MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	**AUTHORITY**		
DATE:	**20 OCTOBER 2016**	**REPORT NO:**	**CFO/078/16**
PRESENTING OFFICER	**DEPUTY CHIEF FIRE OFFICER**		
RESPONSIBLE OFFICER:	**AM JOHN MCNEILL JOHN MCNEILL**	**REPORT AUTHOR:**	**COLIN SCHOFIELD, PFI REGIONAL DIRECTOR**
OFFICERS CONSULTED:	**JUSTINE GUY, PFI CONTRACT OFFICER**		
TITLE OF REPORT:	**PFI PROJECT - 2015/16 PROGRESS REPORT**		

APPENDICES:	**APPENDIX A:**	**ENGIE ANNUAL REPORT 2015/16**
	APPENDIX B:	**COSTS & INCOME 2015/16**

Purpose of Report

1. To provide Members with a progress update in relation to the North West Fire & Rescue Services Private Finance Initiative (PFI) Project over the financial period April 2015 – March 2016.

Recommendation

2. That progress of the North West Fire & Rescue Services PFI Project be noted.

Introduction and Background

3. Members may recall that the Authority, in collaboration with Cumbria County Council and Lancashire Combined Fire and Rescue Authorities. was successful in its bid for PFI Credits to build 16 new Community Fire Stations across the three Authority areas. The contract to build, and then maintain the stations for a 25 year period was awarded to Balfour Beatty Fire & Rescue (BBFR).

4. The scope of the Merseyside element of the Project is as follows:-

   - Belle Vale
   - Birkenhead
   - Bootle/Netherton
   - Formby
   - Kirkdale (with Operational Resource Centre on same site)
   - Newton le Willows
   - Southport (combined Fire and Ambulance Station)

5. The construction period, which was in two phases, started in March 2011 and was completed in July 2013 when the final station (Birkenhead) was handed over to the Authority. The 25 year maintenance period started when the final station

was handed over, although Unitary Charge payments had been made for each station as it came on line. The formal contract ends on 4th July 2038.

6. Merseyside Fire and Rescue Authority (MFRA) acts as lead authority for the contract with BBFR for the purposes of contract management and making all payments due.

7. In general terms the stations have been a success and have been extremely well received by staff and the public providing greatly improved facilities.

8. The original Facilities Management (FM) contractor provided by BBFR was Balfour Beatty Workplace (BBW) which was responsible for all aspects of maintaining the buildings and grounds during the maintenance period. However, on 13th December 2013, the sale of BBW to GDF Suez was completed and FM responsibilities passed to Cofely, GDF Suez' UK-based company. On 1st January 2016, Cofely changed their name to Engie. However, overall contractual responsibility for all of the buildings remains with BBFR.

9. During the contract management phase, the Regional Project Director and Contract Officer (both employed by this Authority) have stayed with the Project to maintain continuity and ensure BBFR and Engie are performing appropriately in return for monthly Unitary Charge payments. In accordance with the Co-operation Agreement between the three Authorities, the salary, including on-costs, and expenses, of these two posts is shared between the Authorities on the following basis:-

    - Cumbria 33.071%
    - Lancashire 25.014%
    - Merseyside 41.915%

10. However, as the Regional Project Director is now also working on the Station Mergers project, from January 2014 only 65% of his salary & other costs were recharged between the Authorities, in accordance the formula above. This was further reduced to 60% from October 2015 and 50% from April 2016 to reflect the increasing amount of time spent on the Mergers project.

<u>Current Situation</u>

11. One of the key tasks for the Contract Management team is to ensure that all defects that have been logged with the Engie Help Desk by station personnel are completed in accordance with the specified time set out in the contract. If the contractor fails to meet the times set out, points are allocated against the contractor on a station-by-station basis. Once the contractor hits 20 points for any station in any month, any further failures at that station then translate into a monetary figure (£5.73 per point in 2015/16) which is deducted from the Unitary Charge on a monthly basis. Details of the levels of deductions made against the contract are set out in the Financial Implications section below.

12. The Project Director and/or Contract Officer visit all of the 16 sites on a regular basis and also carry out joint inspections (at least once a quarter) with BBFR and

Engie. Any defects or other issues noted during these visits are notified to the Help Desk. The two officers also act as the focal point for all personnel in the three Authorities to deal with any matters arising at these sites.

13. As well as site visits, regular (monthly) meetings are held with senior managers from BBFR and Engie at Project Liaison Group (PLG) at which performance is discussed and any remedial action agreed. Monthly monitoring meetings to discuss FM issues are also held with BBFR and Engie at an operational level.

14. Client Reviews are held on a quarterly basis, facilitated by the Relationship Co-ordinator from BBFR, at which officers from the Authorities give their opinions on performance by BBFR and Engie over the preceding three months. This is accompanied by a scoring matrix which contrasts BBFR and Engie's performance against industry peers and also illustrates whether their performance is improving or deteriorating compared to the previous Review. The Reviews are reported to the BBFR Board of Directors meetings so are an important contract monitoring tool.

15. By and large, the monitoring system is working very efficiently and appropriate deductions are made each month (see below). As can be seen from the overall levels of deductions made during 2015/16, there has been a significant improvement in performance compared to the previous two years. However, there have been ongoing issues with performance during the year which have led to these deductions.

16. Fortunately the vast majority of issues reported by stations are relatively minor in nature and were dealt with quite quickly by Engie. Some of the more significant issues which occurred during the year are included in the following paragraphs.

Fire-stopping

17. As a direct result of the findings of an investigation by MFRA into the causes of a serious fire at a school in Knowsley, which had been built by Balfour Beatty, subsequent investigations by BBFR established that fire-stopping measures within the fire stations were not as resilient as they should be. Consequently BBFR commissioned a specialist contractor to carry out remedial works at all of the 16 stations, including the seven in Merseyside. The work has now been completed and signed off. BBFR have provided officers with copies of the reports stating exactly what was done at each site.

Rainwater Harvesting

18. Problems with the Rainwater Harvesting systems at several of the stations, identified in previous years, have persisted, with water supplied from the mains being used for toilet flushing instead of recycled rainwater, as designed. An investigation by BBFR to establish whether the issues were caused by faulty installation or inadequate maintenance (or a combination of both) has been completed but the Authorities await sight of the final report. Nonetheless, all of these Rainwater Harvesting system problems have now been rectified and are all working as they should. Deductions cannot be made for these failures as

mains backup ensured the toilets remain in use. However, an issue arising that still needs to be addressed is the usage of mains water over and above what was budgeted as this was used as a backup during the periods when the Rainwater Harvesting systems were out of action. Discussions are ongoing with BBFR to see if any refund can be made.

Generators

19. Each station, other than two smaller Cumbrian stations, have back-up generators which operate should the mains supply fail for any reason and thus allow the station to continue to function in the event of a power failure in the local area. These are tested on a regular basis but, for reasons which are still unclear, some failed to operate as programmed during the year. Engie are working to correct these and, as an interim measure, have put a temporary solution in place to ensure business continuity.

NWAS

20. As members will be aware, North West Ambulance Service (NWAS) share facilities at five of the Merseyside PFI stations – Birkenhead; Bootle/Netherton; Formby; Newton le Willows and Southport for which they pay a rental (see below). Southport is a purpose-built joint Fire & Ambulance Station and the signage reflects this. Signage at the other four stations was changed during 2015/16, at NWAS request and expense, to reflect the fact that these are now all joint facilities.

Market Testing of Cleaning Services

21. Cleaning services within the BBFR contract were market tested during the year as required under the contract. Unfortunately, the outcome of the exercise, which was reported to Policy and Resources Committee on 24th March 2016, was to increase costs by some £80,000 per annum. The Merseyside element of this is £33,462.02 per annum. The next market testing is due in July 2020.

TUPE Reconciliation

22. The long outstanding TUPE reconciliation exercise was completed during the period. This dates back to 2010 and 2011 when the Authorities had to prepare lists of all cleaning and caretaking staff employed at any of the affected stations who would, in theory, transfer to BBW as FM provider, under the TUPE Regulations 2004. It was acknowledged by BBFR, when the contract was signed on 23rd February 2011, that potentially there would be restructure and redundancy costs associated with the TUPE transfers as the numbers of staff and hours worked exceeded their requirements for the new stations, in particular, for the temporary facilities that were occupied at several locations, mostly in Merseyside, during the construction works for the new stations.

23. A footnote to a table within one of the contract documents states that “the restructure and redundancy costs provided in the table are maximum estimates and might not be incurred in full if staff opt to take up a different post offered. We

will only charge the Authorities for the actual costs incurred." Consequently after the final station came on line in July 2013, a list of those personnel that actually transferred to BBW was prepared and a request for reimbursement of the unspent balance set aside for restructure and redundancy costs was made by the Project Director. This was estimated to be £83,012. In September 2013 BBFR & BBW responded and said "there is no requirement for a reconciliation and there will be no change to the monthly FM payment…this position is full and final".

24. The Project Director responded in December 2013 rejecting this conclusion and setting out the grounds for a reconciliation payment to be made. No response was received to this correspondence and despite some discussions in 2014 and 2015 this matter remained in abeyance. A formal chase up was sent in August 2015.

25. As part of the negotiations to reach a decision on the effective date for the results of the market cleaning exercise to commence, BBFR made an offer of a nil cost reconciliation between any outstanding TUPE reconciliation costs and any money due for backdating the market testing award (which at that time stood at some £31,000). This was rejected by the Project Director.

26. In January 2016 the Project Director received correspondence from BBFR and Engie agreeing that the outstanding sum of £83,012 be repaid to the Authorities in full and final settlement of the TUPE reconciliation exercise. This offer was accepted and the payment has now been made. £80,100 was due to Merseyside with the balance to Lancashire.

Southport Compensation Events

27. There has been a lengthy dispute over Compensation Events at Southport. Mansell Construction, who were the building contractors for BBFR, made seven claims for delays, issues with utilities and discovery of asbestos during the construction works which took place during the period April 2012 – June 2013. Following extensive negotiations, six of the claims were agreed to be settled in mid-2013 for a total sum of £74,767.22. NWAS agreed to contribute £34,826.86 towards this figure as they were responsible for some of the delay costs.

28. Despite agreement being reached between the Authorities and BBFR, Mansell refused to accept the offer as they felt it could prejudice their claim for the outstanding Compensation Event. Consequently no payment was ever made to BBFR and the agreement lay on file. Following a change in senior personnel at Mansell in early 2016, BBFR again approached the Authorities with a view to reaching settlement on the outstanding claim and bring this long-outstanding matter to a conclusion.

29. This claim was for costs due to the 'discovery' of a high voltage electricity cable in the pavement immediately outside the new fire station which caused delays as Mansell had to redesign the front of the station to avoid damage to the cable when piling in the ground. This claim was rejected at the time as it could be shown that Mansell were aware of the cable when the station was designed although Mansell refuted this. Following the fresh approach by BBFR, it was

accepted that the claim was not valid and, furthermore, as the resulting design works to the front of the building had meant that one small room had been omitted from the agreed layout, a compensation payment by BBFR to the Authorities was negotiated in the sum of £45,000. This has now been paid by BBFR and, in turn, the outstanding compensation payment of £74,767.22 has been paid to BBFR.

30. All outstanding issues from the construction period have now been finalised.

31. A copy of the annual report produced by Engie is attached as Appendix A for Members' information.

Equality and Diversity Implications

32. None arising directly from this report. Both initial and full Equality Impact Assessments have been completed for this Project.

Staff Implications

33. There are no direct staffing implications arising from this report. Staffing of the central Contract Management team at Merseyside was agreed some time ago and remains in place although recharge values have reduced due to the Project Director also working on the Station Mergers project (see paragraphs 9 & 10 above).

Legal Implications

34. The contract with BBFR will run until expiry on 4th July 2038.

35. Lease agreements are in place with NWAS for the five PFI stations they currently share with Merseyside FRA.

Financial Implications & Value for Money

36. During 2015/16, a total of £6,323,263.93 in Unitary Charge payments was made to BBFR by Merseyside FRA, on behalf of the three Authorities in accordance with the contract. In this period Annuity Grant totalling £5,002,397 was received from the Department of Communities and Local Government (DCLG) for this Project, making a net cost of £1,320,866.93. Of these totals, Unitary Charge of £2,650,079.70 and Annuity Grant of £2,096,754 were in respect of Merseyside, giving a net cost to this Authority of £553,325.70.

37. However, during 2015/16, Merseyside FRA (on behalf of the three Authorities) also made deductions from Unitary Charge payments to BBFR against the contract for failing to meet performance and availability standards, of £134,773.28. Of this £49,300.35 was in respect of Merseyside sites.

38. During 2015/16, the three Authorities paid a total of £451,654.32 to BBFR in respect of gas, water and electricity charges. Of this £218,092.80 was for Merseyside sites. Members are asked to note that there is still a reconciliation

process to be finalised in respect of the utility costs which will vary the total by a small amount.

39. Income from NWAS in 2015/16 for rental of space in the five Merseyside PFI stations amounted to £170,334.74 in respect of lease costs with a further £43,777.62 for their share of utilities.

40. A table summarising these costs, deductions and income is attached to this report as Appendix B. This table also provides summary information for previous years for comparison purposes.

Risk Management, Health & Safety, and Environmental Implications

41. None arising from this report. Quarterly Health & Safety inspections are undertaken at the seven Merseyside PFI stations by the Station Managers, accompanied by the Fire Brigades Union Health & Safety representative(s). Issues arising are reported to the Engie Help Desk by Station Manager or the Contract Management team.

42. BBFR and Engie carry out their own Health & Safety audits and inspections, the results of which are reported back to the Authorities. Monthly facilities management reports provided by Engie provide details of any accidents and/or near misses, together with details of any 'toolbox talks' carried out by Engie managers. The total figures are also included in the annual report attached as Appendix A.

Contribution to Our Mission: *Safer Stronger Communities – Safe Effective Firefighters*

43. The North West Fire & Rescue Services PFI Project has a range of objectives which link back to the Vision Statements of all three participating Authorities.

BACKGROUND PAPERS

CFO/016/16	PFI Contract- Market Testing of Cleaning Services

GLOSSARY OF TERMS

BBFR	Balfour Beatty Fire & Rescue
BBW	Balfour Beatty Workplace
FM	Facilities Management
FRA	Fire and Rescue Authority
NWAS	North West Ambulance Service
PFI	Private Finance Initiative

PLG	Project Liaison Group
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2004
UNITARY CHARGE	Contractual payments made to BBFR