

ANGUS COUNCIL

**EDUCATION COMMITTEE – 15 APRIL 2003
FINANCE & INFORMATION TECHNOLOGY COMMITTEE – 15 APRIL 2003**

SCHOOLS PPP PROJECT

JOINT REPORT BY THE DIRECTOR OF EDUCATION AND DIRECTOR OF FINANCE

1 RECOMMENDATION

It is recommended that each Committee, for its respective interest, notes the contents of the enclosed letter from the Scottish Executive Education Department. It is further recommended that each Committee notes that further reports will be prepared for Committee consideration as the detailed planning for this project takes shape.

2 BACKGROUND

2.1 Reference is made to the meeting of the Education Committee on 26 November 2002 when the Committee agreed to approve, in principle, the submission to the Scottish Executive of outline proposals to undertake a Ppp project aimed at improving schools in Forfar and Carnoustie (Article 5 of the minute of the meeting refers).

2.2 The submission to the Scottish Executive was duly made in advance of the deadline of 31 December 2002.

3 SCOTTISH EXECUTIVE RESPONSE

3.1 Officers of the Council were invited to attend a meeting with Civil Servants in February 2003.

3.2 On 18 March 2003, the Council received informal notification that its bid had been successful and this was followed up by a letter dated 19 March 2003 signed by Cathy Jamieson (MSP) and Nicol Stephen (MSP) enclosing a Scottish Executive News release dated 18 March 2003.

3.3 On 31 March 2003 the Council received official notification of the Scottish Executive's response to its bid and a copy of this notification is appended to this Report.

4 NEXT STEPS

4.1 As can be seen from the enclosed letter, considerable detailed work now requires to be undertaken. That work will be taken forward timeously, and it is hoped that further progress reports can be submitted periodically to the appropriate Council Committees as and when there is specific progress to report.

5 FINANCIAL IMPLICATIONS

5.1 There are no direct financial implications for the Council arising from this Report at this stage. The Scottish Executive's letter makes clear that the award of revenue support for the project of £3.58m per annum over 30 years is a capped, indicative offer which will only be realised if and when the Council produces a final business case for the project which meets the Executive's criteria.

6 CONSULTATION

6.1 In accordance with the Standing Orders of the Council, this Report has been the subject of consultation with the Chief Executive and the Director of Law & Administration. The Director of Property Services has also been consulted.

7 HUMAN RIGHTS IMPLICATIONS

7.1 There are no Human Rights implications arising directly as a result of consideration of this Report.

JIM ANDERSON
DIRECTOR OF EDUCATION

DAVID SAWERS
DIRECTOR OF FINANCE

BACKGROUND PAPERS

Note: 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.

APPENDIX

SCOTTISH EXECUTIVE
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Your ref:
Our ref: KEB 2/16/5/ANG

31 March 2003

ANGUS COUNCIL: SCHOOLS PPP PROJECT

Following Ministers' announcement about the December 2002 school PPP bids on 19 March, I am writing to set out the way forward for your project.

Indicative revenue funding approval

I can confirm that Angus Council is being made an indicative offer of revenue support for its schools PPP proposals, subject to a continuing dialogue between the Council and the Executive over the project. To achieve a conditional offer of funding, which would allow procurement to proceed, this dialogue must result in a revised Outline Business Case which, once completed, gives us full confidence that the project will meet the criteria of Circular 8/2001, including the subsequent conditions relating to the revised Green Book and the Scottish Executive/STUC Protocol on Staffing Matters.

The indicative offer of revenue support is capped at £3.58 million per annum over 30 years. This indicative funding offer is based on a project with a capital investment value (including initial investment, capitalised maintenance and capitalised interest as defined in Annex C of Circular 8/2001) of £50 million, covering 80% of the eligible capital investment value of the project. The balance of the annual revenue cost of the project developed by your authority must be funded by the Council, and it is a condition that details of the sources of this funding will be provided to the Executive as required.

The indicative offer of revenue support is capped at the figure mentioned above on the basis of an assumed capital investment value. Actual revenue support will be calculated on the basis of the Final Business Case submitted shortly before financial close, and the 80% calculation may produce a lower level of revenue support on that calculation. However, the overall size of your

PPP project, in terms of its total capital invested, may be increased by the Council by the following three methods:-

- (i) you may apply other funds, including the proceeds of capital receipts generated within the scope of the project, to expand its overall scale. The Executive has issued guidance about how both general revenue support and the specific Schools Fund can be used in support of PPP projects;
- (ii) you might also review and be able to increase Council revenue funding in excess of the 20% figure (the capped offer of Executive revenue support will not be increased in these circumstances) ;
- (iii) the revenue support cap is calculated on the optimum assumption that capital spend would occur at the beginning of the contract period. Inevitably, in practice, some of the capital investment will take place in later years. In that case, the effect of discounting in the revenue support calculation will mean that a higher investment, in cash terms, may be possible within the capped annual funding.

I would recommend that you discuss this letter with your technical advisers and establish whether any of these methods might have relevance for your project. If so, I should be grateful if you would clarify any such changes when re-submitting your business case.

The model for calculating revenue support is available on the Financial Partnerships Unit website (www.Scotland.gsi.gov.uk/pfi) and must be used when revising and re-submitting your business case.

Review of Business Plan

The next stage will be for the Council to review the original bid in the light of this indicative offer of revenue support, and to decide on the detail of the project that you propose to proceed with, taking account of the offered funding and the three options mentioned above. You should show clearly how you propose to alter the existing case to scale down the plans to match the available funding.

The revised proposals should reflect the school estate strategy published in February 2003. In particular, your revised proposals should:

- deal with the worst problems first;
- secure value for money;
- support 21st century teaching;
- meet wider community needs;
- maintain momentum and encourage innovation.

We will expect you to demonstrate how your revised project will contribute to these objectives.

The revised project must be drawn from the components of your original bid, although there may be some marginal adjustment so long as the planned level of revenue support is not

exceeded. In developing the project you will need to set out the rationale and basis for the proposed adjustments and the overall revised project.

PSC appraisal factors

As part of working up the revised Outline Business Case, it will be necessary for your advisers to recalculate the Public Sector Comparator (PSC) and other value for money aspects (in line with the requirements set out in Circular 8/2001) of the modified project. They should do so in accordance with the revised Treasury 'Green Book' guidance on appraisal methodology in the public sector, published in January 2003.

Partnership working

The Balfron agreement, and Ministers' recent announcement, emphasised the need for the Scottish Executive and local authorities to work in partnership in taking this investment programme forward. We would, therefore, wish to keep in close touch throughout the development of your project and its implementation. We are in the process of making arrangements for an early meeting which will provide an opportunity to discuss development of the project as a precursor to the work which will be necessary in the lead up to the Executive being able to award a conditional level of revenue support for an agreed project. We would expect this discussion to be wide ranging, but, in particular, would wish to cover the following issues:

- timing of the planned stages of the project.
- the educational case for the proposals, taking account also of pupil population forecasts.
- benchmarking issues in the light of matters raised by the Accounts Commission report, published in June 2002, on early schools PFI projects.
- issues of value for money, affordability, and the new Green Book procedures.
- issues of soft services and staffing protocol.
- general issues which you propose to take into account in considering a revised project.

Timing of the planned stages of projects is important, particularly in relation to the time at which they may be ready to go to the market. Our objective is to work with authorities to manage the process so that, as far as it is possible to achieve, projects come to that point on a steady basis. It may, therefore, be necessary for us to phase the number of projects coming on stream at any given time.

Submission of revised Outline Business Case

Following these discussions, you will be required to submit a revised Outline Business Case. This should include the following information:

- Description of, and rationale for any proposed changes in the scope of the project;
- Details of planned capital investment per school;
- Full financial models;

- Completed Annex B (input form for Revenue Support calculation);
- VFM Summary, ie comparison of Public Sector Comparator and Shadow PPP Model on revised Green Book basis (for standard PPP and any approved variants);
- Table showing breakdown of proposals for funding affordability gap including sources of funds;
- Timetable.

I am copying this letter to your Director of Education and to Sandy Rosie, Director of the Scottish Executive Financial Partnerships Unit.

Yours sincerely

COLIN M REEVES