating the outcome on delivering Value for Money to the council and its schools. During the interim period the affected secondary schools would directly deliver the facilities management services within their own schools. However in the longer term a retendering exercise could deliver a better value for money outcome for schools and the council. This approach minimises the risks for the council and schools who will have full control over costs and services during the construction phase of BSF. The Department for Children Schools and Families have reviewed the council's approach. The remaining risks associated are as follows:

- There will also be TUPE implications and therefore risks for the staff employed by Jarvis providing the FM service. This has been mitigated by undertaking extensive consultation with staff and the necessary pre employment checks on the staff transferring to the council under TUPE.
- Schools would have to manage the FM service delivery within their current delegated budgets. In mitigation, council officers are working closely with School Bursars to ensure any increased costs are kept to a minimum.

11.9 At a Cabinet meeting on 18th December 2007, it was resolved that subject to notification from the Department of Children's Schools and Families of the temporary suspension of the obligations on Haringey Schools Services Limited to provide facilities management services in respect of the PFI schools and the noting of the intention to transfer employees from JAS into the Council's employment pursuant to TUPE, the Leader in conjunction with the Cabinet Member for Children and Young People and the Chair of Overview and Scrutiny Committee be authorised to take necessary action to ensure the continued delivery of the Facility Management service in schools and the successful delivery of the Building Schools for the Future programme. In light of the discussions with the Department of Children' Schools and Families as reported by the Interim Director of Special Projects, the Leader proposes to authorise the Chief Financial Officer to sign the Services Suspension Agreement with Haringey Schools Services Limited and associated documents and the Head of Legal Services to sign a certificate in respect of the Services Suspension Agreement under the Local Government (Contracts) Act 1997.

12. Impact on Schools

12.1 The impact on schools is set out in the attached appendix 2. It shows that facilities management costs for schools if the council remains with the current contract will increase from £3,052,000 in 2007/2008 to £4,070,000 in 2008/09 as a result of contract benchmarking and previous year's variations. The impact of the proposed suspension will be to reduce this cost to £4,019,000 and for schools to manage future costs without the application of future benchmarking costs which is a contractual requirement through the current contract.

12.2 Schools within the PFI contract are aware of the impact of the these changes in costs and whilst they will need to budget for increased costs in 2008/09, they are supportive of the proposal in order to gain control of future costs and be able to directly manage their facilities management costs into the future and identify areas for more

efficient delivery of the service. Schools have identified areas where they can reduce costs associated with energy efficiency and increasing Third Party Income.

12.3 At the end of the BSF construction period, schools will need to work with the council to consider the resumption process for the facilities management service, in line with the suspension agreement, and decide how they wish to proceed at that point.

12.4 During the BSF programme period schools will need to manage the additional facilities management issues associated with the BSF construction.

13. Impact on the Council

13.1 Appendix 3 also sets out the council's overall financial position, including Schools, arising from the proposed suspension agreement which currently shows that costs can be contained within existing funding. (This has been achieved through negotiations with HSSL to minimise risk and management overhead costs).

13.2 The council will need to continue to manage a lifecycle fund during the period of the BSF construction period to ensure that PFI works and future works to school buildings are maintained to an appropriate standard to protect the capital investments made.

14 Conclusions

14.1 Cabinet is recommended to authorise the Chief Financial Officer and the Director of Children's and Young People Service to complete negotiations to achieve a satisfactory outcome based upon the suspension of the facilities management service.

14.2 The council needs to progress an outcome to these negotiations to safeguard the implementation of the BSF whilst minimising the future revenue costs of facilities management to schools and improving the service. The options set out above provide the best ways forward for the council with a termination of the of the current PFI deal being the most favoured approach.

15. Use of Appendices

15.1 Appendix 1 – Summary Option Appraisals for Haringey Secondary Schools Financial

15.2 Appendix 2 – Financial Impact upon Schools

15.3 Appendix 3 –Overall impact on council costs

16. Background Papers

16.1 Report entitled 'Private Finance Initiative Deed of variation 'Cabinet July 26th 2007 (Private and Confidential)

12.1 APPENDIX 1

Haringey Secondary Schools Estimated Financial Position 2008/09

Option 1 – Temporary suspension of delivery of FM services during the period of the BSF programme within current PFI contract with HSSL and allow schools to deliver FM services.

	Notes	£'000
Estimated cost to Haringey Secondary schools of FM Services from 2008/09	1	4,130
LBH Insurance cost to Schools	2	80
Third Party Income	3	(191)
Total Cost for Schools 2008/09		4,019

Notes

1. These are the estimated revenue costs identified by schools of delivering the FM service directly for the next financial year 2008/09. This does not reflect potential savings through energy management initiatives. (JAS did not implement energy management policies)
2. This is the cost of insurance being provided through Haringey's block policies compared with £400,000 charged by HSSL. They exclude any excess payable in the event of a claim
3. This is the current guaranteed net Third party income from JAS. Schools expect to produce greater income.

Option 2 - Continue PFI Contract – JAS remain in contract delivering FM services during BSF Programme

	Notes	£'000
Existing PFI Budgets 2007/08	4	2,861
Additional costs due for benchmarking and variations from 2008/09	5	1,018
Total Costs for Schools 2008/09	6	3,879

Notes

4. This is the existing PFI revenue budgets within schools for 2007/08.
5. These are the additional benchmarking and variation revenue costs that will fall to be paid from schools delegated budgets in 2008/09
6. No estimate has been provided to reflect the possible changes of repricing of the FM contract to enable BSF to proceed, nor to improve the service delivery performance.

Option 3 – Continue PFI – replace JAS with alternative provider

	Notes	£'000
Existing PFI Budgets 2007/08	6	2,861
Additional costs due for benchmarking and variations from 2008/09	7	1,018
Additional investment to Improve the FM service	8	250
Replacement FM provider Costs	9	175
Pricing of FM benchmark risk	10	100

Utilities increases	11	400
Total Cost for Schools		4,804

Notes

6. This is the existing PFI revenue budgets within schools for 2007/08.

7. These are the additional benchmarking and variation revenue costs that will fall to be paid from schools delegated budgets in 2008/09

8. Cost of Improvements in FM Service – the estimated cost to secure an FM service with a payment and performance regime that adequately incentivises the contractor to deliver a high quality service. The £250k is based on the market testing results (GSL market test July 2006).

9. Replacement FM Provider Costs/ (Savings) – the £175k cost reflects the premium on the pricing of the caretaker service from the GSL market testing exercise

10. Pricing of FM Benchmark Risk – under the existing PFI, HSSL's costs are benchmarked every 5 years. This benchmark is a look back, not a look forward exercise. It is assumed that a replacement FM contractor would price to cover this risk. The Council considers the cost increase arising from the first benchmark to be an 'extraordinary' increase, due to JAS miss-pricing the service and non-repeatable policy events, such as minimum wage and pensions

11. Utilities – the utilities position is exceedingly complicated. In summary, substantial risk has been transferred to JAS and they are making a substantial loss. The matter is subject to dispute and these costs represent an estimate of the average annual cost impact taking into account: the contract structure, consultations with Counsel on the contract structure and energy efficiency improvements from BSF. It assumes utility costs are stable in real terms. In the event of a new supplier they are unlikely to accept this risk.

APPENDIX 2

Haringey Secondary Schools

Estimated Financial Impact on Schools 2008/09

Option 1 – Temporary suspension of delivery of FM services during the period of the BSF programme within current PFI contract with HSSL and allow schools to deliver FM services.

	Notes	Total	Alexandra Park	Fortismere	Gladesmore	Highgate Wood	Hornsey	Northumberland Park	Park View Academy	Woodside High
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimated cost to schools of FM Services	1	4,130	492	597	476	488	487	569	524	497
LBH Insurance cost to Schools	2	80	10	10	10	10	10	10	10	10
Third Party Income	3	(191)	(42)	(37)	(11)	(5)	(12)	(53)	(18)	(13)
Total Cost for Schools		4,019	460	570	475	493	485	526	516	494

Notes

1. These are the estimated revenue costs identified by schools of delivering the FM service directly for the next financial year 2008/09. This does not reflect potential savings through energy management initiatives. (JAS did not implement energy management policies)
2. This is the cost of insurance being provided through Haringey's block policies compared with £400,000 charged by HSSL. They exclude any excess payable in the event of a claim
3. This is the current guaranteed net Third party income from JAS. Schools expect to produce greater income.

Option 3 – Continue PFI – replace JAS with alternative provider

	Notes	Total	Alexandra Park	Fortismere	Gladesmore	Highgate Wood	Hornsey	Northumberland Park	Park View Academy	Woodside High
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimated cost to schools of FM Services	6	4,070	504	597	461	463	469	587	510	479
Soft Market	7	250	31	37	28	28	29	36	31	29

test										
Replacement of FM provider cost	8	175	22	26	20	20	20	25	22	21
Pricing of bench mark risk	9	100	12	15	11	11	12	14	13	12
Increased utilities cost	10	400	50	59	45	46	46	58	50	47
Third part Income	11	(191)	(42)	(37)	(11)	(5)	(12)	(53)	(18)	(13)
Total Schools Cost		4,804	577	696	555	563	564	667	608	575

Notes

6. This is the existing PFI revenue budgets within schools for 2007/08.

7. These are the additional benchmarking and variation costs that will fall to be paid from schools delegated budgets in 2008/09

8. Cost of Improvements in FM Service – the estimated cost to secure an FM service with a payment and performance regime that adequately incentivises the contractor to deliver a high quality service. The £250k is based on the market testing results (GSL market test July 2006).

9. Replacement FM Provider Costs/ (Savings) – the £175k cost reflects the premium on the pricing of the caretaker service from the GSL market testing exercise.

10. Pricing of FM Benchmark Risk – under the existing PFI, HSSL's costs are benchmarked every 5 years. This benchmark is a look back, not a look forward exercise. It is assumed that a replacement FM contractor would price to cover this risk. The Council considers the cost increase arising from the first benchmark to be an 'extraordinary' increase, due to JAS miss-pricing the service and non-repeatable policy events, such as minimum wage and pensions.

11. Utilities – the utilities position is exceedingly complicated. In summary, substantial risk has been transferred to JAS and they are making a substantial loss. The matter is subject to dispute and these costs represent an estimate of the average annual cost impact taking into account: the contract structure, consultations with Counsel on the contract structure and energy efficiency improvements from BSF. It assumes utility costs are stable in real terms.

Appendix 3

Overall impact of Suspending the FM service delivery within the PFI Contract

Estimated Costs to be funded 2008/09		£000's
Amended Unitary Charge payable to HSSL		4,222
Estimated cost of delivering Schools based FM services		4,019
Estimated annual contribution to Lifecycle Funds		1,247
Estimated cost of Lifecycle fund management		200
Total Estimated Costs		9,688
Funded by :		
Annual PFI Credit from DCSF		5,669
Schools Contribution from DSG		4,019
Total Estimated Funding		9,688

This table demonstrates the major expenditure arising from the impact of the suspension and where this expenditure will be funded. It also demonstrates the vital importance of the annual PFI credit to fund this expenditure.