

## APPENDIX 13: VFM PROFORMA

<b>VIABILITY</b> Investment objectives and outcomes need to be translatable into outputs which can be contracted for, measured and agreed. Many service areas can be contracted for, but some areas will inherently be non-contractable.		
Issue	Questions	Response
Programme level and outputs	Is West Dunbartonshire Council satisfied that long term AND operable contracts can be constructed for projects falling in this area (within the Programme)?	Yes. The Project follows the SSSC and established best practice in the Schools PPP sector in Scotland.
	Is West Dunbartonshire Council satisfied that the contracts describe service requirements in clear, objective, output-based terms over a long term contract?	The contracts and service specifications have been agreed that follow the SSSC and structures that have successfully been applied in other Schools PPP in Scotland.
	Could they support assessments of whether the service has been delivered to an agreed standard?	Yes. The contracts and service specifications follow the SSSC and structures that have successfully been applied in other Schools PPP in Scotland.
	Is the fit between needs of West Dunbartonshire Council and outcomes expected from the project sufficient to proceed?	Yes. The specifications have been developed on a bespoke basis to meet the specific needs of West Dunbartonshire Council. The procurement has secured high quality bids which provide considerable confidence that the desired outcomes will be realised.
	Will there be significant levels of investment in new capital assets?	Yes. Investment will be in the region of £100 million spread over three Community Learning Centres.
	Is West Dunbartonshire Council satisfied that service certification likely to be straightforward in terms of agreeing measurable criteria and satisfying the interests of stakeholders?	Well established approaches are being adopted regarding service certification, including the appointment on an Independent Certifier.
	Does the Programme / Project have clear boundaries (especially with respect to areas of WDC control)?	Yes. Boundaries regarding areas of Council control have been clearly set.
	Can the service be provided without the essential involvement of WDC personnel? To what extent does any involvement negate the risk transfer that is needed for VFM?	Clearly there will be interfaces between Council and Contractor personnel. However, the extent of these interfaces will be similar to that on other successful schools PPPs in Scotland.
	Is the BAM PPP able or likely to have control/ownership of the intellectual property rights associated with the performance/design/development of the assets for the new service?	Yes
	Will existing or planned elements within the scope of the project - or interfacing vitally with it - be complete before the start of the new service?	Each project facility will require to be certified as complete before service delivery commences in the facility.
Operational flexibility	Is WDC satisfied that operational flexibility is likely to be maintained over the lifetime of the contract, at an acceptable cost?	We recognise that a PPP arrangement is inherently less flexible than if the facilities were procured conventionally. However, the council is comfortable there is an appropriate balance between flexibility and cost.

	Is there a practical balance between the degree of operational flexibility that is desired and long term contracting based on up-front capital investment?	Yes – see comment above.
	What is the likelihood of large contract variations being required during the life of a typical contract?	The scope of the project has been set to minimise the possibility for significant contract variations in the future. In particular, the schools in the package are concentrated in areas where other Council facilities could provide options for variations.
Equity, efficiency and accountability	Are there public equity, efficiency or accountability reasons for providing the service directly rather than through a PPP contract?	No. The project is being procured as a PPP using the Scottish Standard Schools Contract as part of a national programme
	Does the scope of the service lend itself to providing BAM PPP with “end-to-end” control of the relevant functional processes? Does the service have clear boundaries?	Yes. Well established approaches have been taken to define service boundaries and provide contractor with appropriate levels of control.
	Are there regulatory or legal restrictions that require services to be provided directly?	No. Service provision follows approaches that are well established in the Scottish Schools sector.
	Is BAM PPP able to exploit economies of scale through the provision, operation or maintenance of other similar services to other customers (not necessarily utilising the same assets)?	This is not a prima facie reason for adopting PPP as a procurement method, although it is expected that the private sector will be able to achieve some economies of scale, e.g. through helpdesk provision and FM management overhead.
	Does BAM PPP have greater experience/expertise than WDC in the delivery of this service? Are the services non-core to WDC?  Is a PPP procurement for this project likely to deliver improved value for money to the department as a whole, considering its impact on other projects?	This procurement forms part of a national programme of schools facilities procurement using PPPs. Scottish Executive Revenue Support for the project is conditional on the project being procured by means of a PPP.  Justification of PPP as a procurement route at national level recognises that the private sector brings particular skills and expertise in the long term provision of services and maintenance of built assets.
<b>OVERALL VIABILITY</b>	Is the Department / accounting officer satisfied that an operable contract with built in flexibility can be constructed, and that strategic and regulatory issues can be overcome?	Yes.

<b>DESIRABILITY</b>		
An increasing body of evidence has shown that better risk management in PPP results in a greater proportion of assets being delivered on time and to budget. By integrating the life-cycle and operation costs with design and construction, PPP can provide better risk management and incentives to develop innovative approaches to output delivery. Consistent high quality services can be achieved through performance and payment mechanisms. However, risk transfer is priced into the contract. The purpose of this question is to consider whether the benefits of PPP are likely to outweigh this additional cost.		
Issues	Question	Response
Risk management	Does the Programme involve the purchaser of a significant capital asset, where the risks of cost and time over-runs are likely to be significant?	Yes. The capital value of the project is around £100 million. The value of risks transferred to the private sector is estimated to be approximately 10% of the capital value.
	Is BAM PPP likely to be able to manage the generic risks associated with the programme more effectively than the procuring authority?	It is fundamental underlying principle of PFI that risks are placed in the hands of the party best able to manage these risks. The SSSC is designed to apportion the risks accordingly.

	Bearing in mind the relevant risks that need to be managed for the programme, what is the ability of the private sector to price and manage these risks?	<p>The Council has received three high quality bids from private sector operators with significant experience of service delivery.</p> <p>We interpret this as sound evidence that the private sector is capable and willing to manage the risks.</p>
	Can the payment mechanism and contract terms incentivise good risk management?	<p>Yes. The payment mechanism follows the principles set out in the SSSC.</p> <p>The Deduction regime and Warning/Termination triggers have been calibrated on a bespoke basis</p>
Innovation	Does a preliminary assessment indicate that there is likely to scope for innovation?	Yes. The bids received demonstrate innovation in the technical solutions.
	Does some degree of flexibility remain in the nature of the technical solution/service and/or the scope of the projects?	Yes.
	Is the solution adequately free from the constraints imposed by the procuring authority, legal requirements and/or technical standards?	Yes.
	<p>To what extent are the project's scope, specification and operation pre-set or open to negotiation with the private sector?</p> <p>Could the private sector improve the level of utilisation of the assets underpinning the project (e.g. through selling, licensing, commercially developing for third party usage etc)?</p>	<p>The project is at Financial Close and the scope of the project and details of the technical solutions have been agreed.</p> <p>Not likely.</p>
Service provision	<p>Are there good strategic reasons to retain soft service provision in-house?</p> <p>What are the relative advantages and disadvantages? Is optimal risk allocation achieved by transfer or not?</p> <p>Refer STUC Staffing Protocol and see Appendix 10Ten</p> <p>Is soft service transfer essential for achieving the overall benefits of improved standards of service delivery?</p> <p>Refer STUC Staffing protocol and see Appendix Ten</p>	<p>Cleaning and Grounds Maintenance will be provided by WDC, as will catering .</p> <p>The Council undertook a review of soft services and decided to retain catering. The WDC DSO was chosen to provide Cleaning and Grounds Maintenance as part of the tendering process. At all times the Staffing Protocol was complied with.</p>
Incentive and monitoring	Can the outcomes or outputs of the investment programme be described in contractual terms which would be unambiguous and measurable?	Yes. The payment mechanism follows the principles set out in the SSSC.
	Can the service be assessed against an agreed standard?	Yes. The Services specification and approach to monitoring will follow established best practice.

	Would incentives on service levels be enhanced through a PPP payment mechanism?	Yes. The payment mechanism follows the principles set out in the SSSC and has been calibrated to reflect project-specific factors.
Lifecycle costs / residual value?	Is it possible to integrate the design, build and operation of the project?	This is a fundamental principle of PFI and the basis on which the SSSC has been drafted.
	Is a lengthy contract envisaged?	The contract will run for thirty years after the Target Availability Date of the first school.
	Will a long-term contractual relationship be suitable (or advantageous) for the service?	Yes. This contract length has been chosen to be consistent with the payment of the Scottish Executive Revenue Support.
	Are there constraints on the status of the assets at contract end?	Assets will revert to the Council in accordance with the SSSC.
	Are there significant ongoing operating costs and maintenance requirements?	Yes. Average annual Lifecycle Maintenance expenditure is approximately £1.4 million and average annual. Annual FM costs are close to £3 million.
	Are these likely to be sensitive to the type of construction?	The figures received from the three bidders are broadly similar
<b>OVERALL DESIRABILITY</b>	Overall, is the accounting officer satisfied that PPP would bring sufficient benefits that would outweigh the expected higher cost of capital?	Yes.

#### ACHIEVABILITY

Significant transaction costs are involved in a PPP project. In particular, the procurement process can be complex and significant resources, including senior management time, may be required for project development and ongoing monitoring. Client capability will have direct consequences for procurement time. Perceptions of this capability will also affect the level and quality of market interest. PPP and other contract-based approaches should maximise the benefits of a competitive process – but the structure of proposals and the choice of procurement route should be informed by an assessment of the likely market appetite.

Issue	Question	Response
Transaction costs and client capacity	Is there sufficient client-side capability to manage the procurement process and appraise the ongoing performance against agreed outputs?	Yes. A Fully staffed team is in place.
	Can appropriately skilled procurement teams be assembled in good time?	See above.
	Is the procurement feasible within the required timescale?	Yes – procurement is almost complete.
	Is there sufficient time for resolution of key procuring authority issues?	Yes – see above.
	Does the size of the Programme / Project justify transaction costs.	Yes. Capital value is approximately £100 million.
Competition / Market Interest	Is there evidence that the private sector is capable of delivering the required outcome?	Yes. Competitive bids were received from three experienced consortia.
	Is there likely to be sufficient market appetite for the projects in the programme?	See above.
	Has this been tested robustly?? Is there any evidence of market failure for similar Programmes / Projects?	

	Have any similar programmes been tendered to market?	Yes. This project is part of a national programme of Schools PPPs.
	Has the WDC's commitment to a PPP solution for projects of the type covered in this programme been demonstrated?	Yes. All necessary Member approvals have been given.
	Does the nature of the deal and/or the strategic importance of the work and/or the prospect for further business suggest that it will be seen by the market as a potentially profitable venture?	Yes, as evidenced by the competitive bids received.
<b>OVERALL ACHIEVABILITY</b>	Overall is the accounting officer satisfied that a PPP procurement programme is achievable, given client side capability and the attractiveness of the proposals to the market?	Yes.