

**REPORT TO: DUNDEE CITY COUNCIL EDUCATION COMMITTEE -
16 SEPTEMBER 2002**

REPORT ON: DUNDEE SCHOOLS PPP PROJECT

REPORT BY: JOINT REPORT BY CHIEF EXECUTIVE AND DIRECTOR OF EDUCATION

REPORT NO: 672-2002

1.0 PURPOSE OF REPORT

1.1 The purpose of this report is to advise the Committee of the decision of the Scottish Executive as regards the funding of a Dundee Schools PPP Project, and to seek the views of the Committee as to how the project outlined in the Outline Business Case might be reduced in scale to meet the available resources, and to further seek the authority of the Policy and Resources Committee to proceed with the development of the project.

2.0 RECOMMENDATIONS

2.1 To recommend to the Policy and Resources Committee that it authorise the PPP Project to proceed in accordance with the undernoted recommendations.

2.2 To consider the recommendation of the Project Board that one of the **Options (5), (7) or (8)** be approved and accordingly to decide which is the Committee's preferred option for the Council's Schools PPP Project. The works covered under each of these options are described in **Appendices 1 – 3**.

2.3 To authorise the Director of Education to submit the revised project to the Scottish Executive for their consideration.

2.4 Subject to the confirmation of the Scottish Executive that the revised project has been approved for revenue (Level Playing Field) support, to authorise the appropriate officers supported by the Council's external advisers to commence the pre-qualification process in accordance with the project timetable outlined in **Appendix 14** and to proceed to prepare tender documentation, the final content of which as regards scope of project, services and variant bids will be submitted at a later date for Committee approval all after consultation with the Schools PPP Project Board.

2.5 To authorise the Chief Executive, Director of Finance and Director of Support Services, in conjunction with the Council's Financial and Legal Advisers, to explore with the Scottish Executive the practicality of inviting variant bids (in addition to conventional PPP bids) based on a Joint Venture Company where the Council holds between 25% and 40% of the share capital of the project company and/or the Council DLOs and DSOs and Tayside Contracts provide services to the project company.

2.6 To authorise the Director of Finance to confirm with the Council's External Auditor whether it is anticipated that all or any of the variant bid structures would be viewed as off-balance sheet for accounting purposes (and therefore be acceptable as PPP models).

2.7 To authorise the Director of Education in consultation with the Convener of Education and the local members to reach agreement with the local community regarding the siting of the new primary school in Douglas.

2.8 To formally authorise the Director of Education to proceed with the appropriate statutory consultations described in **Appendix 12** and to report back to the Education Committee once the period allowed for objections has expired.

2.9 To authorise the Director of Education to submit Outline Planning Applications in respect of any new or amended proposals for individual schools.

2.10 To note the establishment of the Schools PPP Project Team and the setting up of a Project Office in City House (covered in separate Report No 679-2002 to Policy and Resources and Personnel and Management Services Committees).

- 2.11 To instruct the Project Board to report on a regular basis to the Education Committee on the progress of the PPP Project.
- 2.12 To instruct the Director of Personnel and Management Services to continue to discuss with the trade unions, staffing and conditions of service issues relating to existing Council staff that might be affected by the PPP Project.
- 2.13 To continue to monitor progress on other innovative models including not for profit models for delivering the PPP Project until the bid document is issued and to report back to Committee if officers believe that the Scottish Executive has approved an alternative model which would be more beneficial to the Council.

3.0 FINANCIAL IMPLICATIONS

- 3.1 The annual affordability gap in respect of each option covered in this report is shown in **Appendix 8**. The affordability gaps for the options recommended by the Project Board are £738,000 per annum for **Option (5)**, £827,000 per annum for **Option (7)** and £914,000 per annum for **Option (8)**.
- 3.2 It is hoped that it will be possible to reduce the affordability gap (whichever option is chosen) by various means including accessing funding from the European Regional Development Fund, sportscotland etc. Using capital receipts from the sale of land made surplus as a result of the project will also be considered.
- 3.3 If necessary, it would also be possible to close the affordability gap by using capital receipts from the sale of other sites such as the former Linlathen High School site.

4.0 LOCAL AGENDA 21 IMPLICATIONS

- 4.1 A PPP schools project would facilitate the creation of stimulating learning and teaching environments thereby ensuring that all learners can access the skills, knowledge and information needed to enable them to play a full part in society. Such a project would aim to ensure that resources are maximised and used efficiently to open up opportunities for culture, leisure and recreation to the wider community as well as providing a setting for day school education.

5.0 EQUAL OPPORTUNITIES IMPLICATIONS

- 5.1 The revitalised teaching and learning environment in these new and refurbished schools will help combat disadvantage, promote social inclusion and have a positive effect on raising pupil achievement.

6.0 BACKGROUND

- 6.1 In March 2001 the Education Committee unanimously agreed that a proposal be submitted to the Scottish Executive seeking financial support for a major programme of school replacement and refurbishment works to be carried out under a Public Private Partnership (PPP) arrangement.
- 6.2 The Council's bid for support (detailed in an Outline Business Case) was subsequently submitted to the Scottish Executive in December 2001 and covered a programme of capital works with an estimated construction cost of £80m at present day prices and a total capital investment value of £119m at outturn prices. The £119m includes capitalised interest during the initial construction period and major lifecycle (capital maintenance) works over the anticipated life of the PPP contract ie 32 years made up of a 2 year construction period and a 30 year operational period. A synopsis of the Outline Business Case as submitted in December 2001 is contained in **Appendix 4**.

7.0 CURRENT POSITION

- 7.1 The Scottish Executive have made the Council an indicative offer of revenue support of a maximum of £5.73m per annum for 30 years which they calculate will meet 80% of the annual financing costs of a project with a total capital investment value of £80m at outturn prices (including capitalised interest during the initial construction period and capital maintenance works over the life of the contract). At the time of the submission of the Outline Business Case, it was estimated by Andersens that revenue support of £7.7m per annum would be required to meet 80% of the annual financing costs of the whole project.
- 7.2 The Council has now been asked to submit to the Scottish Executive a revised project drawn from the components of the original bid as detailed in the Outline Business Case, although it has been indicated that some marginal adjustments may be accepted. Once the revised project is agreed with the Scottish Executive, the level of revenue support will be recalculated and the annual amount confirmed at the lower of the recalculated amount or the capped amount indicated above ie £5.73m.
- 7.3 Accordingly, it has been necessary to assess how the project might be reduced in scale to meet the available resources.

8.0 AFFORDABILITY OF INDIVIDUAL SCHOOLS

- 8.1 **Appendix 5** shows the estimated affordability gap for each school included in the Outline Business Case if Level Playing Field Support had been awarded at the full level included in the Outline Business Case.
- 8.2 In general it is shown that where a school merger is available the affordability gap is minimised. However, much also depends on the level of the current budget for the existing schools and on the accommodation required in the new school. It is also particularly noticeable that the savings available from primary mergers are small when compared to those from a secondary merger.
- 8.3 Other sources which have been used to close the affordability gap in individual cases include additional grant income in respect of new pupils attending schools in Dundee, additional income from other authorities and savings through not sending children to schools outwith Dundee. These are detailed in **Appendix 6**.
- 8.4 A commentary on the updated position in respect of each school included in the Outline Business Case is included in **Appendix 7**.

9.0 OPTIONS AVAILABLE TO COUNCIL

- 9.1 The affordability of eight different options was considered by the Project Board at its meeting on 28 August 2002. A copy of the affordability analysis for these options is attached as **Appendix 8**.
- 9.2 Given that the maximum level of revenue support from the Scottish Executive is now to be £5.73m per annum it was clear that some parts of the original project would require to be dropped in their entirety to close the affordability gap.
- 9.3 It was agreed by the Board after considerable debate that **Options (5), (7) and (8)** should be submitted to this Committee for consideration as the Board's preferred options. The minute of the meeting of the board is attached as **Appendix 9**.
- 9.4 Each option includes the carrying **of** out the original primary programme, with the exception of Park Place Primary, and extending/refurbishing Grove Academy.
- 9.5 In addition, **Option (5)** includes the extension/refurbishment of St John's High School to 1200 capacity and a new 1000 capacity RC secondary school on Kirkton Park in Gillburn Road (between Kingspark School and Dundee College).
- 9.6 **Option (7)** allows for the replacement of Kingspark being included in the project instead of undertaking the extension/refurbishment of RC secondary schools.

9.7 Under **Option (8)** St John's High School and Lawside Academy would be refurbished and reconfigured to facilitate the delivery of present day curriculum to their existing pupil numbers (maximum of 1000 pupils at each school) with St Saviour's High School kept open (but excluded from the project). **Appendix 10** shows the reduced work programme at St John's High School and Lawside Academy under **Option (8)** compared with the original programme proposed for each school [and for St John's under **Option (5)**].

9.8 It will be noted that under **Options (7) and (8)** revenue support from the Scottish Executive would be restricted to less than the £5.73m maximum level due to the lower capital spend under these options.

9.10 The Council must decide whether to proceed with a PPP project based on one of the options outlined above (or on another variant option) or to attempt to address the problems of the sub-standard accommodation identified in the Council's schools via the Council's capital allocation.

9.11 If the latter course is adopted, it would have to be accepted that the time required to complete a programme of works of the scale covered by the options outlined above would be indeterminate given the condition of many of the Council's other schools. It is anticipated that they too will continue to deteriorate over time to the point where they will also be in need of immediate remedial action and will compete for the scarce capital resources.

10.0 EDUCATIONAL AND COMMUNITY BENEFITS

10.1 The educational and community benefits which would result from the Schools PPP project are described in **Appendix 11**.

11.0 PROJECT CONSULTATION PROCESSES

11.1 Following the submission of the Outline Business Case to the Scottish Executive, a comprehensive programme of informal consultation meetings with regard to the proposals was undertaken with school boards, parent/teacher associations and teaching and other staff. These are described in **Appendix 12**.

11.2 The statutory and additional consultation procedures that were approved by the Education Committee on 18 February 2002 are also described in **Appendix 12**. The Committee now requires to authorise the Director of Education to carry out the necessary consultations following the decision being taken on the scope of the project. Once the period allowed for objections has expired, a further report will be brought forward to allow consideration of any objections

12.0 JOINT VENTURE PROPOSAL

12.1 The possibility of the Council procuring the Schools PPP project via a joint venture arrangement is currently being explored. This is described in **Appendix 13**.

13.0 PROJECT TIMETABLE

13.1 The Scottish Executive indicated when inviting bids for support for Schools PPP Projects that they hoped to notify Councils of their decision by the end of April 2002. In the event their offer of support was not made until early July 2002 and even this offer is dependent on a revised programme of works being agreed with the Scottish Executive before the level of support will be confirmed.

13.2 Accordingly it has been necessary to revise the draft programme to take account of the slippage in timescales. The key dates in the revised draft programme are shown in **Appendix 14**.

14.0 CONCLUSION

14.1 Although the Scottish Executive will not provide the revenue support necessary to enable the Council's full proposals to be implemented, the indicated level of revenue support of £5.73m per annum should allow the Council to carry out a significant proportion of the intended programme.

- 14.2** The Council has been asked to submit to the Scottish Executive a revised project drawn from the components of the original bid as detailed in the Outline Business Case, although it has been indicated that some marginal adjustments may be accepted.
- 14.3** The Project Board agreed that **Options (5), (7) and (8)** were their preferred options. There must be some doubt, however, that **Option (8)** will be acceptable to the Scottish Executive since it does not accord with the Outline Business Case (in that this option includes the extension/refurbishment of RC secondary schools but does not take account of the need to rationalise the number of pupil places in the RC secondary schools).
- 14.4** A PPP project is the only realistic option available to the Council to address the problems of the deteriorating school infrastructure within the city within a reasonable timescale. It would take the Council at least 30 years to carry out the same level of works from its education capital programme as currently resourced, over which time the condition of many of the Council's other schools will also have deteriorated to the point where they too will be in need of immediate remedial action.
- 14.5** The informal consultation meetings have confirmed that school boards, parents and staff generally want new or modernised schools for their communities and, while they may have some reservations about PPP, they recognise that it is the only means currently available to the Council of meeting their expectations within a reasonable timescale.
- 14.6** As well as providing improved educational accommodation and facilities for up to 3500 secondary pupils, 3500 primary pupils and 500 nursery children (and their teachers and support staff), the project will provide much needed and improved community and leisure facilities. These facilities will include up to three community swimming pools and rooms for community use and a community games hall in the primary schools included in the project.
- 14.7** If at all possible, the project should be procured via a joint venture arrangement with the Council having a minority holding in the project company. The Project Board will continue to investigate Model 3 (40% shareholding) but, in the event of this not being approved by the Council's External Auditors or the Scottish Executive, will proceed with Model 2 as a variant bid to Model 1.

15.0 CONSULTATIONS

- 15.1** The Directors of Finance and Support Services have been consulted in the preparation of this report.

16.0 BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information), were relied on to any material extent in preparing the above Report.

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Chief Executive

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Date

.....
Director of Education

.....
Date

Douglas / Powrie PS

The existing schools shall be replaced by a new 2-stream school containing the following:

- 14 classrooms
- Learning support spaces
- Specialist areas for pupils with hearing impairment
- Library and resources areas
- Management suite
- Assembly / dining space
- Kitchen facilities
- Space for visiting services
- Physical education space (shared with community)
- Small group areas
- Extended care facilities
- Integrated nursery facilities for 70 children

In addition, space will be incorporated for the following community activities:

- Sports (shared with school)
- Fitness
- Leisure activities

The capital cost of this school (at present day prices) is

£5,530,000

Fintry PS

The existing school shall be replaced by a new 2-stream school containing the following:

- 14 classrooms
- Learning support spaces
- Specialist areas for pupils with speech, language and communication difficulties
- Library and resources areas
- Management suite
- Assembly / dining space
- Kitchen facilities
- Space for visiting services
- Physical education space (shared with community)
- Small group areas
- Extended care facilities
- Integrated nursery facilities for 90 children

In addition, space will be incorporated for the following community activities:

- Sports (shared with school)
- Fitness
- Leisure activities

The capital cost of this school (at present day prices) is

£5,532,000

Macalpine / Downfield PS

The existing schools shall be replaced by a new 3-stream school containing the following:

- 21 classrooms
- Learning support spaces
- Library and resources areas
- Management suite
- Assembly / dining space
- Kitchen facilities
- Space for visiting services
- Physical education spaces (shared with community)
- Small group areas
- Extended care facilities
- Integrated nursery facilities for 80 children

In addition, space will be incorporated for the following community activities:

- Sports (shared with school)
- Fitness
- Leisure activities

The capital cost of this school (at present day prices) is

£6,393,000

Mid Craigie / Mossgiel PS

The existing schools shall be replaced by a new 2-stream school containing the following:

- 14 classrooms
- Learning support spaces
- Specialist curricular unit
- Library and resources areas
- Management suite
- Assembly / dining space
- Kitchen facilities
- Space for visiting services
- Physical education space (shared with community)
- Small group areas
- Extended care facilities
- Integrated nursery facilities for 70 children

In addition, space will be incorporated for the following community activities:

- Sports (shared with school)
- Fitness
- Leisure activities

The capital cost of this school (at present day prices) is

£5,479,000

St Margaret's / St Columba's PS

The existing schools shall be replaced by a new 2-stream school containing the following:

- 14 classrooms
- Learning support spaces
- Library and resources areas
- Management suite
- Assembly / dining space
- Kitchen facilities
- Space for visiting services
- Physical education space (shared with community)
- Small group areas
- Extended care facilities
- Integrated nursery facilities for 90 children

In addition, space will be incorporated for the following community activities:

- Sports (shared with school)
- Fitness
- Leisure activities

The capital cost of this school (at present day prices) is

£5,269,000

Barnhill PS

The existing school shall be reconfigured, refurbished and extended from a 2-stream to a 3-stream school containing:

- 7 additional classrooms
- Learning support spaces
- Additional physical education space complete with changing (shared with community)
- Integrated nursery accommodation extended to receive 40 children

In addition space will be incorporated for the following community activities:

- Sports (shared with school)

The capital cost of this school (at present day prices) is

£3,734,000

Forthill PS

The existing school shall be reconfigured, refurbished and extended from a 2-stream to a 3-stream school containing:

- 7 additional classrooms
- Learning support spaces
- Small group areas
- Additional physical education space complete with changing
- Integrated nursery accommodation extended to receive 50 children

No community provision is included with this school.

The capital cost of this school (at present day prices) is

£2,828,000

Grove Academy

The existing school shall be reconfigured, refurbished and extended to accommodate 1250-1300 pupils. The extended accommodation will include:

- Additional general classrooms
- Additional specialist classrooms
- New swimming pool
- Replacement gymnasium
- New Fitness Room

In addition, community sports, fitness and leisure activities shall be available within the following shared areas:

- New swimming pool
- Replacement gymnasium
- New Fitness Room
- Existing games hall
- Existing squash courts

The capital cost of this school (at present day prices) is

£8,475,000

New RC Secondary School

The project comprises the construction of a new 1000 pupil RC secondary school on the Kirkton Park site, complete with:

- Educational accommodation
- Playing Fields
- Playgrounds, car parks, access paths, etc.
- Games hall provision (shared by school and community)
- Swimming pool provision (shared by school and community)

The capital cost of this school (at present day prices) is £13,555,000

St John's High School

The existing school shall be reconfigured, refurbished and extended to accommodate 1200 pupils. The extended accommodation and facilities will include:

- Additional general classrooms
- Additional specialist classrooms
- New swimming pool
- All weather pitch

In addition, community sports, fitness and leisure activities shall be available within the following shared areas:

- New swimming pool
- Existing games hall
- All weather pitch

The capital cost of this school (at present day prices) is £8,315,000

Primaries as Appendix 1**Grove Academy as Appendix 1****Kingspark School**

The development at Kingspark school envisages a central block housing a reception foyer, an Assembly Hall, Dining Hall, Head Teacher and admin suite incorporating a multi-agency conference room, health suite (including therapy provision), staffroom accommodation, and laundry facilities.

Provision will be made for children with severe and profound difficulties, primary-aged children, secondary-aged children, for the future needs of young persons over the age of 16, and for an enhanced area for children with autistic spectrum disorder. There will also be PE facilities, incorporating swimming pools.

A mainstream nursery department incorporating facilities for very young children with special educational needs will be part of the new Kingspark campus, but separate from it. Accommodation will comprise flexible playroom space, changing facilities for children, a therapy room, toilets, a utility room, a snack kitchen and dining area, staffroom accommodation and an office. The nursery will have its own outdoor play space.

The campus will also have a respite facility, offering both residential and non-residential accommodation for children with severe and profound difficulties.

It is envisaged that there will be vehicular access into a car park (with a separate nursery parking area), and separate bus access to a turning area and pupil entrance.

The capital cost of this school (at present day prices) is

£15,000,000

OPTION 8**APPENDIX 3****Primaries as Appendix 1****Grove Academy as Appendix 1****St John's High School**

To be refurbished and reconfigured to accommodate the present roll more effectively. The reconfiguration may result in a small quantity of new rooms being required to deliver the curriculum needs of the school. The following works are required:

- Reconfiguration of existing accommodation
- Refurbishment of existing accommodation
- New classroom accommodation
- New assembly/drama space

Under this option neither a community swimming pool nor an all weather pitch will be added at this school. The existing games hall and gyms will be able to be used for community activities.

The capital cost of this school (at present day) prices £4,295,000

Lawside Academy

To be refurbished, reconfigured and extended to accommodate the present roll more effectively. Although no additional classrooms are required to accommodate the present roll reconfiguration may result in a small quantity of new rooms being required to address the present circulation difficulties. The following works are required:

- Reconfiguration of existing accommodation
- Refurbishment of existing accommodation
- Refurbishment of existing swimming pool
- New classroom accommodation
- New games hall and gym

Under this option a new games hall and gym will be provided both of which will be available for community use outwith school hours. This option excludes both the all weather pitch and the community swimming pool, the existing pool and changing accommodation being refurbished only.

The capital cost of this school (at present day) prices £5,530,000

OUTLINE BUSINESS CASE

APPENDIX 4

- 1 The Outline Business Case identified four packages which met the Council's objectives for the project and the Scottish Executive criteria for financial support, and which were deliverable and potentially affordable for the Council.
- 2 The affordability summary included in the Outline Business Case is replicated below. The figures included for Unitary Charge and Level Playing Field Support were developed by the project financial advisers (Andersens – now Grant Thornton) using base data provided by Council staff and tested by the project technical advisers (Turner & Townsend). Grant Thornton used a sophisticated computer model to replicate the likely project structure and funding costs for each option drawing on their extensive experience of the market. The figures for existing budgets, projected savings and additional income were provided by Council staff.

3 Affordability Summary

£m	Package 1 £m	Package 2 £m	Package 3 £m	Package 4 £m
Year 1 Unitary Charge	6.4	7.8	10.7	12.7
Less:				
Level Playing Field/ Revenue Support	3.9	4.6	6.4	7.7
Revenue Budgets }				
Projected Savings }	1.6	2.4	4.0	4.6
Additional Income }				
Affordability Gap	0.9	0.8	0.3	0.4

- 4 It was estimated that Package 1 on its own (the merger of 10 primary schools, 4 nursery schools and 2 child & family centres; their replacement by 6 new primary schools incorporating 0-5 and community provision; the refurbishment and extension of 2 primary schools) was the least affordable option and could cost the Council £900,000 per annum (at the service commencement date projected at that time ie 31 March 2006).

Package 2 (primary school programme as above plus Grove Academy refurbishment/extension including a swimming pool) was estimated to be marginally more affordable at £800,000 per annum.

Package 3 (primary school programme plus Grove Academy plus the merger of St Saviour's High School with the two remaining RC secondary schools, Lawside Academy and St John's High School, both to be refurbished and extended including providing a swimming pool at each school) was estimated to be the most affordable option at £300,000 per annum.

Package 4 (primary school programme plus full secondary school programme plus the replacement of Kingspark School and Frances Wright Pre-School Centre) was estimated to be marginally less affordable at £400,000 per annum.

- 5 Although Package 3 was likely to be more affordable than Package 4, it was decided that Package 4 was the Council's preferred option in that it best met the Council's objectives for the project.

- 1 Although it is necessary to review the affordability of the project at this time, it must be appreciated that in practice the affordability of the project will only be able to be absolutely determined at financial close after negotiations affecting the level of the Unitary Charge are concluded with the Preferred Bidder. The range of factors that will affect the eventual level of the Unitary Charge includes:
- Detailed accommodation requirements
 - Basic capital cost of new schools/extensions/refurbishment work
 - Timing/length of construction period
 - Construction cost inflation trends
 - Interest rates at financial close
 - Size of project/economies of scale
 - Attractiveness of project to bidders
 - Floor area of schools
 - Mix of new/refurbished accommodation
 - Level of service required
 - Indexation of Unitary Charge
- 2 To enable a better appreciation to be gained of the impact of individual schools on the affordability of the project, the estimated annual net cost of each school included in the Outline Business Case has been identified in this appendix.
- 3 It will be noted that the capital costs used in this appendix are not the same as the figures included in the Outline Business Case since the opportunity has been taken to review them to take into account updated information on accommodation requirements and on sites, and to reflect August 2002 price levels. The figures for current revenue budgets, projected savings and additional income have also been updated. The amount of Level Playing Field Support has, however, been included at the level assumed at the time of submission of the Outline Business Case.
- 4 The apportionment of the Unitary Charge (and Level Playing Field Support) was carried out with the assistance of Grant Thornton. As indicated above, in practice there are numerous factors that influence the level of the Unitary Charge. However, for the purposes of demonstrating the relative cost relationships of the different schools within the project, it was assumed that the key influences on Unitary Charge would be:
- Scale of Project – the project company overheads on a smaller project tend to make up a larger percentage of its total costs than on a larger project.
 - Estimated capital cost (outturn prices)
 - Estimated floor area
 - Mix of new build/refurbished accommodation
 - Different “services” in primaries, secondaries and Kingspark

REVISED OBC
AFFORDABILITY

APPENDIX 5

PRIMARY

	<u>FINTRY</u>	<u>ST MARGARET'S ST COLUMBA'S</u>	<u>MID CRAIGIE MOSSGIEL</u>	<u>MACALPINE DOWNFIELD</u>	<u>DOUGLAS POWRIE</u>	<u>BARNHILL</u>	<u>FORTHILL</u>	<u>PARK PLACE £000'S</u>	<u>TOTAL PRIMARY £000'S</u>
	<u>£000'S</u>	<u>£000'S</u>	<u>£000'S</u>	<u>£000'S</u>	<u>£000'S</u>	<u>£000'S</u>	<u>£000'S</u>	<u>£000'S</u>	<u>£000'S</u>
CAPITAL COST (CURRENT PRICES)	5,532	5,269	5,479	6,393	5,530	3,734	2,828	5,622	40,387
CAPITAL COST (OUTTURN PRICES)	6,479	6,171	6,416	7,487	6,476	4,373	3,312	6,584	47,298
UNITARY CHARGE	870	830	860	1,000	870	700	570	880	6,580
LEVEL PLAYING SUPPORT	520	500	520	600	520	370	280	530	3,840
COST TO COUNCIL	350	330	340	400	350	330	290	350	2,740
TO BE MET FROM									
CURRENT REVENUE BUDGETS	126	20	20	20	20	87	98	95	486
PROJECTED SAVINGS	0	208	270	241	258	0	0	0	977
ADDITIONAL INCOME	0	0	0	0	0	32	33	0	65
AFFORDABILITY GAP	224	102	50	139	72	211	159	255	1,212

SECONDARY

	<u>GROVE</u>	<u>ST JOHNS</u>	<u>LAWSIDE</u>	<u>ST SAVIOUR'S</u>	<u>TOTAL SECONDARY</u>
	<u>£000'S</u>	<u>£000'S</u>	<u>£000'S</u>	<u>£000'S</u>	<u>£000'S</u>
CAPITAL COST (CURRENT PRICES)	8,475	8,315	7,945	0	24,735
CAPITAL COST (OUTTURN PRICES)	9,925	9,738	9,304	0	28,967
UNITARY CHARGE	1,460	1,420	1,420	0	4,300
LEVEL PLAYING SUPPORT	870	850	800	0	2,520
COST TO COUNCIL	590	570	620	0	1,780
TO BE MET FROM :-					
CURRENT REVENUE BUDGETS	334	321	404	0	1,059
PROJECTED SAVINGS	0	0	0	431	431
PROJECTED NET STAFF SAVINGS (St John's/St Saviour's/Lawside)	0	0	0	575	575
ADDITIONAL INCOME	514	0	0	0	514
AFFORDABILITY GAP	(258)	249	216	(1,006)	(799)

SPECIAL

	<u>KINGSPARK</u> <u>£000'S</u>
CAPITAL COST (CURRENT PRICES)	15,000
CAPITAL COST (OUTTURN PRICES)	17,855
UNITARY CHARGE	1,970
LEVEL PLAYING SUPPORT	1,340
COST TO COUNCIL	630
TO BE MET FROM :-	
CURRENT REVENUE BUDGETS	222
PROJECTED SAVINGS	0
ADDITIONAL INCOME	280
AFFORDABILITY GAP	128

SUMMARY	<u>TOTAL</u> <u>£000'S</u>
CAPITAL COST (CURRENT PRICES)	80,122
CAPITAL COST (OUTTURN PRICES)	94,120
UNITARY CHARGE	12,850
LEVEL PLAYING SUPPORT	7,700
COST TO COUNCIL	5,150
TO BE MET FROM :-	
CURRENT REVENUE BUDGETS	1,767
PROJECTED SAVINGS	1,408
PROJECTED NET STAFF SAVING (St John's/St Saviour's/Lawside)	575
ADDITIONAL INCOME	859
AFFORDABILITY GAP	541

OTHER SOURCES FOR CLOSING THE AFFORDABILITY GAP**APPENDIX 6**

	£000
Barnhill	
Additional grant income in respect of anticipated new pupils coming into Dundee in next 5 years (net of additional costs)	32
Forthill	
Additional grant income in respect of anticipated new pupils coming into Dundee in next 5 years (net of additional costs)	33
Grove	
Additional grant income in respect of anticipated new pupils coming into Dundee in next 5 years (net of additional costs)	
Ex Angus (Monifieth High)	408
New Housing	106
Kingspark	
Estimated increase in income from other local authorities for pupils attending Kingspark (net of additional costs)	65
Estimated savings in other Council budgets through reduced need to send children to schools outwith Dundee (providing facilities for them at Kingspark) (net of additional costs)	<u>215</u>
	(£000)
	<u>859</u>

Commentary on the updated position in respect of each school included in Outline Business Case

- a **Fintry Primary** (2 stream)
Fintry Nursery (70 places)
- To be replaced by 2 stream primary with 80 0-5 places on same site.
- No primary merger possible.
- Affordability gap £224K
- b **St Margaret's Primary** (single stream primary, 20 nursery places)
St Columba's Primary (single stream)
- To be replaced by 2 stream primary with 80 0-5 places on current Macalpine Primary site.
- Existing budgets low since both single stream schools.
- Affordability gap £102K
- c **Mid Craigie Primary** (1½ stream primary, 20 nursery places)
Mossgiel Primary (2 stream primary, 20 nursery places)
Happyhillock Child & Family Centre (20 places)
- To be replaced by 2 stream primary with 80 0-5 places on new site.
- Affordability gap £50K
- d **Macalpine Primary** (2½ stream primary, 30 nursery places)
Downfield Primary (1½ stream)
Kirkton Nursery (incl Kirkton Child & Family Centre) (50 places)
- To be replaced by 3 stream primary with 80 0-5 places on current St Columba's Primary site.
- Affordability gap £139K
- e **Douglas Primary** (2 stream primary, 20 nursery places)
Powrie Primary (2 stream primary, 20 nursery places)
- To be replaced by 2 stream primary with 80 0-5 places on either Douglas or Powrie site.
- Affordability gap £72K
- f **Barnhill Primary** (2 stream primary, 20 nursery places)
- To be refurbished and extended to 3 stream primary (with no extension to nursery provision).
- Additional income is additional grant anticipated for new (to Dundee) pupils in next 5 years.
- Affordability gap £211K

- g **Forthill Primary** (2½ stream primary, 50 nursery places)
- To be refurbished and extended to 3 stream primary (with no extension to nursery provision).
- Additional income is additional grant anticipated for new (to Dundee) pupils in next 5 years.
- Affordability gap £159K
- h **Park Place Primary** (single stream)
Park Place Nursery (80 places)
Bellfield Nursery (70 places)
- To be replaced by 2 stream primary with 150 0-5 places on new site.
- No primary merger possible.
- Existing budgets low since primary is single stream.
- Affordability gap £255K
- Note:** **It is proposed that the primary schools included in the project will have rooms for community use as well as a community games hall.**
- i **Grove Academy**
- Current capacity 808 excluding classrooms in temporary accommodation, 990 including classrooms in temporary accommodation. To be refurbished and extended to 1200-1300 capacity including provision of community swimming pool. Additional income is additional grant anticipated for new (to Dundee) pupils in next 5 years.
- Contribution towards affordability gap £258K credit
- j **St John's High School**
- Current capacity 948. To be refurbished and extended to 1200 capacity including provision of community swimming pool.
- Affordability gap £249K
- k **Lawside Academy**
- Current capacity 1096. Classroom accommodation adequate in terms of space but needs refurbished and reconfigured to deliver up to date curriculum. Also includes provision of community swimming pool. Capital costs appear high compared to Grove and St John's due to additional refurbishment/reconfiguration required and also need for new games hall.
- Affordability gap £216K
- l **St Saviour's High School**
- The savings shown against St Saviour's represent the existing St Saviour's property related budget which would be saved if St Saviour's was merged with St John's/Lawside and also the estimated net saving in existing staff costs at St John's/Lawside/St Saviour's which would result from the merger.
- Contribution towards affordability gap £1,006K credit

m **Kingspark Special School/Frances Wright Pre-School Centre**

To be replaced by new special school adjacent to current Kingspark site, incorporating Jessie Porter Nursery School in place of Frances Wright Pre-School Centre (see Appendix 12 section (a) 6).

The additional income includes estimated income from other authorities for their pupils attending the new Kingspark and also savings in the costs of sending Dundee children to schools outwith Dundee (providing facilities for them at the new Kingspark).

Affordability gap £128K

Dundee City Council Schools PPP Project
Affordability Analysis

APPENDIX 8

Options

£m	Option 1 - Primaries, Secondaries and Special	Option 2 - Primaries and Secondaries	Option 3 - Primaries (excl. Park Place) and Secondaries	Option 4 - Primaries (excl. Park Place) and Secondaries (St. Saviours)	Option 5 - Primaries (excl. Park Place) and Secondaries (new secondary)	Option 6 - Primaries(excl. Park Place) +Grove	Option 7 - as Option 6 + Kingspark	Option 8 - as Option 6 + reduced programme at St John's & Lawside
Unitary Charge	12.85	10.88	10.07	9.52	10.48	7.16	9.13	9.26
less								
LPFS	5.73	5.73	5.73	5.60	5.73	4.18	5.52	5.34
Revenue budgets and projected savings	4.61	4.10	4.01	4.01	4.01	2.28	2.78	3.01
30-Sep-2006 Affordability Gap	2.51	1.05	0.33	-0.09	0.74	0.70	0.83	0.91

Option 1 Includes all primaries , Grove, St Johns, Lawside and Kingspark.

Option 2 Includes all primaries, Grove, St Johns, Lawside and excludes Kingspark.

Option 3 Includes all primaries, Grove, St Johns, Lawside, but excludes Kingspark and Park Place.

Option 4 Includes all primaries, Grove, St Johns, but excludes Kingspark and Park Place. This option also closes Lawside and retains St Saviours.

Option 5 Includes all primaries, Grove, St Johns but excludes Kingspark and Park Place. This option also closes both Lawside and St Saviours and Replaces them with a new school.

Option 6 Includes all primaries and Grove but excludes Park Place, Kingspark, St Johns, Lawside and St Saviours.

Option 7 Includes all primaries, Grove, Kingspark but excludes Park Place, St Johns, Lawside and St Saviours.

Option 8 Includes all primaries, Grove + St Johns & Lawside on reduced programme, but excludes Kingspark, Park Place and St Saviour's (but St Saviour's remains open).

LPFS included at estimated figure from Appendix 2 if under £5.73m.

Otherwise capped at £5.73m.

At a MEETING of the **PRIVATE PUBLIC PARTNERSHIP - PROJECT BOARD FOR SCHOOLS** held at Dundee on 28th August, 2002.

Present:-

COUNCILLORS

George de Gernier
Jill Shimi
Julie Sturrock
George Regan
Rod Wallace
Willie Sawers
Dave Beattie
John Corrigan

OFFICERS

Alex Stephen, Chief Executive
Gillian Ross Pond, Education Services Manager
Anne Wilson, Director of Education
Anne Connor, Legal Department
Iain Lilburn, Finance Department
Norrie McGowan, Finance Department
David Dorward, Director of Finance
Patricia McIlquham, Director of Support Services.
Roy Robertson, Architects
Les Lamb, Architects
Merrill Smith, Leisure and Arts

CHURCH REPRESENTATIVE

Monsignor Joseph Creegan

TRADE UNION REPRESENTATIVES

Tom Ferguson
Eric Baillie

CONSULTANTS

Nathan Goode
Rhona Harper

Apologies for absence:-
Grace Barter

Chief Executive in the Chair.

I MINUTE OF MEETING OF 24TH MAY, 2002

The above minute was submitted and approved.

II LETTERS OF APPROVAL FROM SCOTTISH EXECUTIVE

Letters of Approval from the Scottish Executive dated 3rd July and 15th August 2002 were distributed to Board Members.

III AGREE VIABLE PPP PROJECT

Paper outlining Options 1 - 7 was distributed to Board Members. The Chief Executive briefed Board members on all the options and outlining the cost elements involved. The affordability gap could be closed by utilising potential capital receipts from the sale of the Linlathen High School site.

The Roman Catholic Church would support Option 5 which would result in the closure of Lawside Academy and St Saviours to be replaced with a new school, which would also include the refurbishment and expansion of St John's. The EIS staff representative commented on each of the options. The Unison staff representative indicated that staff were concerned about the procurement process.

The Chief Executive re-iterated that the Board is only asked to make a recommendation(s) to the Education Committee for consideration at its meeting in September. If approval is given formal consultation would take place with all interested parties from October to December 2002.

The Chief Executive at the request of the EIS representative tabled a further proposal (Option 8) which would delete Kingspark but retain all three denominational schools. It was then agreed after considerable debate that Options 5 7 and 8 should be submitted to the Education Committee for consideration.

Option 5 - (includes all primaries, Grove, St John's, but excludes Kingspark and Park Place. This option also closes both Lawside and St Saviours and replaces them with a new school).

Option 7 (Includes all primaries, Grove, Kingspark but excludes Park Place, St John's, Lawside and St Saviours)

Option 8 (Includes all primaries, Grove and excludes Park Place, Kingspark upgrades Lawside, St John's and retains St Saviours.

Option 8 will include refurbishment works at St John's and Lawside but not to the same extent as in the O.B.C. (Outline Business Case). Details of the Education Department's proposals under this option will be issued to the Project Board before the Education Committee on 16th September 2002.

IV REPORT FOR EDUCATION COMMITTEE

Report with recommendations from the PPP Board will be submitted to the Education Committee on 19th September 2002.

V DATE OF NEXT MEETING

To be advised.

**Reduced work programme at St John's High School and Lawside Academy {Option (8)}
compared with original programme**

Current Prices	Proposed Work Programme £000		Reduced Work Programme £000
St John's High School			
Additional classrooms (17)	2,455	6 Rooms	900
Additional Drama/Assembly space	-		375
Refurbish existing accommodation	2,645		3,020
New Community Swimming Pool	2,550		-
All Weather Pitch	665		-
	8,315		4,295
	8,315		4,295
Lawside Academy			
Refurbish existing accommodation	2,990		3,425
New games hall and gym	1,740		1,740
New Community Swimming Pool	2,550		-
Refurbish existing swimming pool	-		365
All weather pitch	665		-
	7,945		5,530
	7,945		5,530
TOTAL	16,260		9,825
	16,260		9,825

EDUCATIONAL AND COMMUNITY BENEFITS**APPENDIX 11**

- 1 The design of the new and refurbished schools will take account of the significant changes which have taken place in the curriculum in both primary and secondary schools. Developments in ICT have impacted on the way in which pupils work and use computers. The development of science and technology requires the upgrading and re-design of science labs and technology rooms and the provision of specialist facilities in primary schools to take these areas forward. Library Resource areas are now essential features in Primary as well as Secondary schools. Similarly other areas such as dance and drama did not feature as prominently in the curriculum when Dundee's current schools were designed.
- 2 Current developments in the delivery of the curriculum will also impact on the design and layout of schools particularly in the primary sector. Team Teaching and the introduction of Classroom Assistants mean that increasingly several adults will be working with a class or groups of classes and that pupils from several different classes may be working together at certain times. This will require the layout of schools to be more flexible with spaces to accommodate different groupings of pupils at different times.
- 3 A key element in the success of any school is its ethos. This is significantly affected by the design of the learning environment. Bright modern well designed schools with good facilities for pupils, staff and parents will provide better learning environment which will impact on ethos. Evidence suggests that improved ethos will have a significant impact on learning and on attainment.
- 4 There are particular concerns about the capacity of some schools in Dundee at present. In a number of schools local demand is outstripping capacity and there is the danger of overcrowding. There will be a need for extensions in the near future. In a number of small schools there are concerns about their long term viability if numbers fall. These issues will still require to be addressed should the current proposals not proceed.
- 5 The PPP project will greatly enhance the authority's provision of support for learning for young persons with a wide range of special educational needs, such as physical disabilities, mental disorders and complex or profound difficulties. One of the Scottish Executive's five new National Priorities for education is Inclusion and Equality, where the aim is to promote equality and help every pupil benefit from education, with particular regard paid to pupils with disabilities and special educational needs. The Executive expects authorities to take steps to include as many young persons with special needs as possible in their local school, rather than in special schools or schools with specialist facilities. The PPP project will allow the development of barrier-free schools, with modern customised accommodation suitable to accommodate young persons in mainstream classes, or in small groups or as individuals as appropriate.
- 6 New schools will also impact beneficially on young persons with social, emotional and behavioural difficulties. They are most effectively supported in schools with the flexibility of accommodation to allow them to be moved between mainstream classrooms and support bases, whenever desirable or necessary, with the minimum of inconvenience to the young person and to the staff and other pupils in the class. A number of our schools, particularly in the primary sector, lack that flexibility. The Scottish Executive now requires authorities to provide pupil support bases in all their schools as far as possible, and the PPP project will enable us to move considerably towards that position. Failure to provide support accommodation may result in our having to consider opening additional offsite educational establishments for these challenging youngsters, at very significant cost to the Council.
- 7 The proposed new and refurbished schools will also enjoy much improved community and leisure facilities. The three Secondaries will have new community swimming pools (depending on the option chosen) and the primaries will have specific rooms allocated for community use as well as a community games hall. The final usage of these facilities will be decided in consultation with local communities but examples of the type of facility and service that might be provided for include badminton and five-a-side football; fitness suites; Health Clinic facilities; dedicated space for out of school care and community spaces for Adult Learning.

- 8** Kingspark School currently provides education to 149 pupils, including 34 pupils with severe difficulties, 35 primary pupils, 42 secondary pupils, 17 post-16 students and 21 pupils in the enhanced support area.
- 9** The population of Kingspark School has changed significantly in recent times and continues to do so, now comprising many more children with multiple or complex difficulties. The present facility was not designed to meet the needs of this type of pupil, and has resulted in significant remodelling of the facility requiring to be undertaken on an ongoing basis.
- 10** The needs of this changing pupil population can only be met if they have access to specialist facilities and equipment which takes up significant space. There are Health and Safety issues that need to be reviewed on a regular basis. Extensive refurbishment of a building where maintenance costs are already significant is necessary, to provide for improved toilet accommodation, greater storage capacity, separate laundry facilities, and reconfiguration of corridor, dining and classroom space.
- 11** The development of Kingspark School would provide the opportunity to incorporate a nursery facility for pre-school children with special educational needs, within a mainstream nursery on the Kingspark School site. This would encourage and facilitate inclusion.
- 12** The development of a new Kingspark School would present opportunities for greater inter-agency planning and working leading to more integrated assessment and treatment.

CONSULTATIONS**APPENDIX 12****a INFORMAL CONSULTATIONS**

- 1 Following the submission of the Outline Business Case to the Scottish Executive, a comprehensive programme of informal consultation meetings with regard to the proposals was undertaken with school boards, parent/teacher associations and teaching and support staff.
- 2 25 meetings were held with the school boards and parent/teacher associations at schools that could be directly affected by the proposals and 12 meetings took place with school staff, involving both teachers and support staff. In addition, meetings were held with the City-wide Secondary School Pupils Council and with the City-wide School Board Chairpersons (Secondary).
- 3 Although some consultees expressed various views on the nature of PPP and its desirability as a procurement route, almost all agreed that they wanted new or modernised schools for their communities and recognised that PPP was the only available means of delivering them within a reasonable timescale.
- 4 There was some division as regards how best to achieve the rationalisation of the number of pupil places at the RC secondary schools in the city. However, the only school where the school board (and parents) were not generally supportive of the proposals was Park Place Primary.
- 5 As regards the siting of the new primary school in Douglas, there was a consensus amongst consultees that it should be located on either of the existing Douglas or Powrie Primary sites in preference to building it on the old Balerno Primary site. Further consultation is under way to determine which site should be used.
- 6 Following consultation with parents and staff at Frances Wright Pre-School Centre it is proposed that a mainstream nursery be retained at Frances Wright and that Jessie Porter Nursery School be replaced by a new facility incorporated into Kingspark School.

b STATUTORY CONSULTATION PROCEDURES

- 1 At the Education Committee meeting of 18 February 2002, the Committee approved Report No 138-2002 which remitted the Director of Education to prepare to carry out statutory and additional consultation procedures relating to the PPP proposals in terms of the Education (Publication and Consultation) (Scotland) Regulations 1981 in the event that Scottish Executive approval to the PPP proposals was received and the Council was minded to proceed with this method of procurement, and instructed the Director of Education to bring forward a further report at that time seeking formal authority to proceed with the statutory consultations.
- 2 The "additional procedures" referred to above comprised a programme of informal consultation meetings with parents, staff and the wider communities potentially affected by the PPP proposals. These meetings took place during the period 23 January to 27 March 2002 in accordance with the timetable appended to Report No 138-2002. The outcome of these consultations is described in section 13 above.
- 3 The statutory consultations for which formal authority is now being sought require the Council in compliance with the Act to consult all interested parties where schools are merging/closing or where the site is changing. Formal consultation would not be required for the schools being refurbished and/or extended. However the Education Department staff would wish to carry out this consultation albeit that it is not a statutory requirement. In addition, parents of children coming within the catchment area of the new schools and in the last two years of primary who would be expected to go to a new school would be consulted. A full list of consultees for each proposal will be identified in accordance with the Act and this list can be added to where desired to ensure maximum consultation.

- 4** The consultation as laid down in the Act requires an advertisement describing the proposals to be placed in a local newspaper (the "Courier") and allows 28 days for representations to be made. It would, however, be the intention of the Education Department to exceed this basic minimum statutory requirement and offer in addition a programme of public meetings to the communities involved and to engage in similar separate meetings with the Council staff potentially affected. A programme of meetings will be devised and the identified consultees will be invited by letter to attend.
- 5** Under the terms of the Act these meetings can commence fourteen days into the 28-day statutory consultation period counting as day one the day when the newspaper advertisement appears. Due care will be taken to ensure that holiday periods are not included within the proposed time span for the consultation to ensure the maximum potential participation of all interested parties.

- 1 On 11 February 2002 the Policy and Resources Committee approved the commissioning of a feasibility study by Andersens (now Grant Thornton) and Shepherd and Wedderburn into the various forms of joint venture company that could be utilised for the proposed PPP Project (Report No 126-2002 refers). The Project Board intends to continue to take forward three models. The first, Model 1, will be based on a standard PPP contract. Model 2 will require bidders to submit a variant bid in which the Council will be allocated a minimum shareholding of 25% in a JVC, and Model 3 is a JVC in which the Council will come together with private sector partners to submit a competitive bid. In this model the Council would have a 40% shareholding.
- 2 On receipt of the feasibility study it was apparent that the Model 3 might require some relaxation in the application of the criteria for the provision of Level Playing Field/Revenue Support from the Scottish Executive. Accordingly, it was decided that it would be prudent to confirm whether the Scottish Executive would be able to award Level Playing Field/Revenue Support in such circumstances before making any recommendations to the Council on the use of joint venture models. However, to date no confirmation that this support will be forthcoming has been received from the Scottish Executive. Copies of the feasibility study and the joint venture proposal are available for perusal in the members' lounge.
- 3 The Model 3 proposal that has been put to the Scottish Executive envisages the Council setting up a company as a joint venture with other partners (a JVC). The Council would have a minority shareholding (perhaps 40%) and would provide equity to the JVC. The JVC would be a profit distributing company, but a substantial proportion of the profits (perhaps up to 90%) generated by the JVC would be invested in education services. The equity partners would also make profits through the provision of services such as construction, funding, etc in the normal way.
- 4 The JVC would bid for the project against other (conventional) PPP consortia, employing external consultants as necessary to provide key services including project management, architectural and associated technical services and legal, financial, insurance and funds sourcing services. The bid would be led by a private sector partner and the Council would put in place "Chinese Walls" to avoid any potential conflicts of interest. The bid submissions would be evaluated in a fully commercial and auditable manner and the contract would only be awarded to the Joint Venture Company if it had submitted the most economically advantageous bid.
- 5 If successful in securing the contract for the project, the JVC would directly employ only a small number of staff to manage the contract with cleaning, facilities management and property maintenance services being sub-contracted to the Council or to Tayside Contracts wherever possible.
- 6 Given the desire for changes to PPPs generally amongst members of the UK and Scottish Parliaments it is hoped that the Scottish Executive will be able to support this alternative PPP structure which bridges the gap between direct public sector service provision and the "conventional" PPP models and also offers the benefits of true partnership working between the public and private sectors, an essential ingredient if PPP is to continue to provide the services that are required by the public sector over the 30+ year life of the PPP contract.
- 7 In the event that the Scottish Executive is unable to support Model 3, the Council will wish to proceed with the JVC model (Model 2) (subject to the necessary approvals). While the Council would be a more minor partner under this proposal, the latest advice is that the Council should be able to achieve almost all its objectives under Model 3 around the Model 2 JVC model. This would include aspirations in respect of staffing, use of DLO and DSOs and return of profits (profit cap).
- 8 It must be stressed that there is an element of financial risk which the Council would have to carry should it proceed with the JVC model (Model 3). The JVC would require investment from the Council of at least £300K in submitting a bid, and in the first instance the Council would have to provide a loan or guarantee to fund this. Further investment to the JVC of taking a bid

forward to financial closure is estimated to be a further £1.4m - £1.6m, with the Council probably having to fund most of these costs. The costs will initially have to be scored against the Council's Revenue expenditure, and thereafter if the JVC is successful may be recovered via the JVC.

- 9** The Council will also have to provide share capital under both scenarios. It is estimated that will come to around £360,000 under the JVC (40% shareholding) model and £225,000 under the 25% shareholding model, assuming the Council is not required to provide any subordinated debt or other secondary funding. If secondary funding requires to be provided by the Council the cost of the shareholding will come to approximately £3.6m under the JVC (40% shareholding model) and £2.25m under the 25% shareholding model. The profits earned on these investments will however be returned to the Council although it is not anticipated that material profits will be generated until the last 10 years of the contract.
- 10** The task of convincing the Scottish Executive that Level Playing Field/Revenue Support should be provided if the project is procured using the 40% shareholding model (Model 3) should not be underestimated. It is anticipated that before they will confirm their support they will require to be convinced not only that the allocation of risks is such that the project will still deliver value for money but that the competitive processes will not be unduly distorted if the Council holds a shareholding in the project company and/or services are sub-contracted back to the Council (or Tayside Contracts). The Scottish Executive are also likely to require the Council's External Auditor to come to a view as to whether the project would be likely to be "off balance sheet" for the Council under either scenario before they will take their decision as to whether to approve the project for support. It is by no means certain that the Scottish Executive will confirm their support at the end of the day. However, the obstacles in Model 2 are considerably less than Model 3 and it is likely that this model can proceed without much difficulty and with the support of the Scottish Executive.
- 11** It is understood that an alternative proposal is being promoted by one Council whereby (subject to Scottish Executive approval) bidders will be asked to submit two bids – one based on a conventional PPP structure and the other based on a structure where the project company will be set up as a Non-Profit Distributing Organisation (NPDO). The intention is that the NPDO will raise all monies required to finance the project directly from the funders, there will be no shareholders (in the conventional sense) in the project company and that all profits made by the project company will be "re-invested" in providing education services at a lower cost or to a higher standard.
- 12** Although the NPDO model appears to have certain advantages compared to a "conventional" PPP model, the following matters should also be taken into account:
- The model will be required to meet the same tests as outlined above for Model 3 before the Scottish Executive will confirm their support.
 - This model will require more initial investment by the Council than under Dundee City Council's Model 3.
 - At this stage it is being treated by the Scottish Executive as a pilot model which will require significant development and expenditure before it can be definitely approved or not.
 - Although the project company would be a NPDO, profits would be made in the normal way by firms providing services to the project company eg construction contractor, fm providers, banks.
 - It is not certain that the project company will be able to raise 100% of the monies required to fund the project from existing funding institutions – banks generally only provide relatively risk free funding up to 90% of requirements with the riskier 10% balance being provided by shareholders as equity and subordinated loans. Furthermore, if the banks do agree to provide 100% funding they are likely to add a significant risk premium to the interest rate or the Council will have to invest more than under Dundee City Council's Model 3.
- 13** Taking all of the above into account, it is clear that the NPDO model is at the early stages of development and may not deliver all of the intended benefits at the end of the day. It is also by no means certain that the model will attract Scottish Executive support.

KEY DATES IN THE REVISED DRAFT PROJECT PROGRAMME**APPENDIX 14**

Approval by Council of:

- revised project **September 2002**
- setting up of project team and project office (covered in separate report) **September 2002**
- initiation of formal consultation process **September 2002**

Approval of revised project by Scottish Executive

October 2002

Commence formal consultation process

October 2002

OJEC advert/commence prequalification of bidders

November 2002

Issue ITN (Invitation to Negotiate ie tender documents)

March 2003

ITNs returned by

August 2003

Select preferred bidder

January 2004

Contract award

August 2004

First schools ready

August 2005

Last school ready

August 2006