

**REPORT TO: EDUCATION COMMITTEE – 20 NOVEMBER 2006**

**REPORT ON: DUNDEE SCHOOLS PPP PROJECT – PROGRESS ON CONCLUDING CONTRACT WITH DISCOVERY EDUCATION**

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

**REPORT NO: 678 - 2006**

## **1.0 PURPOSE OF REPORT**

1.1 The purpose of this report is to advise the Education Committee as to progress in contract negotiations with Discovery Education.

## **2.0 RECOMMENDATIONS**

2.1 It is recommended that the Committee note that the Project is proceeding towards financial close.

## **3.0 FINANCIAL IMPLICATIONS**

3.1 The Education and Policy and Resources Committees at their meetings on 26 June 2006 noted that the revised affordability target for the then first full year of operations of the project in 2009/2010 was £9.527m. Since the first full year of operations will now be 2010/2011, this figure can be adjusted for inflation giving a revised affordability target of £9.620m.

3.2 Discovery Education's updated financial model with capital and revenue costs based on a November 2006 financial close shows a projected first full year Unitary Charge coming within the revised affordability target. However, the actual level will not be determined until the bond is launched and ultimately until the last day of construction since construction phase contract variations will also be funded from the Unitary Charge. Nonetheless, it is anticipated that the Unitary Charge should come within the revised affordability target.

## **4.0 SUSTAINABILITY POLICY IMPLICATIONS**

4.1 This project will meet the Council's sustainability policy in the following areas – Compliance with Environmental Legislation, Energy and Water, and Built Environment.

## **5.0 EQUAL OPPORTUNITIES IMPLICATIONS**

- 5.1 The revitalised teaching and learning environment in the new schools will help combat disadvantage and promote social inclusion by allowing learners to access the skills, knowledge and information needed to enable them to play a full part in society. The project will ensure that resources are used efficiently to open up opportunities for culture, leisure and recreation to the wider community as well as providing an up to date setting for day school education.

## **6.0 BACKGROUND**

- 6.1 On 26 June 2006 the Education and Policy and Resources Committees noted the programme of events leading to financial close of the Project and approved the Final Business Case setting out the main features of the proposed contract with Discovery Education. The Chief Executive was authorised to negotiate and agree the final terms of the contract and to carry out all such other steps necessary to bring the Project to financial close.

## **7.0 FINAL BUSINESS CASE**

- 7.1 The Final Business Case was submitted to the Scottish Executive for their consideration on 30 June 2006 and their approval received on 28 July 2006 together with the observation that the submission had been “excellent and thorough”. The document, however, will require to be updated prior to financial close to reflect the final terms agreed with Discovery Education.

## **8.0 KEY STAGE REVIEW**

- 8.1 The pre-financial close Key Stage Review submission was sent to the Scottish Executive on 12 July 2006. This demonstrated that the Council was ready to proceed to financial close and in particular that satisfactory arrangements had been or will be made to administer the contract during the construction and operational phases. The submission was reviewed by Partnerships UK on behalf of the Scottish Executive and the Scottish Executive’s approval was received on 31 July 2006. The comprehensiveness of the Council’s arrangements was commended by Partnerships UK.

## **9.0 DEROGATIONS TO PROJECT AGREEMENT**

- 9.1 The first tranche of proposed amendments to key clauses in the Scottish Schools Standard PPP Contract agreed between the Council, Discovery Education and the funders was sent to the Scottish Executive for their consideration on 30 June 2006. The bulk of these amendments have since been approved and the Council has no problem with those rejected. However Discovery Education and the funders felt that some of those rejected should be resubmitted with the next tranche of proposed amendments. It should be noted that all proposed amendments to key clauses will require to be agreed by the Scottish Executive prior to the Project proceeding to financial close.

## **10.0 BOND LAUNCH**

- 10.1 The formal bond launch process commenced in September with Discovery Education meeting both Rating Agencies (Standard & Poor's and Moody's) to make the initial case for the Project to be financed via a bond issue. The Rating Agencies then held meetings with the Council's Chief Executive, Depute Chief Executive (Finance), Head of Finance and Project Director in early October to discuss the background to the Project. Discovery Education have also been submitting bond and project documentation to the Rating Agencies as drafts have been updated.
- 10.2 The bond will be able to be marketed when the following conditions are met:
- Investment grade rating confirmed by Rating Agencies;
  - Bond Prospectus approved by UK Listing Authority;
  - Scottish Executive approval obtained to updated Final Business Case and to derogations to Project Agreement; and
  - Council, Discovery Education and Funders agree drafting of finalised Project Agreement.
- 10.3 The precise date of launch of the bond may also be influenced by prevailing market conditions including imminent larger (particularly government) bond issues and volatility of interest rates.
- 10.4 Financial close will take place around 1 week after bond launch.

## **11.0 AFFORDABILITY**

- 11.1 It was reported to Committee on 26 June 2006 that the Unitary Charge affordability target for the first full year of operations in 2009/2010 was £9.527m. Since the first full year of operations will now be 2010/2011, this figure can be adjusted for inflation giving a revised affordability target of £9.620m. .
- 11.2 Discovery Education have rerun their financial model with updated capital and revenue costs based on a November 2006 financial close. The capital cost is now approximately £90m. The projected first full year Unitary Charge comes within the revised affordability target although the actual level will not be determined until the bond is launched. Indeed the eventual level of the Unitary Charge will not be fixed until the last day of construction since construction phase contract variations will also be funded from the Unitary Charge.

## **12.0 PROJECT PROGRAMME**

- 12.1 At the time of drafting this report Discovery Education were indicating that their target date for financial close was late November. Whether this is achieved will depend primarily on the capacity of the legal teams (the Council's, Discovery's, the funders' and Robertson Construction's) to finalise the contract documentation in good time. However, the Scottish Executive's approval to the updated Final Business Case and to proposed amendments to key clauses in the Project Agreement may also prove critical.

- 12.2 If financial close is achieved by the end of November (3 months later than reported to committee in June) the following target construction programme will apply:

<b>School</b>	<b>Target Start Date</b>	<b>Target Completion Date</b>
Craigowl	December 2006	January 2008
Claypotts Castle	December 2006	January 2008
Downfield	December 2006	January 2008
St Margaret's/St Columba's	December 2006	January 2008
Fintry	November 2007	January 2009
Rowantree	November 2007	January 2009
New RC Secondary	January 2007	September 2008
Grove	January 2007	July 2009

- 12.3 The original target date for occupation of the first tranche of 4 primary schools was to fall at the start of the new session 2007-8 in the month of August; consequently the amended likely occupation date of January 2008 will require a more concentrated commissioning phase for these schools. It is generally accepted that a primary school can be successfully set up at any time of the year without any detriment to the progression of pupils' learning and teaching. The establishment of commissioning teams to facilitate the revised completion dates will be undertaken by the PPP Team with the assistance of DCC Facilities Service. In line with usual practice, permission for exceptional closure days will be sought from the Scottish Executive as required.
- 12.4 Despite the slower than anticipated progress being made towards financial close, Robertson Construction commenced advance works on the first phase primary sites in mid October to ensure that construction works on those sites can commence as soon as possible after financial close. As reported to committee in June, the works comprise asbestos removal, demolition and site preparation works.

### **13.0 CONCLUSION**

- 13.1 Negotiations with Discovery Education PLC have now reached their latter stages. However the precise date of financial close will be dependent on the finalisation of the contract documentation, the approval of the Scottish Executive to the updated Final Business Case and to all the proposed amendment to key clauses in the Project Agreement, and on the agreed launch date for the bond.

### **14.0 CONSULTATION**

The Depute Chief Executive (Finance) and Depute Chief Executive (Support Services) were consulted in the preparation of this report.

**15.0 BACKGROUND PAPERS**

15.1 None

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**10 NOVEMBER 2006**

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**10 NOVEMBER 2006**