

**REPORT TO: POLICY AND RESOURCES COMMITTEE – 25 APRIL 2016**

**REPORT ON: REPLACEMENT OF BALDRAGON ACADEMY**

**REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**REPORT NO: 129 - 2016**

## **1.0 PURPOSE OF REPORT**

1.1 The purpose of this report is to advise the Committee of the financial position achieved at Financial Close of the contract to replace Baldragon Academy.

## **2.0 RECOMMENDATION**

2.1 It is recommended that the Committee notes the contents of the report.

## **3.0 FINANCIAL IMPLICATIONS**

3.1 The total capital cost to the Council of replacing Baldragon Academy includes allowances for professional advisers' fees, utilities disconnections and asbestos removal at the existing Sidlaw View Primary School, off-site highways works, decant and commissioning costs and a contingency provision and is projected to come within the net figure (£1m) included in the Capital Plan 2016-2021.

3.2 The Council's estimated capital expenditure of £1m will be funded from borrowing and the resultant annual loan charge of £46,000 (full year effect from 2018/19) will be contained in future years Revenue Budgets.

3.3 The Council will also require to meet the Annual Service Payment (Unitary Charge) over the 25 year operational life of the contract. 20% of the Annual Service Payment will be indexed in line with the Retail Price Index, primarily to cover future increases in annual property and management costs with the first full year payment in 2018/19 estimated at £2,605,165. Annual Revenue Funding Support will be provided by the Scottish Government for the replacement of Baldragon Academy. This support covers the project development and construction costs and is of a fixed annual amount of £2,219,511.

3.4 Average annual spend on repairs and maintenance at the existing school (both devolved and non-devolved) comes to approximately £85,000. However it should be noted that the Council normally includes provision for lifecycle replacement expenditure in its Capital Plan, rather than in its Revenue Budget. This in the main accounts for the difference between the Annual Service Payment and the Annual Revenue Funding Support.

3.5 Other property related costs (primarily non-domestic rates and cleaning) are also expected to increase by approximately £240,000 per annum once the new school is operational. It will therefore be necessary to increase the Revenue Budget by £540,000 to reflect the net overall increase in annual revenue costs with effect from 2018/19, with a part-year adjustment being made in 2017/18.

- 3.6 An investment of £299,800 has been made by the Council in the Subordinated Debt of the project delivery company (Hub East Central (Baldragon) Limited), this being the maximum investment that can be made under the revised Hub DBFM structure. The investment will be funded from the Council's reserves and will achieve a rate of return of no less than 10% per annum, with the principal being repayable at the end of the operational phase of the DBFM contract.

#### **4.0 MAIN TEXT**

##### *Background*

- 4.1 Reference is made to Article VI of the minute of the meeting of the Policy and Resource Committee of 18 May 2015 when the Committee considered Report No 135-2015, which provided an update on developments relating to the project to replace Baldragon Academy, and agreed inter alia that the Council should enter into a Design, Build, Finance, and Maintenance (DBFM) Agreement for the replacement of the school.
- 4.2 The Committee also noted that the Scottish Government had confirmed that it will now fund up to 100% of the development and construction costs of the new Baldragon Academy by means of Revenue Grant payable to the Council over the 25 year operational life of the DBFM Agreement, this funding being conditional on the Council redirecting its original capital contribution towards the Baldragon costs to the proposed joint campus in Longhaugh.
- 4.3 Reference is also made to Article XII of the minute of the meeting of the Policy and Resources Committee of 14 September 2015 when the Committee considered Agenda Note AN176-2015, which described the urgent need to commence works on the Baldragon energy centre to provide heating and hot water for the opening of the new Sidlaw View/Jessie Porter development in October 2016, and agreed that the City Council will initially fund the works on the energy centre with the costs being reimbursed to the Council following Financial Close of the Baldragon contract.
- 4.4 Reference is further made to Article VII of the minute of the meeting of the Policy and Resources Committee of 8 December 2014 when the Committee considered Report No 439-2014, which outlined the investment opportunity available at that time for the Council to invest in the East Central Hub project to replace Baldragon Academy, and authorised the Executive Director of Corporate Services to determine the extent of investment by the Council in the Subordinated Debt of the project delivery company up to a maximum amount of £920,000.

##### *Subsequent Developments*

- 4.5 In November 2016 the Deputy First Minister confirmed that the changes that required to be made to the Hub DBFM structure to support the private sector accounting classification of Hub DBFM projects had been agreed and that a number of school and health projects, including Baldragon, could proceed to Financial Close. Material changes included
- (i) procuring bodies (Councils/NHS Boards) now contracting with project delivery companies that sit outside the Hubco structure rather than with subsidiaries of Hubco; and

- (ii) reducing public sector shareholdings in project delivery companies from 40% (30% procuring body, 10% Scottish Futures Trust) to 20% (10% procuring body, 10% Scottish Futures Trust) with 20% of shares going to a newly formed private sector charity (the Hub Community Foundation), with the right to make subordinated debt investments also aligning with the new shareholding structure.
- 4.6 With the ESA10 changes agreed, the project proceeded to Financial Close with the terms of the DBFM Agreement and the supporting Project Documents being finalised with Hub East Central Scotland Limited (Hubco) and its partners. In parallel, negotiations continued with Scottish Futures Trust on the level of Scottish Government funding support available for the project.
- 4.7 Financial Close took place on Friday, 26 February 2016 with the signing of the DBFM Agreement and the supporting Project Documents on behalf of Dundee City Council, Hub East Central (Baldragon) Limited (the project delivery company), Aviva Public Private Finance Limited (the senior funders), Robertson Construction Group Limited, Robertson Facilities Management Limited and other involved parties.
- 4.8 After allowing for the ESA10 delay, the finalised Hubco capital cost for the replacement of Baldragon Academy came to £28,749,932. However, the Council will also have an estimated capital expenditure requirement of £1,000,000, made up of allowances for professional advisers' fees, utilities disconnections and asbestos removal at the existing Sidlaw View Primary School, off-site highways works, decant and commissioning costs and a contingency provision.
- 4.9 The Annual Service Payment (Unitary Charge) covering the annualised cost of capital financing and property maintenance, lifecycle replacement and ongoing management costs will be payable by the Council from the date of handover of the new school to the Council (target date 11 December 2017) for the 25 year operational life of the contract. 20% of the Annual Service Payment will be indexed in line with the Retail Price Index, primarily to cover future increases in annual property and management costs. The first full year (2018/19) payment is estimated at £2,605,165.
- 4.10 Just prior to Financial Close, the Scottish Government confirmed that Revenue Funding Support will be provided for the replacement of Baldragon Academy in its annual funding allocation to the Council. The support covers the project development and construction costs and is of a fixed annual amount of £2,219,511 with the first and final year figures prorated (see Appendix 1 attached).
- 4.11 With reference to paragraph 4.3 above noting that the Council would initially fund the works on the Baldragon energy centre, it can be confirmed that the cost of all advance works was reimbursed to the Council by Hubco following Financial Close.
- 4.12 With regard to the Subordinated Debt Investment referred to in paragraph 4.4 above, it should be noted that the changes in the Hub DBFM structure outlined in paragraph 4.5 above have had the effect of restricting the Council's investment to £299,800.

## **5 POLICY IMPLICATIONS**

- 5.1 This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

## **6 CONSULTATIONS**

- 6.1 The Chief Executive and the Head of Democratic and Legal Services have been consulted during the compilation of this report.

## **7 BACKGROUND PAPERS**

- 7.1 None.

Marjory Stewart  
Executive Director of Corporate Services

13 April 2016

**SCOTLAND'S SCHOOLS FOR THE FUTURE  
SCOTTISH GOVERNMENT FINAL FUNDING POSITION  
ANNUAL SERVICE PAYMENT SUPPORT - PRE  
FINANCIAL CLOSE**

**Appendix 1**

**Project** BALDRAGON ACADEMY  
**Issued** 11-Mar-16

Financial Year Ending	Contract Year	SG Contribution to ASP *	Additional Contribution re Grouped Schools	Total SG Contribution to ASP
31 March 2016	1	-		-
31 March 2017	2	-		-
31 March 2018	3	670,731	-	670,731
31 March 2019	4	2,219,511	-	2,219,511
31 March 2020	5	2,219,511	-	2,219,511
31 March 2021	6	2,219,511	-	2,219,511
31 March 2022	7	2,219,511	-	2,219,511
31 March 2023	8	2,219,511	-	2,219,511
31 March 2024	9	2,219,511	-	2,219,511
31 March 2025	10	2,219,511	-	2,219,511
31 March 2026	11	2,219,511	-	2,219,511
31 March 2027	12	2,219,511	-	2,219,511
31 March 2028	13	2,219,511	-	2,219,511
31 March 2029	14	2,219,511	-	2,219,511
31 March 2030	15	2,219,511	-	2,219,511
31 March 2031	16	2,219,511	-	2,219,511
31 March 2032	17	2,219,511	-	2,219,511
31 March 2033	18	2,219,511	-	2,219,511
31 March 2034	19	2,219,511	-	2,219,511
31 March 2035	20	2,219,511	-	2,219,511
31 March 2036	21	2,219,511	-	2,219,511
31 March 2037	22	2,219,511	-	2,219,511
31 March 2038	23	2,219,511	-	2,219,511
31 March 2039	24	2,219,511	-	2,219,511
31 March 2040	25	2,219,511	-	2,219,511
31 March 2041	26	2,219,511	-	2,219,511
31 March 2042	27	2,219,511	-	2,219,511
31 March 2043	28	1,548,779	-	1,548,779
		55,487,768	-	55,487,768

All stated amounts are exclusive of VAT.

\* Stated amounts do not include costs of annual Operational Insurances which will also be funded by SG.

**Key :**

**SG** Scottish Government  
**ASP** Annual Service Payment