

REPORT TO: SPECIAL EDUCATION COMMITTEE - 26 MARCH 2001

**REPORT ON: DEVELOPMENT OF PUBLIC PRIVATE PARTNERSHIP (PPP)
PROJECT FOR SCHOOL BUILDINGS**

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 198-2001

1 PURPOSE OF REPORT

The purpose of this report is to advise members of additional financial support of £305,000 which has been awarded by the Scottish Executive to assist Dundee City Council to finance the development of a feasibility study for a Public Private Partnership (PPP) project involving school buildings. In addition the report sets out the demand for such a project within Dundee City and seeks approval to establish various working groups within the Council to take forward this feasibility study.

2 RECOMMENDATIONS

It is recommended that the Committee agrees:-

- 2.1 that the City Council undertakes a feasibility study and Outline Business Case for a PPP project for school buildings in Dundee;
- 2.2 that it be noted that the above decision would not commit the Council to proceed with a PPP project and that a further report would be brought back to Committee for approval;
- 2.3 that the following working groups be established to consider the officers' recommendations and the financial and educational implications:-
 - a A Project Board comprising Elected Members, Chief Executive, Directors, Trade Unions, Church representative and School Board member.
 - b A Management Board comprising the Chief Executive, Directors and external Advisers.
 - c Officer Working Groups in respect of technical, legal, financial and operational issues.
- 2.4 that the Director of Support Services be instructed to advertise for and appoint external legal and financial advisers in order to conclude the feasibility study and Outline Business Case; and
- 2.5 that the remit for the Director of Education to prepare a report on the condition of Dundee's schools be included as part of the PPP feasibility study and Outline Business Case.

3 FINANCIAL IMPLICATIONS

- 3.1 The capital cost of a programme of replacements and renovation of primary and secondary schools would be substantial and could not be funded from existing revenue and capital resources. Under a PPP scheme the costs would be financed by the PPP company and recharged to the City Council together with ancillary services charges over the contract period.
- 3.2 The service charges would require to be financed from a combination of additional Revenue Support Grant from Level Playing Field Support Grant from the Scottish Executive to support PPP projects and existing expenditure provisions in the Education Department Revenue Budget.
- 3.3 Detailed proposals and supporting financial calculations would require to be developed in conjunction with appropriate PPP financial and legal advisers as part of the Outline Business Case during the feasibility study.
- 3.4 The City Council has been successful in its bid to the Scottish Executive for funding to carry out development work, including a feasibility study, on a PPP project for school buildings, and the funding will be paid by the Scottish Executive through a one-off revenue grant. It is proposed that this funding be used to pay for dedicated City Council staffing resources and to appoint external advisers to carry out the investigations and feasibility study necessary to allow the Council to make an informed decision on the appropriateness of this type of project.

4 LOCAL AGENDA 21 IMPLICATIONS

None.

5 EQUAL OPPORTUNITIES IMPLICATIONS

None.

6 BACKGROUND

- 6.1 The City Council presently has 41 Primary Schools and 10 Secondary Schools.
- 6.2 The Education Department has since 1996 had to maintain and upgrade these properties within the restricted Revenue and Capital Budgets available to the Council. A medium to long term strategy of restricting the budgetary provisions for school building maintenance is not sustainable, as inevitably it results in an unacceptable deterioration in the fabric of the buildings. Whilst the 3 year Local Government Finance Settlement for the period 2001 to 2004 shows a significant real increase in funding for both Revenue and Capital expenditure, this in itself will not be sufficient to upgrade the quality of the Council's school building portfolio.
- 6.3 In order to improve the quality of the Council's school buildings it would require a significant ongoing increase in the Capital Allocations from the Scottish Executive and/or the Council entering into a Public Private Partnership (PPP) agreement to build new and renovate existing school buildings.

- 6.4 A number of Scottish local authorities have entered into such PPP schemes, notably Falkirk and Glasgow Councils and the Scottish Executive is encouraging other Councils to consider this option as a method of addressing the general poor quality of school buildings in a more expeditious manner.
- 6.5 The Scottish Executive issued Circular 3/2000 on 15 September 2000 in which they intimated that an additional £5m of one-off grant aid would be made available to local authorities in order to assist them in the early stages of PPP projects for school buildings. The circular invited Councils who wished to be reconsidered for this grant aid to submit bids by 20 October 2000.
- 6.6 On 20 February 2001, the Scottish Executive wrote to the Director of Finance advising him that Dundee City Council's application for funding had been approved up to a maximum of £305,000. It is anticipated that the bulk of this expenditure would be incurred in financial year 2001/02.
- 6.7 At the Education Committee meeting on 20 November 2000 it was agreed that the Director of Education prepare and submit a report to Committee on the condition of Dundee's schools. It is proposed that this remit is now included as an integral part of the PPP feasibility study and Outline Business Case.
- 6.8 The undertaking of the proposed feasibility study does not in any way commit the Council to enter into a PPP arrangement.

7 PRINCIPLES OF PRIVATE PUBLIC PARTNERSHIP (PPP)

- 7.1 Members should be aware that this form of capital/revenue funding has a number of key principles/factors which are different from the normal method of funding local authority capital, ie borrowing. The following is a brief resume of those principles:-
- a The private sector will be responsible for the carrying of the majority of risk on the project, eg financial (interest rates), demographic, building legislation etc. This transfer of risk from the public to the private sector is as key element of PFI or PPP.
 - b The private sector are responsible for not only building and owning the assets for the period of the contract but may be responsible for the provision of certain ancillary services. This issue would need to be discussed in more detail within the working groups.
 - c The Council would pay an annual service charge to the PPP provider in respect of the cost of providing the assets and the services therein.
 - d By its very nature PFI or PPP projects require extremely complex financial, legal and technical issues to be addressed. It is essential that the local authority appoints PPP advisers to assist with the development of such a project and this has been borne out by the Council's experience with the Baldovie Waste to Energy Plant.

- e While the PPP provider would be responsible for the construction of the buildings, the Council through the specification would still retain control over the broad design of the buildings. The Council would still, however, be able to benefit from innovative designs. The PPP provider may be able to draw from experience with other schools' projects.

8 CONCLUSION

- 8.1 A PPP project is a complex yet fast track method of providing much needed capital investment in school buildings. It is without doubt the only method of providing that investment in the short term, as to try to provide the same programme of investment through the Council's capital allocation would take between 10 and 15 years.

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