

APPENDIX 2

L.B. Greenwich Proposal for Strategic Partnering: Questions and Answers

What are the benefits of having a locally focused, not-for-profit strategic partner?

- The Strategic Partner would be a social enterprise business with a local community focus.
- It will be a not-for-profit distribution organisation but run along tight commercial lines.
- It will act as a capacity-builder in terms of managing large capital programmes and developing and procuring local supply chains.
- It will encourage local employment through the existing local supply chain and will develop links with colleges and schools in order to encourage apprenticeships in areas where there are chronic shortages such as plasterers and joiners.
- It will be like a local version of English Partnerships and be able to act as a strategic partner in regeneration initiatives beyond Education and in a way that could encourage more “joined-up” services, through being able to act as an independent broker.
- It could procure all sorts of services for schools; e.g. it could procure IT and other soft services.
- It could set a standard, a benchmark of good practice in terms of services which it procures, and create parity and economies of scale.
- And there are more ... e.g. it could obtain grants, particularly if it achieves charitable status.

How will the Strategic Partner go about achieving its objectives?

The Strategic Partner will be set up under a framework agreement with Greenwich, and potentially Lewisham and Southwark, to carry out certain school improvement works via PFI and traditional funding under BSF. Under the framework agreement, it may also act as a strategic partner on a range of wider initiatives. It could procure services, e.g. IT services for all schools in the Borough or project-manage a major development or act as a facilitator - or indeed do all three.

Under PFI, Greenwich will use the Strategic Partner as the delivery vehicle so that it will set up a public sector special purpose vehicle for the PFI contract for new/rebuilt schools (arranging the funding and the sub-contracts), and become the prime contractor for the traditional refurbishment works (arranging the sub-contracts). The advantage of having a Strategic Partner is that it should be able to develop local, cohesive supply chains that can offer design, build and operate services.

How long will the strategic partnership be for?

That is for the local authorities to determine. The new EU public sector procurement directive will ultimately limit the length of these framework agreements to 4 years, but the directive is currently not likely to be enacted until 2006. Partnership for Schools

wants BSF partnerships to go beyond 4 years and may seek an exemption from the new directive.

Is such a community-spirited organisation controlled by the Council(s)?

No: it is arms length and has completed autonomy, like a housing arms length management organisation (ALMO).

The company will be a separate entity and as such is not part of the Government capital controls under which the Council has to operate.

So, how is it accountable?

In terms of any contractual relationship, there will be specific performance measures:

- under PFI, there will be the typical risk and reward relationship;
- there will be an incentive-based strategic partnership, using lessons from similar ventures elsewhere as well as Partnership for Schools.
- traditional procurement will also be done on an incentive basis.

There cannot be any exclusivity arrangement. The Strategic Partner will have to compete for business in line with procurement rules.

What are the skills required of a strategic partner?

The following mix of skills is required:

- business management;
- education;
- procurement/contract management;
- project finance;
- construction/engineering;
- community engagement.

What is meant by not-for-profit distribution?

The strategic partner will be an organisation underpinned by commercial disciplines. Sub-contractors will get their normal margins for PFI and traditional work, commensurate with the risks taken. However, any surpluses in the business will be retained and recycled into the community - once management incentives have been paid. There will be lock-in of surpluses under PFI so that it is recognised that the gains are longer term. The fundamental difference between the strategic partnership arrangement and a traditional PFI is that there will not be any distribution of dividends to private sector stakeholders.

Grant will be given by Greenwich to replace normal private sector equity for its PFI funded work (up to 10% of the capital cost), which is required at the point of financial commitment. That level of 'equity' funding is required for each separate PFI scheme. This is money at risk but the risk management skills of the potential strategic partners will be an important selection criterion.

PFI Project Risk

The normal PFI risk allocation approach will be adopted. We know the marketplace considers too much risk is currently being transferred (Standard and Poor report), so it is possible that it will be cheaper for the Councils to retain some risks – subject to off-balance sheet treatment. Insurance costs will be one of the key risks to consider.

And how will procurement work?

The strategic partner will need to be appointed through the EU public procurement regime – with decisions still to be made on the packaging of works. Each programme of work will have the appropriate contractual incentives and performance measures built in with a clear exit strategy. From a value for money perspective and to create flexibility, it may be advisable to batch the work and to procure each batch separately.

Market Attractiveness

The concept of a not-for-profit distribution strategic partner has been market tested with funders, a building contractor and a firm that does technical due diligence, manages capital projects etc. and there has been no adverse response. Debt cover ratios may be slightly higher, but the Strategic Partner would be expected to mitigate this by bringing in funders early (through a funding competition).

How are stakeholders engaged?

There are no pre-conceived ideas as to how that will work, but there could be a stakeholder board.

How does a not-for-profit strategic partner meet BSF agenda?

Replicability : it could be set up in to work with any size/group of authorities or it can act as a producer/special purpose vehicle for other Councils - and it could be cloned.

Standardisation: there is no reason that it could not use any standardised documents.

Economies of scale : bundling the contracts across Councils, will considerably reduce procurement costs and it should obtain better pricing in the PFI agreements. There are also economies of scale from a local perspective as it could procure and manage other services across schools.