



## ***Darlington Borough Council***

### ***PFI contract management arrangements review to support our Value for Money Conclusion***

#### **Background**

As part of external audit work for 2012/13, and in particular in relation to our responsibilities in assessing the Darlington Borough Council's (the Council's) delivery of economy, efficiency and effectiveness in its use of resources, we have performed a review of the updated contract management arrangements for the PFI contract.

#### **Scope**

As part of the review we have understood how the updated contract management arrangements are operating. Our work focused on performing procedures to validate that these processes are operating as described. While we appreciate that some processes are consistent between the two schools in the contract, our work has focused on the Education Village as the school which historically had more challenges with the contract. In particular this focused on:

- The current relationship between the School, the Council and the PFI operator.
- Contract monitoring arrangements – we reviewed the updated processes in place include the following:
  - The employment of specialist support from North Tyneside Council with direct experience in managing and monitoring PFI contracts;
  - Monthly facilities management meetings involving the school, the Council and a contractor representative; and
  - Separate invoice review meetings and monitoring review processes by the Council. These are supported by monthly reporting to allow any deductions to be identified and processed;
- Utilities management and energy consumption – we reviewed the processes all parties are involved with in order to manage energy consumption. These include:
  - The role, functions and operation of the newly formed Energy Committee;
  - The policies for carbon and energy etc;
  - The involvement of the PFI contractor and any contributions to energy costs or support in ensuring these reduce.

The Education Village took on responsibility for meeting energy costs from 1 April 2013.

- 3<sup>rd</sup> party site usage – a previous issue identified was with regard to the relatively minimal monitoring in this area. Where this activity generates profit in excess of £50,000, this profit is shared with the Council on a 50/50 basis. We reviewed the processes for monitoring, this including the quality of information provided by the contractor. This in particular includes cost information where there is a risk of double counting.
- Vandalism – a final area previously flagged as a weakness in the process was the management and monitoring in this area. We reviewed the updated processes, including fortnightly meetings with the contractor, to address this issue and understand what the Education Village and Council are doing to ensure they track and evidence incidences of vandalism or otherwise.

## Summary of findings

During the review the following points were noted in relation to the progress made on the management of the PFI scheme which have been summarised below:

- A PFI Monitoring Officer from North Tyneside Council has been employed to manage and oversee the contract. The Monitoring Officer has a high level of knowledge and experience of working with such PFI contracts, demonstrated through the identification of an initiatives fund not previously being used releasing £4k of funds to the schools for innovative projects.

The Monitoring Officer performs several roles such as attending regular meetings with the PFI operators, performing site inspections, and reviewing invoices received for works performed.

- He is supported in his role by the Vice Principal of the Education Village, with the school having also invested in a full time on site employee whose main responsibilities are the day to day management of the PFI contract. In addition the Monitoring Officer is supported by the Head Teacher at Harrowgate Hill Primary School.

Through discussions held with representatives from the Education Village, Darlington Borough Council and the PFI operator, it was noted that the relationship between the various parties has improved over this period, and this has also led to more effective processes for communication between the parties.

- During the review, it was demonstrated that there have been several processes implemented to help to improve the management of the contract, including the following:
  - It was evidenced that monthly meetings are held between the PFI operator, Kajima and the Monitoring Officer employed by the Council in relation to facilities management at the Education Village, which allows matters to be discussed and resolved on a timely basis.
  - Inspections are performed during holiday periods by the Monitoring Officer at the Education Village to identify areas for concern and damage or areas for repair.
  - Weekly meetings take place between the Vice Principal and the PFI and Health and Safety Manager at The Education Village, and the Monitoring Officer, to discuss concerns and issues.
  - Daily discussions are held between the Education Village and the PFI operator to ensure they are updated with any issues.

It was immediately apparent from the meetings and discussions we held and the evidence we saw that the structure of communications and challenge had significantly improved. The presence of a full time contract manager on site at the Education Village combined with the support and oversight of a PFI Monitoring Officer appeared to operate very effectively.

- An Energy Committee has been put in place which meets on a monthly basis, and an Action Plan is in place around energy management underpinned by policies on energy and carbon. The school receives an energy report from Mitie as part of the annual report the contractor produces. This provides useful

information as well as useful advice which the schools has not previously followed. Through discussions held it was noted that Committee and the focus on energy has resulted in improvements, for instance in reduced energy usage. The building management system (BMS) has been updated and is a system which controls the heating and lighting across the schools. The school now has access to this and have sought expert advice on having this set up to the most optimum specification.

The school should continue to progress with the current process towards energy saving initiatives, for example around temperature management and lighting which can continue to resolve and work with contractors.

- The process for reviewing invoices from the contractors was now the responsibility of the PFI Monitoring Officer who scrutinises all invoices and in particular reviews all deductions, cross referenced to the deductions report from the helpdesk. There is a service requirement log, essentially an output specification, which is used to hold the PFI operator to account. Further, to support the invoice monitoring process, a handbook is issued to school staff on how to use the helpdesk, building understanding and making everyone aware of their responsibilities.

Although the helpdesk is offsite, a member of contractor staff remains onsite at Education Village to coordinate the workload. The schools continue to work closely with this individual to utilise the helpdesk services in the most effective manner.

- 3<sup>rd</sup> Party Usage – There is an agreement within the contract that when third party income exceeds a certain level, any subsequent profit from the use of the assets is split 50/50 with the school. A principle of how this figure should be calculated has now been agreed between the parties which was not previously in place. The Council should continue to work closely with the PFI contractor to ensure robust and accurate information continues to be provided on the third party usage of school assets. As part of our review we identified improvements continuing to be made in this area, such as a reimbursement of energy costs of approximately £5k pa to reflect those costs incurred during times of third party use.
- Vandalism and repairs– A tracking sheet has been developed to ensure all reported cases are recorded and responded to. The Monitoring Officer requests copies of invoices where costs of repair exceed £400 to analyse the costs. Regular site inspections are performed to identify issues which are reported to the PFI operator.

It is imperative that the schools continue to be diligent in tracking, monitoring and recording all such incidences of damage so as to prove they were not caused deliberately given a burden of proof still rests with the schools.

- The change order process (getting issues resolved or additional work done which will often be additions to the contract) is now more robust. These costs are now scrutinised to a much greater level by both the school and the Monitoring Officer and are only approved once both are in agreement.

A file of all change orders is maintained which document the full approval process of the school, Management and the operators. Payment is only signed off once the works have been checked (for cost and quality).

- The contract includes provision for annual lifecycle maintenance designed to ensure the assets are maintained to a high standard by the contractor. Previously schools were not involved in the decision making process driving where this investment is focused. However, schools now have an active involvement in this process and are able to influence the profile of lifecycle spending according to their own needs and add value to the decision making process.
- The schools, Monitoring Officer and the Council continue to work with the contractor to develop monthly reporting so that is best suits the needs of all parties.

## Conclusion

From the review performed, it was recognised there has been significant progress made to improve the management of the PFI contract arrangements. In particular we would highlight:

- Improved communication between all parties;
- More robust processes over contract management, energy usage and third party usage; and
- Greater challenge and scrutiny from the onsite teams at the schools and the PFI Monitoring Officer.

The most fundamental observation we made as part of the process was the improvement in relationships between the schools and the PFI contractors. The main drivers for this have been the investment of time and resources from the schools. The Head Teacher at Harrowgate Hill continues to invest in and maintain an effective relationship with the contractors to ensure the school is maintained to the highest possible standard. Education Village has invested significant time through the remit of the Vice Principal as well as in its investment into a full time on site PFI Manager. The Council has ensured effective liaison between all parties, as well as bringing in specialist expertise, through the appointment of a PFI Monitoring Officer. The combination of these efforts has led to the contract being managed on a more cohesive basis.