

WEST DUNBARTONSHIRE COUNCIL

Building Our Future Schools PPP Project

Final Business Case

TABLE OF CONTENTS

1	EXECUTIVE SUMMARY.....	1
1.1	Review of Business Case	1
1.2	Project Development and Procurement Process.....	1
1.3	The Preferred Bidder	1
1.4	The PPP Technical Solution	2
1.5	Conventional Procurement Assessment Model (CPAM)	3
1.6	Value for Money Analysis.....	3
1.7	Affordability Analysis	4
1.8	Accounting Treatment	4
1.9	The Project Agreement.....	4
1.10	Project Management Arrangements.....	5
1.11	Conclusion.....	5
2	REVIEW OF BUSINESS CASE	6
2.1	Introduction	6
2.2	Strategic & Policy Context	6
2.3	Project Objectives.....	7
2.4	Scoping of the Project	7
3	PROJECT DEVELOPMENT	9
3.1	Background.....	9
3.2	Project Management Arrangements.....	9
3.3	Project Management	10
3.4	Timetable.....	11
3.5	Educational Consultation	11
3.6	Land Acquisition	12

3.7	Existing School Estate	12
3.8	Planning Consultation.....	12
3.9	Facilities Management	12
3.10	Decant Strategy	12
3.11	Development of Council Requirements	12
4	THE PPP PROCUREMENT PROCESS	14
4.1	Pre-qualification of Bidders.....	14
4.2	Invitation to Negotiate (ITN) Period.....	14
4.3	Bid Evaluation Methodology	15
4.4	Invitation to Negotiate (ITN) Submissions.....	15
4.5	BAFO.....	16
4.6	Evaluation Findings	16
4.7	Preferred Bidder Negotiations	17
5	THE PREFERRED BIDDER AND KEY FUNDING TERMS.....	18
5.1	Description of the Preferred Bidder	18
5.2	Financial Strength of the Preferred Bidder	18
5.3	Price.....	18
5.4	Project Funding Arrangements.....	18
6	THE PPP TECHNICAL SOLUTION	19
6.1	Introduction	19
6.2	Technical Solution - Planning, Architectural and Design.....	19
6.3	Technical Solution - Construction and Project Management.....	24
6.4	Technical Solution - Facilities Management and Human Resources	25
6.5	Key Commercial Project Issues	26
7	CONVENTIONAL PROCUREMENT ASSESSMENT	27
7.1	Derivation of The Conventional Procurement Assessment Model.....	27
7.2	Key Modelling Assumptions.....	27
7.3	Main CPAM Cost Inputs	28

7.4	Risk and Optimism Bias Analysis	29
7.5	Overall CPAM Output.....	31
8	VALUE FOR MONEY ANALYSIS	32
8.1	Methodology	32
8.2	Value for Money – Preferred Bid.....	32
8.3	PPP Cost Elements and Service Charge.....	33
8.4	Capital Costs.....	33
8.5	Lifecycle Costs	33
8.6	Facilities Management Costs	34
8.7	Value for Money Assessment of Bank vs Bond Finance	34
8.8	Qualitative Assessment of VFM	35
8.9	Overall Value for Money Assessment	36
8.10	Sensitivity Analysis.....	36
9	AFFORDABILITY ANALYSIS	37
9.1	Financial Analysis.....	37
9.2	Revenue Support Grant (RSG)	37
9.3	Revenue Implications	37
9.4	Sensitivity Testing - Impact of Interest Rate Movements on Unitary Charge and Council Contribution.....	39
9.5	Sensitivity Testing - Impact of Inflation on Unitary Charge and Council Contribution ..	39
9.6	VAT Treatment	40
10	ACCOUNTING TREATMENT	41
10.1	Basis of Accounting Treatment	41
10.2	Background.....	41
10.3	Application of SSAP 21 or FRS 5.....	41
10.4	Qualitative Review - FRS 5 Specific Indicators	41
10.5	Qualitative Review - FRS 5 Principal Risks.....	42
10.6	Conclusions of Qualitative Review.....	42
10.7	Quantitative Review	42

11	THE PROJECT AGREEMENT	44
11.1	Overview	44
11.2	Contractual Framework of the Project	44
11.3	Derogations from Scottish Schools Standard Contract.....	45

LIST OF APPENDICES

APPENDIX 1	PUBLIC SECTOR COMPARATOR
APPENDIX 2	RISK AND OPTIMISM BIAS
APPENDIX 3	PROPOSED FUNDING ARRANGEMENTS
APPENDIX 4	ACCOUNTING TREATMENT ANALYSIS
APPENDIX 5	AUDITOR'S LETTER
APPENDIX 6	AFFORDABILITY ANALYSIS
APPENDIX 7	DELTA VIEW COMPARISON OF PROJECT AGREEMENT (v4) AND SSSC (v3)
APPENDIX 8	FINANCIAL STANDING REPORT
APPENDIX 9	COUNCIL REPORT ESTABLISHING DELEGATED AUTHORITY PARAMETERS
APPENDIX 10	REVENUE SUPPORT SUBMISSION – ANNEX A
APPENDIX 11	REVENUE SUPPORT SUBMISSION – ANNEX B
APPENDIX 12	SPECIFIC SUSTAINABLE ISSUES INCORPORATED IN DESIGNS
APPENDIX 13	SCOTTISH GOVERNMENT VFM PROFORMA

1 EXECUTIVE SUMMARY

1.1 Review of Business Case

West Dunbartonshire Council identified the need for significant investment in its school estate in its Outline Business Case (OBC) developed for a school Public Private Partnership project submitted to the Scottish Executive in 2004. The Scottish Executive subsequently provided the Council with an indicative award of funding, amounting to £7.15 million per annum over 30 years, in June 2004, which was confirmed following submission of a Revised Outline Business Case (ROBC) on 12th December 2005.

This Final Business Case (FBC) now provides a comprehensive update on the final phase of the project's development.

1.2 Project Development and Procurement Process

The Council attracted five leading consortia, all with established PPP track records, in response to its invitation to firms to express interest in the project. These five expressions of interest were refined into a shortlist of three bidders – Amey / Carillion, Balfour Beatty and BAM PPP. All three submitted bids that were assessed as complete, contractually compliant, affordable and representing value for money against the alternative of direct Council procurement. It was clear that the Council benefited from a strong competition between established bidders each of whom had a credible track record in UK Schools Partnerships.

Following the full BAFO evaluation, the technical / educational scoring of the bids showed BAM PPP and WDSP to be effectively equal, with Transform Schools a little way behind. The legal assessment was that all bidders were at or close to market positions and that all could be expected to reach financial close, all matters considered. The financial evaluation indicated that the bid by BAM PPP was significantly lower cost than the other two, and accordingly BAM were appointed as preferred Bidder. The In-house Team bids for the Mandatory Variant Bids were similarly assessed, and were found to represent better value for the Council, when assessed in conjunction with BAM PPP's Mandatory Variant Bids (MV1, MV2 and MV3).

The Council therefore agreed to progress to appoint BAM PPP as the Preferred Bidder on the basis of their MV3 Bid, with the In-house Team providing the Cleaning and Grounds Maintenance services.

Following the Preferred Bidder appointment, the Council and BAM PPP met on a regular basis through commercial, legal, financial and technical working groups to conclude the outstanding commercial issues and ensure that all relevant contract documentation was developed, agreed and put in place for the project.

1.3 The Preferred Bidder

The key parties within BAM PPP are as follows:

- BAM PPP Investments UK bv: the sole equity provider to the Project Company, West Dunbartonshire Schools Ltd. The equity bridge of £10 million to the Project Co will be fully underwritten by the HBG Group in the UK;

- BAM PPP UK Ltd, which will provide management services to the Project Co;
- HBG Construction Ltd: the design and build contractor;
- HBG (Facilities Management) Ltd: who will be responsible for the FM elements of the project.

The solvency and financial strength of the BAM group was assessed on the basis of HBG UK Limited as guaranteeing the performance of the construction and FM services and BAM PPP Limited as the equity provider. HBG UK Ltd reported a turnover rising from £770 million to £880 million in the 2005 and 2006 financial years, generating an operating profit of £23 million in 2005 and £26 million in 2006. Its net assets and shareholders' funds at the end of 2006 stood at just over £100 million. Overall, HBG UK's net assets are less than the total cost of the West Dunbartonshire schools project, but it has a profitable trading record, and overall is considered to be of sufficient scale and strength to successfully deliver the West Dunbartonshire Schools Project, although it should be noted that, while the group has a solid track record in UK PFI deals, the largest project on which it has been involved to date is only about half the size of the proposed WDC Schools PPP – being the Bromsgrove schools project with a total financial requirement of £65 million.

1.4 The PPP Technical Solution

The Council and its advisers examined a number of options over the period 2001-2005, and determined the scope of the project on the basis of need, cost-effectiveness, and community aspirations as expressed through an extensive consultation process.

The final scope of the project comprises:

1. **The Clydebank Non-denominational CLC**, incorporating a secondary school built for 1,500 pupils located on the existing Clydebank High School site. The Clydebank non-denominational CLC will incorporate sporting and social facilities, and be available for community use out of school hours. The facilities provided will include synthetic floodlit all-weather football and hockey pitches, a basketball court, a fitness suite, and flexible social space, incorporating theatre provision.
2. **The Clydebank Denominational CLC**. The Clydebank denominational CLC will incorporate a secondary school built for 1,500 pupils located on the existing St Columba's Secondary site, together with a co-located but physically separate St Eunan's Primary and Early Education and Childcare Centre. The CLC will also incorporate sporting and social facilities, and be available for community use out of school hours. The facilities provided will include a floodlit synthetic running track, synthetic floodlit all-weather football and hockey pitches, a fitness suite, a dance studio, and flexible social space with theatre provision.
3. **The Vale of Leven Academy non denominational CLC**, incorporating a secondary school built for 1,100 pupils located on the existing Vale of Leven Academy site. The existing Language and Communication Base facility in the current Vale of Leven Academy will be relocated to custom

built facilities within the new CLC. Among the sporting and social facilities, capable of out of school hours community use, will be synthetic, floodlit, all-weather football and hockey pitches, a fitness suite and flexible social space incorporating theatre provision.

It will be noted that each CLC has been separately designed, giving each its own unique architectural character, rather than being built to a single standard design.

The Outline Business Case also envisaged that the project would include a non-denominational CLC for Dumbarton. However, the planning application submitted by the Preferred Bidder was rejected by the Council's Planning Committee in October 2007, and it was accordingly withdrawn from the project by decision of Council on 28th November 2007.

1.5 Conventional Procurement Assessment Model (CPAM)

The Council has assessed the costs of directly procuring the project by developing a Conventional Procurement Assessment Model ("CPAM"). The CPAM was originally developed for the Outline Business Case in 2004, since when it has been maintained to act as a key benchmark of the Value for Money offered by the PPP procurement. The CPAM has been adjusted to take account of:

- The exclusion of cleaning and grounds maintenance from the PPP Project Agreement, following the Council's decision to retain the in-house bidder to deliver these services; and
- The exclusion of the Dumbarton Academy and Primary schools from the project, following the rejection of the planning application submitted by BAM for the proposed new Dumbarton Community Learning Centre in October 2007.

The Net Present Cost of direct Council procurement, as modelled through the CPAM, is estimated as £151 million.

1.6 Value for Money Analysis

The costs of direct procurement have been compared with the costs to the Council of paying the unitary service charge to the BAM PPP Project Company over the lifetime of the project, to assess the comparative value for money of the two options. The results are as follows:

NPV Of Risk Adjusted CPAM	£153.3m
NPV Of Unitary Charge	£135.3
VfM Margin	£18.0

The comparison detailed above highlights that the PPP procurement option demonstrates better value than the alternative of direct procurement, with a VfM margin equating to 11.7% of the NPV of the risk-adjusted CPAM, reflecting:

- the strong competition for the project at bid stage;

- the fact that the pace of programme implementation is somewhat faster than assumed in the CPAM model – which is to the Council's benefit;
- the margins secured by the Preferred Bidder for its funding are keen; and
- the funding structure underpinning the bid model is highly leveraged, resulting in cheaper finance overall, as senior debt carries a lower interest premium than sub-debt and equity.

1.7 Affordability Analysis

The latest financial model, incorporating a senior debt interest rate of 4.89% as per the current approximate average market rate, indicates a Unitary Charge of £10.4 million in the first full year of operation of 2012/13, excluding utilities – which are a pass-through cost estimated to add £0.45 million to the costs, and cleaning and grounds maintenance, delivered by the in-house provider at a cost of just under £0.9 million. The Council has an agreed an achievable funding strategy in place to meet the Unitary Charge over the life of the contract. A summary of the key figures in relation to the Project's affordability at 10-year milestone points is provided in the Table below.

	Project year	1	10	20	30
Year	NPV, £m	2009/10	2018/19	2028/29	2038/39
Unitary Charge	135.9	6,505	11,225	12,710	14,391
Payment to DSO	12.7	524	1,010	1,293	1,655
Utilities	6.6	273	527	675	864
<i>Total Payments</i>	<i>155.2</i>	<i>7,302</i>	<i>12,762</i>	<i>14,678</i>	<i>16,910</i>
RSG	84.9	4,660	7,191	7,191	7,191
Operational / Property Cost Savings	61.8	2,555	4,924	6,304	8,069
Sinking Fund Contribution	8.5	87	647	1,183	1,650
<i>Total Funding</i>	<i>155.2</i>	<i>7,302</i>	<i>12,762</i>	<i>14,678</i>	<i>16,910</i>
Sum to be Met from Revenue Budget	<i>NIL</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>

1.8 Accounting Treatment

The Council's assessment of the accounting treatment for the Project is that the proposed transaction is off-balance sheet i.e. the new schools will not be assets of the Council. This view is supported by the Council's Auditors.

1.9 The Project Agreement

The Council and Preferred Bidder have negotiated the terms of the Project Agreement. The draft Project Agreement issued as part of the Invitation to Negotiate documentation was based on the Scottish Schools Standard Contract version 3, as amended by the Council (with Scottish Government approval), to take account of project specific issues. All issues outstanding at the Preferred

Bidder appointment have been resolved, drafting amendments have been incorporated and the parties have reached agreement.

1.10 Project Management Arrangements

Through the bidding and Preferred Bidder negotiation stages of the Project both the Council and the Preferred Bidder have provided robust management structures, levels of resources and interrelationships to successfully deliver the Project to Commercial and Financial Close.

Project management arrangements have now been developed by both parties in order to ensure the Project is delivered to the specified requirements for both the construction and thereafter the operational phases of the Project. From a Council perspective this includes the involvement of appropriate stakeholders to ensure the processes used to date are maintained throughout the life of the project

1.11 Conclusion

The Council has now advanced the Project to the FBC stage and considers that it is ready in terms of the technical, financial and legal positions achieved to execute the contract with the Preferred Bidder.

Accordingly the Scottish Government's approval is sought for this FBC, together with formal confirmation and final approval of the Revenue Support of £7.15 million per annum over 30 years, in order for the Council to secure the Project's delivery.

2 REVIEW OF BUSINESS CASE

2.1 Introduction

The Council identified the need for significant investment in its school estate in its Outline Business Case (OBC) developed for a school Public Private Partnership project submitted to the Scottish Executive in March 2004. The Scottish Executive subsequently provided the Council with an indicative award of funding, amounting to £7.15m per annum over 30 years, in June 2004.

The Council thereafter undertook significant work to refine and confirm the scope of the proposed project and submitted a Revised Outline Business Case (ROBC) to the Scottish Executive providing a comprehensive update on the key elements in September 2005. The Scottish Executive subsequently provided the Council with a conditional award of funding, re-affirming their previously indicated funding commitment, on December 12th 2005.

This Final Business Case (FBC) now provides a comprehensive update on the final phase of the project's development including:

- ❖ a review of the business case,
- ❖ details of the procurement process,
- ❖ the Preferred Bidder's technical solution,
- ❖ the Conventional Procurement Assessment Model,
- ❖ value for money analysis,
- ❖ affordability analysis, and
- ❖ accounting treatment.

2.2 Strategic & Policy Context

West Dunbartonshire's schools conform to the national picture where years of central government under-funding have restricted the Council's ability to repair and maintain schools to the level they would wish. As a result, there is now an urgent need nationally for a significant investment in the schools' estate to renew the schools estate to a level acceptable for the 21st century.

In addition, the schools estate is currently characterised by excess capacity. The secondary school roll for West Dunbartonshire was 6,862 in 1996 and 6,503 in September 2003, when the physical capacity of the schools equated to 10,121 pupils. Therefore, at that time the average physical utilisation rate was 64.25%. The roll assumptions over the next twenty years show a continuing decline.

These twin issues of poor condition and structural over-capacity have been highlighted in recent regulatory reports. The report of Her Majesty's Inspectorate into the education functions of West Dunbartonshire Council was very positive regarding the quality of education provision. It did however highlight as the first of their main points of action that,

"Elected Members should take action as a matter of urgency to address overcapacity in schools and improve the quality of the building stock."

This situation presents the Council with a considerable challenge, but also a significant opportunity. The Council has declared its vision of "21st Century

Schools for 21st Century Education” and has articulated that vision as being best delivered in Community Learning Centres (CLCs) in which new schools would provide the hub of a range of services located on one site. This PPP project forms a central element of the strategy to deliver this policy.

2.3 Project Objectives

The project objectives are to:

- ❖ replace the two existing non-denominational Secondary Schools in Clydebank with a single New Build Community Learning Centre;
- ❖ replace the two existing denominational Secondary Schools in Clydebank with a single New Build Community Learning Centre, which also incorporates primary education provision replacing the existing St Eunan’s Primary school;
- ❖ replace the existing Vale of Leven Academy with a New Build Community Learning Centre.

2.4 Scoping of the Project

The Council and its advisers examined a number of options over the period 2001-2005, and determined the scope of the project on the basis of need, cost-effectiveness, and community aspirations as expressed through an extensive consultation process.

The final scope of the project comprises:

1. **The Clydebank Non-denominational CLC**, incorporating a secondary school built for 1,500 pupils located on the existing Clydebank High School site. The Clydebank non-denominational CLC will incorporate sporting and social facilities, and be available for community use out of school hours. The facilities provided will include synthetic floodlit all-weather football and hockey pitches, a basketball court, a fitness suite, and flexible social space, incorporating theatre provision.
2. **The Clydebank Denominational CLC**. The Clydebank denominational CLC will incorporate a secondary school built for 1,500 pupils located on the existing St Columba’s Secondary site, together with a co-located but physically separate St Eunan’s Primary and Early Education and Childcare Centre. The CLC will also incorporate sporting and social facilities, and be available for community use out of school hours. The facilities provided will include a floodlit synthetic running track, synthetic floodlit all-weather football and hockey pitches, a fitness suite, a dance studio, and flexible social space with theatre provision.
3. **The Vale of Leven Academy Non-denominational CLC**, incorporating a secondary school built for 1,100 pupils located on the existing Vale of Leven Academy site. The existing Language and Communication Base facility in the current Vale of Leven Academy will be relocated to custom built facilities within the new CLC. Among the sporting and social facilities, capable of out of school hours community use, will be synthetic, floodlit, all-weather football and hockey pitches, a fitness suite and flexible social space incorporating theatre provision.

The project scope envisages room sizes being set at target sizes which are greater than both the minimum compliance size identified by the Council and Scottish averages, producing a per pupil space allocation of approximately 11m² for secondary and 10.7m² for primary education.

The Outline Business Case also envisaged that the project would include a non-denominational CLC for Dumbarton, incorporating a secondary school built for 800 pupils located on the existing Dumbarton Academy site and a co-located but physically separate Primary and Early Education and Childcare Centre incorporating existing Primary schools which feed into the Academy. However, the planning application submitted by the Preferred Bidder was rejected by the Council's Planning Committee in October 2007, and it was accordingly withdrawn from the project by decision of Council on November 28th 2007.

3 PROJECT DEVELOPMENT

3.1 Background

The Council has made every effort to develop the Project consistent with industry best practice and in compliance with Scottish Government policy and direction.

The following is a summary of the main issues which have been addressed by the Council in tandem with the overall procurement process in order to arrive at a deliverable, robust and coherent project solution.

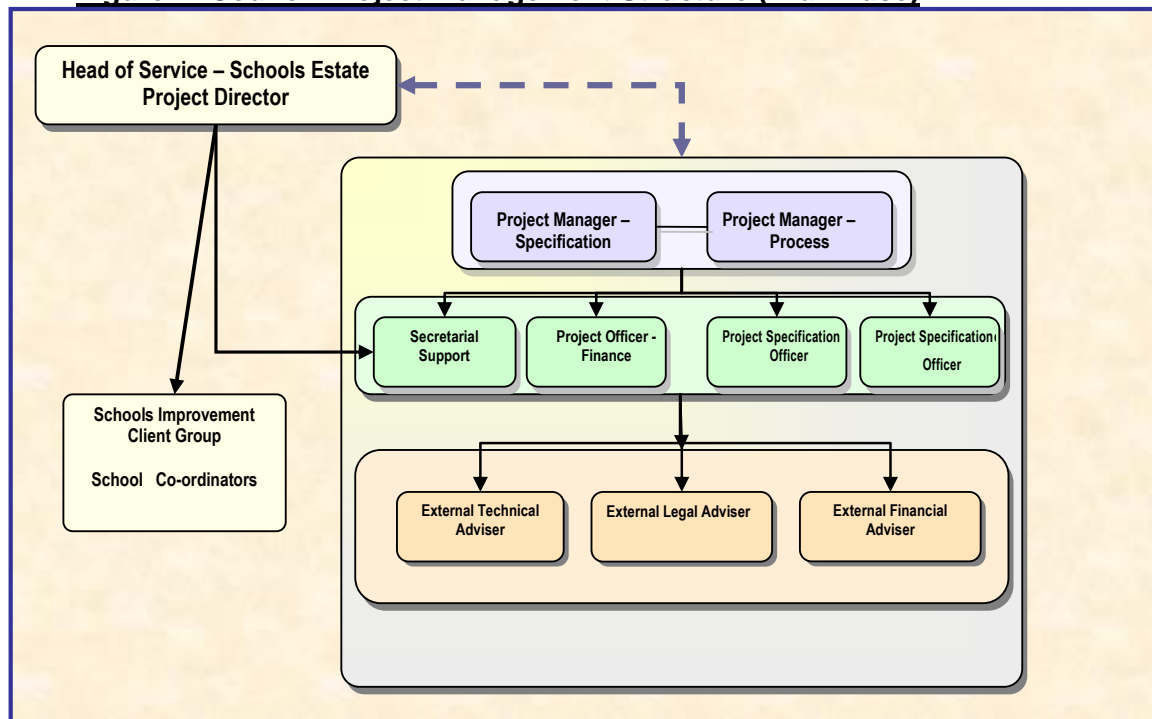
3.2 Project Management Arrangements

The Outline Business Case recognised that good project management would be essential to the success of the project.

Accordingly, the Council established a robust project resource base and project governance structure to allow the project to move forward. This included the appointment of a dedicated multi-disciplinary in-house project team supplemented with specialist external advisers, together with a hierarchical project steering group with clear lines of accountability.

Figure 1 below illustrates the bid phase project management structure implemented by the Council.

Figure 1: Council Project Management Structure (Bid Phase)



3.3 Project Management

The primary functional groups within the project management structure can be summarised as follows:

At Policy Level (not shown in Figure 1):

- *Full Council*, whose role is to provide necessary high level political approval to enable the project to move forward at key points (e.g. launch of OBC; posting of the OJEU notice; issuing of ITN; selection of preferred Bidder; removal of Dumbarton campus from project; proceeding to Financial Close).
- *Schools Procurement Committee*, whose role is to take decisions on alterations to the scope of the project where such decisions require to be taken outwith the normal timetable for Council meetings, This is a formal Committee of Council with delegated powers and membership of the group is confined to Elected Members, although officers provide advice and guidance to the Committee,
- The *Project Board*, whose role/remit is to oversee the project and provide guidance to the Project Team on a range of financial, legal, technical and educational matters. Membership of this group comprises four senior Elected Members, the Chief Executive, the Director of Educational Services, Head of Service (Schools Estate), the Acting Joint Director of Housing, Economic and Environmental Service, the Council's Head of Finance, and a representative of The Scottish Executive/Government.

At Executive Level (shown in Figure 1), the team responsible for day-to-day project delivery was led by *Project Director*, Terry Lanagan, Head of Service (Schools Estate) who reported regularly to the Project Board and Full Council. The *Project Team* reporting to the Project Director was led by the Joint PPP Project Managers with day-to-day responsibility for the technical, legal and contractual aspects of the project.

The project team had responsibility for the development, progress and procurement of the project within the parameters of affordability and value for money set by the Council in order to meet the project objectives. The project team also included the specialist external advisers appointed by the Council, all set out in Table 2 below.

Table 2: External Advisers

Organisation	Address	Contact Details
Financial Adviser: Caledonian Economics	1 St Colme Street Edinburgh EH3 6AA	Martin Finnigan 0131 220 8312
Technical Adviser: Turner & Townsend Project Management	33 Bothwell Street, Glasgow G2 6NL.	Evelyn McDowall 0141 221 0558
Legal Adviser: Shepherd + Wedderburn	155 St Vincent Street, Glasgow, G5 5NR.	Rhona Harper 0141 473 5266
Insurance Adviser:	1 Victoria Street,	Janice Oram,

3.4 Timetable

A comparison of the summary timetable established for the project at OBC stage measured against the current timetable position at FBC stage, as detailed in Table 3 below, highlights that in overall terms the Project has slipped by around 8 months.

The increased time arose partly as a result of the extensive consultation carried out by the Council prior to the publication of the OJEU Notice, and partly as a result of the requirement to introduce and conduct a BaFO stage.

Table 3: Milestone Timetable Comparison

Milestone	OBC Stage	FBC Stage
OJEU Contract Notice	December 2004	15 Dec 2005 to 9 February 2006
ITN Issue	April 2005	7 July 2006
ITN Return		26 October 2006
Preferred Bidder Appointment	October 2005	11 April 2007
Financial Close	June 2006	14 December 2007
Services Commencement (last school)	February 2008	18 October 2010

3.5 Educational Consultation

Throughout the development of the project, a very high emphasis has been placed on the importance of extensive and effective educational consultation with all relevant stakeholders. Examples of this consultation include:

- informal consultation with all school communities in 2004/05;
- extended period of statutory consultation with all school communities affected in spring 2005;
- consultation between parents, staff and pupils of all schools involved and the 3 short-listed bidders at ITN and BaFO stages;
- direct contact between Preferred Bidder and all school communities on a wide range of educational and design issues throughout PB stage;
- establishment and involvement of subject specialist group from schools involved to act as advisers to project on subject specific issues;
- consultation with local branch of Scottish Autistic Society to advise on design of Vale of Leven Academy Language and Communication Base;
- Extended consultation sessions with all interest groups (55 in all) in schools from primary 4 through to school boards and the Catholic Church;
- ongoing consultation with Head Teachers of all schools;
- ongoing consultation with Sportscotland on sports provision;

- PPP project has been a standing item on agenda for Education Directorate meetings throughout the project.

Responses by school communities/stakeholders have been overwhelmingly positive.

3.6 Land Acquisition

The sites identified as being the most suitable for inclusion within the Project were all within the ownership of the Council.

3.7 Existing School Estate

Each of the three sites are suitable for the delivery of new schools, namely Clydebank High School (HS) (new build Clydebank HS), St Columba's HS (new build St Peter the Apostle HS, St Eunan's PS and St Eunan's EECC) and Vale of Leven Academy (new build Vale of Leven Ac.)

3.8 Planning Consultation

Planning Approvals were agreed for all three campuses at the Council Planning Committee of August 8th 2007.

3.9 Facilities Management

The Council gave detailed consideration to the options available within the Project for the delivery of Facilities Management (FM) services. This was in the context of current operations and the requirements of the Protocol and Guidance Concerning Employment Issues for PPP projects.

After due consideration, it was agreed to retain Cleaning and Grounds Maintenance services in house. A separate report on this decision was approved by the Council and has been copied to The Scottish Government.

3.10 Decant Strategy

There is no plan for any temporary decant within the project.

3.11 Development of Council Requirements

The Council has spent considerable time and effort in developing and documenting its specific requirements for each of the project schools, both prior to the issue of the ITN and BaFO and subsequently, as part of the design development process post the Preferred Bidder appointment, so that the schools are delivered in a consistent and coherent manner in keeping with the Council's specific needs. The documentation produced is extensive and has provided the basis to embark upon and deliver a project that has well defined and established parameters.

Extensive informal consultation has also been undertaken on a regular basis throughout the procurement process, with all stakeholder groups, including primary and secondary school teachers, pupil councils, specialist educational advisers, trade union representatives and others as required, in order to ensure, as far as possible, that there is stakeholder ownership of the specified requirements included within the documentation.

The progression and implementation of this approach has provided the Council with the foundations for the project progressing through the procurement stage to Commercial and Financial Close, and the necessary groundwork to underpin the successful completion of the next phases of the Project.

4 THE PPP PROCUREMENT PROCESS

4.1 Pre-qualification of Bidders

Scottish Executive approval of the Revised Outline Business Case was issued to the Council on 12th December 2005.

Due to the value of the project, the Council was required to comply with The Public Services Contracts Regulations 1993, as amended. The 'Negotiated Procedure' was considered to be the most appropriate procurement procedure for a Public Private Partnership project.

The Council commenced the procurement process for the project and notice to the Official Journal of the European Union ref: 2005/S 243-240208 published on 17th December 2005.

Expressions of interest were obtained from five prospective organisations and, following evaluation of the pre-qualification and selection questionnaires and interviews with the five consortia expressing interest, the Authority selected the following three bidders to provide detailed proposals:

- ❖ West Dunbartonshire School Partnership – WDSP (a consortium led by Amey and UK Carillion);
- ❖ BAM PPP - the UK arm of the Royal Dutch BAM Group; and
- ❖ Transform Schools (Balfour Beatty).

West Dunbartonshire benefited from strong interest from several of the major UK PPP consortia, and this fed through to competitive pricing at ITN and particularly at BAFO stage.

4.2 Invitation to Negotiate (ITN) Period

Prior to issuing the Invitation to Negotiate (ITN) documents to the shortlisted bidders, the Council was required to submit its Pre-ITN Key Stage Review document to the Scottish Executive for approval. This approval was duly received and the ITN documents were thereafter issued to the shortlisted bidders on 7th July 2006.

In recognition of the Council's position, Soft Services (Cleaning and Grounds Maintenance) were the subject of Mandatory Variant (MV) bids, under which bidders were asked to price their bids on the basis that these services might be excluded from the main PPP contract. The Council's In-house Providers were also invited to submit a tender for providing these services against an In-House ITN document issued to them.

The ITN documentation encouraged bidders to enter into active and open dialogue with the Council during the bid period to ensure, as far as practicable, that bidders were encouraged towards developing proposals that fully reflected the Council's requirements as set out in the ITN documents.

Several 'clarification meetings' were held with each of the bidders throughout the bid period to discuss financial, legal and technical issues and, although this

was found to be a useful process, each of the bidders adopted differing approaches depending on their own commercial priorities and tactical approach to their bid submissions.

Bidders were required to discuss their proposals with the In-house Team in order to permit full and accurate costing and a level playing field between the external tenders for cleaning and grounds maintenance, and the in-house bid.

Bidders were also encouraged to meet with representatives of the Council's regulatory services (planning, roads etc.) in order to discuss and obtain guidance in relation to the acceptability of their proposals in terms of the relevant statutory requirements.

4.3 Bid Evaluation Methodology

Prior to the submission of bids, the Council developed its bid evaluation methodology to set out the manner by which each bid would be examined and the processes that would be followed in order to identify a Preferred Bidder.

The methodology was constructed on the basis that the Council would award the contract for the design, construction, finance and facilities management services on the basis of the most economically advantageous and compliant tender, all in accordance with the Public Services Contract Regulations 1993, as amended.

The methodology was circulated to all bidders in advance of bid submission and included the following five stages:-

- Stage 1: Completeness and Compliance Review
- Stage 2: Bid Evaluation
- Stage 3: Equalisation and Risk Adjustment of Bids
- Stage 4: Bid Ranking
- Stage 5: Preferred Bidder Selection

A copy of the bid evaluation report has been submitted to The Scottish Government.

4.4 Invitation to Negotiate (ITN) Submissions

Bid submissions from the three above organisations were lodged with the Council on 26th October 2006. In addition to the Standard bid, each bidder also submitted Mandatory Variants for the project excluding Cleaning (MV1), Grounds Maintenance (MV2) and both (MV3). In-house Team bids for the three Mandatory Variants were received in early 2007. The reason for the later submission of the In-House bid related to the fact that the In-House Bidder needed to be aware of the designs proposed by the Preferred Bidder in order to be in a position to price their own bid for cleaning and grounds maintenance.

The Council subsequently progressed with the detailed evaluation of the bids in accordance with the requirements set out in the bid evaluation methodology document.

A substantial number of clarification points were raised with each bidder in order to attain a clear understanding of their approach to meeting the Council's

requirements and to achieve a position where bids could be evaluated, as far as possible, on a 'like-for-like' basis.

Also as part of the initial evaluation process, various meetings were held with each bidder to discuss:

- ❖ financial issues;
- ❖ technical cost inputs;
- ❖ legal/commercial positions; and
- ❖ insurances

in order to maximise the benefits from the competitive process. These meetings provided an effective forum to reinforce the Council's requirements and gain a fuller understanding of each bidder's adopted position.

4.5 BAFO

Having evaluated the bids in full, the Council and its advisers considered that, whilst each bid had substantial strengths, each also had significant factors which needed to be addressed. It was also felt that at this point there was insufficient differentiation between the bids in terms of scoring to permit the Council to determine a preferred bidder. Having considered the options available to it, the Council considered that the most appropriate mechanism to reach preferred bidder was to issue instructions for the bidders to submit Best and Final Offer (BAFO) bids.

Each Bidder was provided with specific instructions to address the issues raised by their ITN bid and was also required to address issues common to all bids and a limited number of additional instructions.

BaFO bids were received on the 23rd February 2007.

4.6 Evaluation Findings

All three of the bids submitted were deemed to be complete and contractually compliant. All three were affordable and represented value for money against the alternative of direct Council procurement. Although the Value for Money (VfM) margin was not large in every case, it was clear that the Council benefited from a strong competition between established bidders each of whom had a credible track record in UK Schools PPP Projects.

Following the full BAFO evaluation applying the methodology set out above, the technical / educational scoring of the bids showed BAM PPP and WDSP to be effectively equal, with Transform Schools a little way behind. The legal assessment was that all bidders were at or close to market positions and that all could be expected to reach financial close, all matters considered. The evaluation methodology specifically states that in the event of such equality the Council must look for differences in price and establish any value and benefit to the Authority of adopting a more expensive solution.

On examination of the financial submissions, it was apparent that the bid by BAM PPP was significantly more financially beneficial (i.e. lower cost) to the Council, and accordingly their bid appeared to offer the best all round package.

The In-house Team bids for the Mandatory Variant Bids were similarly assessed, and were found to represent better value for the Council, when

assessed in conjunction with BAM PPP's Mandatory Variant Bids (MV1, MV2 and MV3).

The Council therefore agreed to progress to appoint BAM PPP as the Preferred Bidder on the basis of their MV3 Bid, with the In-house Team providing the Cleaning and Grounds Maintenance services. Prior to confirming this Preferred Bidder appointment, the Council was required to submit its Pre-Preferred Bidder Key Stage Review document to the Scottish Executive for approval. This approval was duly received and the Preferred Bidder appointment confirmed.

4.7 Preferred Bidder Negotiations

Following the Preferred Bidder appointment, the Council and BAM PPP met on a regular basis through commercial, legal, financial and technical working groups to conclude the outstanding commercial issues and ensure that all relevant contract documentation was developed, agreed and put in place for the project.

The duration of the Preferred Bidder negotiations was from April 2007 to December 2007, or a total of 9 months.

Assuming Scottish Government approval is now obtained for this FBC together with formal confirmation of Revenue Support for the Project, the Council will progress to Financial Close in December 2007.

The Mandatory Standstill period in terms of the Procurement Regulations has already been dealt with through the service of Alcatel letters on the two unsuccessful bidders on 7th September 2007. There would therefore appear to be no external legal impediment to the Council proceeding to Financial Close.

5 THE PREFERRED BIDDER AND KEY FUNDING TERMS

5.1 Description of the Preferred Bidder

After the ITN and subsequent BAFO submissions and evaluations BAM PPP was announced as the Preferred Bidder to the Project. The structure of the bid is as follows: BAM PPP Investments bv will provide the risk capital to the project with Dexia providing the senior debt. The sub-contracts will be kept within the BAM group using HBG Construction Limited as the design and build contractor and HBG (Facilities Management) Limited as the FM services provider.

The Preferred Bidder has created a special purpose service delivery vehicle (SPV) to undertake the project, West Dunbartonshire Schools Ltd. This company will be the signatory to the Project Agreement. Whilst the actual project company established is a bespoke SPV formed exclusively for the Project and will assume the lead interface role during all phases of the Project, HBG UK Ltd has liaised with the Council during the development of bid proposals and clarification during the evaluation period and thereafter into the management of the Preferred Bidder negotiations/Financial Close process.

In order to provide the appropriate level of service required for a project of this nature, BAM PPP have supplemented its own internal team of specialists with a team of advisers including KPMG (financial advisers) and McClure Naismith (legal advisers), providing extensive experience in the delivery of education facilities in the PPP sector.

5.2 Financial Strength of the Preferred Bidder

As part of the financial evaluation of the bids, a review of the financial standing of the key BAM Group companies was undertaken. This assessment has been updated, and is summarised in Appendix 8. It concludes that the preferred bidder has sufficient financial standing to complete the Project.

5.3 Price

The Council worked hard to make the Project as attractive as possible for the PPP market and this was reflected in the very strong competition among the shortlisted bidders for the Project. The level of competition has been reflected in the end cost to the Council which is well within market norms. The Council's value for money assessment also indicates that the Council has received a competitive price for the Project.

5.4 Project Funding Arrangements

The project funding arrangements are typical of recent and current PPP schools deals. The Project will be financed through a mix of senior debt, sub-ordinated debt and share equity as set out in Appendix 3.

6 THE PPP TECHNICAL SOLUTION

6.1 Introduction

The Preferred Bidder has developed very detailed proposals for the Council which comprehensively address the specified requirements for this significant investment in primary and secondary school educational services in the area.

This section of the FBC has been prepared to provide a review of the key areas of the proposals that will assist the Council in the delivery of the Project objectives.

6.2 Technical Solution - Planning, Architectural and Design

In this section, the technical and design solution proposed for each of the schools in the Project is set out.

(i) Vale of Leven Academy

An artist's impression of the physical appearance of the new Vale of Leven Academy, seen from the air, is set out below.



Model of Vale of Leven Academy

An idea of the interior layout can be gleaned from an artist's impression of the dining area, set out below. The overall concept is to create a clean, open, light space for dining and recreation.



Artist's impression of Dining Area

The Project requires the construction of a complete new build non denominational secondary school on the site of the existing school playing fields, accessed from Place of Bonhill, Alexandria. The new main access to the facilities will be from Main Street, Alexandria. The school will provide accommodation for 1,100 pupils. In addition the school includes a Languages & Communications Base which will provide for pupils on the autistic scale.

Externally the school will have two grass pitches, one all weather floodlit football pitch and one all weather floodlit hockey pitch.

The new school building is designed as an inclusive learning environment offering high quality specialist education and care which values the contributions of all its young people. The building design embodies all of the necessary values of a secondary school in terms of security, scale and community orientation together with an inclusive ethos.

The building plan is formed from three x three storey wings, the ground floor leading off from a communal use street design concept which encompasses general circulation together with Assembly and Dining facilities. The distinct main school entrance is set within the context of the front “concave” elevation which assists in the welcoming ethos of the school environment.

The location of the Languages & Communication Base was of strategic importance to highlight the inclusion of the unit within the educational environment. Its location also allowed relevant rooms within the unit to achieve natural north day lighting, together with its own dedicated outside garden/recreation area.

(ii) Clydebank High School

An artist’s impression of the physical appearance of the new Clydebank High School, seen from the air, is set out below. It is followed by an artist’s impression of the dining area.



Artist's Impression of Clydebank High School



Artist's impression of Dining Area

The Project requires the construction of a complete new build non denominational secondary school on the site of the existing school playing fields, accessed from Shelley Drive, Clydebank. The new main access to the facilities will be from Janetta Street, Clydebank. The school will provide accommodation for 1,500 pupils. Externally the school will have one grass football pitch, one all weather floodlit football pitch, one all weather floodlit hockey pitch and an external tar macadam surface basketball pitch.

The new school building is designed as an inclusive learning environment offering high quality specialist education and care which values the contributions of all its young people. The building design embodies all of the necessary values of a secondary school in terms of security, scale and community orientation together with an inclusive ethos.

The building plan is formed from three x three storey wings, the ground floor leading off from a communal use street design concept which encompasses general circulation together with Assembly, and Dining facilities.

A main feature of the school is the “drum” seen in the artist’s impression of the school layout, where accommodation is provided on the ground floor for the School Office, Head and Depute Head, Conference and waiting areas with Pastoral care and Art on the upper floors.

(iii) St Peter the Apostle High School

An artist’s impression of the physical appearance of the new Clydebank Denominational High School – to be called the St Peter the Apostle High School – seen from the air, is set out below. It is followed by an artist’s impression of the Oratory and Main Entrance.

The St Peter’s Campus also incorporates St Eunan’s Primary and Early Education and Childcare Centre.

It will be noted that each CLC has been separately designed, giving each its own unique architectural character, rather than being built to a single standard design.



Model of St Peter the Apostle High School and St Eunan's Primary and Early Education Childcare Centre.



Artist's impression of Oratory and Main Entrance

The St Peter's Project requires the construction of a complete new build denominational secondary school on the site of the existing school playing fields, accessed from Gilmour Street, Clydebank. The new main access to the facilities will be from Kirkoswald Drive, Clydebank. The school will provide accommodation for 1,500 pupils.

Externally the school will have one grass football pitch surrounded by an all weather six lane floodlit athletics running track, one all weather floodlit football pitch and one all weather floodlit hockey pitch.

The new school building is designed as an inclusive learning environment offering high quality specialist education and care which values the contributions of all its young people. The building design embodies all of the necessary values of a secondary school in terms of security, scale and community orientation together with an inclusive ethos.

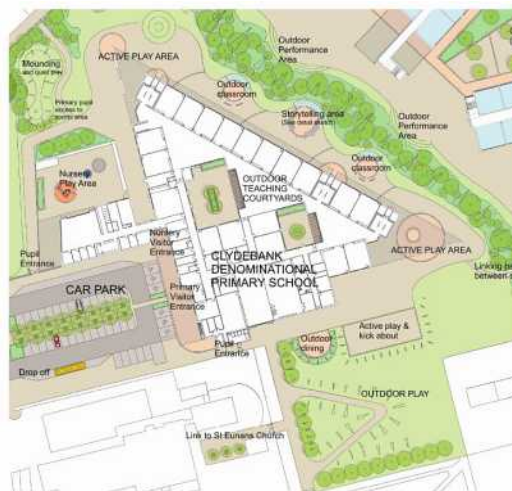
The building plan is formed from distinct three x three storey wings, the ground floor leading off from a communal use street design concept which

encompasses general circulation together with Assembly, and Dining facilities.

A main feature of the school is the highly visual “suspended” oratory in the centre of the school. Another main feature of the school is the “drum” – seen at the end of the main block in the artist’s impression – where accommodation is provided on the ground floor for the School Office, Head and Depute Head, Conference and waiting areas with Pastoral Care on the upper floor.

These features assist in the welcoming and overall ethos of the school environment

(iv) St Eunan’s Primary School and Early Education Childcare Centre (on the St Peter the Apostle HS Campus)



Plan and artist's impression of breakout area

The Project requires the construction of a complete new build primary school on the site of the existing school accommodation. The primary school will be accessed from Kirkoswald Drive whilst the EECC will be accessed from Gilmour Street, Clydebank. The new facilities will provide accommodation for a 1½ stream primary school supporting a pupil role of 383 with an adjacent 50 FTE nursery provision.

The new school building is designed as an inclusive learning environment offering high quality specialist education and care which values the contributions of all its young people. The triangular building design with its break out spaces, whilst being highly contemporary, embodies all of the traditional values of a primary school in terms of security, scale, family and community orientation together with an inclusive ethos.

The building plan is formed from a triangular shape, comprising the four functional groupings of nursery, P1-3 teaching areas; Dining/Games Hall; and P4-5/P6-7 teaching areas. The fifth grouping, comprising school office and ancillary areas, assists to integrate the individual areas into one single learning environment. The location of the external breakout within the school triangle is of strategic importance to highlight the health & safety and security aspect within the educational environment. The shape also maximises use of

natural day lighting through the innovative implementation of rooflights and open internal yard design.

(v) Innovative Design Features



Toilets: (first picture): In order to tackle the issue of vandalism and bullying the secondary schools will have “open” toilet areas, which will allow adequate supervision by school staff. In consultation this design proved to be extremely popular with staff, parents and pupils.

Dining/Assembly: (second picture): Flexibility of space has been provided, with the exception of Clydebank High School, through the adjacent location of Assembly Halls and Dining Areas. These areas are divided by folding partitions.

Assembly Halls: A feature of the Assembly Halls is the Bleacher’s Seating that will provide for 50% of the required seating to the area. The remainder of the accommodation will be provided for through use of storable chairs.

(vi) Sustainable Design

The schools will have sustainability central to their design. The following are examples:-

- a. Geothermal ground source heat pumped to secondary schools to provide ground floor underfloor heating. The primary school will be entirely heated using the same process.
- b. Grey water systems
- c. Solar wind catchers
- d. Solar glazing
- e. Natural ventilation strategy

6.3 Technical Solution - Construction and Project Management

BAM has provided a comprehensive set of design and construction proposals for the project schools which fully addresses the Council’s Facilities Requirements for improvements in its school estate through PPP procurement.

The SPV is a single-branded organisation, under the name of “BAM PPP”. Design and construction is by HBG Construction Ltd while Facilities Management will be the responsibility of HBG FM. Each will undertake to carry out its own obligations with respect to project design, construction and service requirements.

The schools delivery and completion programme is summarised in Table 4 below.

Table 4: School Delivery Programme

Project Facility	Target Service Availability Date
Vale of Leven Academy	05/07/2009
Clydebank High School	01/07/2009
St Peter the Apostle High School	03/07/2009
St Eunan's Primary School	18/10/2010

6.4 Technical Solution - Facilities Management and Human Resources

Facilities Management services will be delivered at all the project schools, encompassing janitorial / security, maintenance, life cycle replacement, energy management, pest control, disaster management, help desk. The details are shown in Table 5 below.

The cleaning and grounds maintenance services will be delivered by the Council's in-house team. Interface arrangements have been put in place to deliver a seamless service to the schools.

The Catering Service has been excluded from the Project and will be delivered by the Council's in-house team. An interface schedule has been developed to identify the interaction between the Contractor and the Council to support the catering service delivery.

The Council's janitorial staff will be subject to a TUPE transfer to the Contractor.

Table 5: Facilities Management Services

Service	Summary Requirements
Helpdesk	BAM will provide a Helpdesk facility, being a single point of contact for all requests and problem notifications from all school sites.
Disaster Management/ Civil Emergency Planning	In conjunction with the Council, the Council will produce site specific Disaster Management plans for all school sites. The Council will be tasked with updating and maintaining these plans to reflect changes in legislation, Council policy or use of facilities.
Fire Safety	In conjunction with BAM, the Council will produce site specific fire plans for all school sites. The Council will be tasked with updating and maintaining these plans to reflect changes in legislation, Council policy or use of facilities. BAM will maintain fire fighting equipment, sprinkler installations and assist in the review of Fire Assessment and Evacuation plans.
Routine Cleaning	The Council's Cleaning Services team shall provide a comprehensive cleaning and hygiene regime to comply with the Availability and Performance criteria.
Specialist Cleaning	BAM shall provide specialised cleaning services to areas such as Windows, Extraction Canopies, Grease Traps, Gullies, etc.
Waste Management	The Council shall be responsible for the disposal of all waste generated on site including catering waste.

Service	Summary Requirements
Security	BAM shall maintain building services security systems to allow Janitors to fulfil their responsibilities relating to site supervision.
Pest Control	BAM shall employ a specialist third party subcontractor for all aspects of pest control.
Building and Asset Maintenance	BAM shall be responsible for all reactive and programmed maintenance.
Grounds Maintenance	The Council's Grounds Maintenance team shall provide landscape services to all hard and soft landscaped areas, with the exception of all weather sports surfaces which will be maintained by BAM. Each will comply with the output specification relating to adverse winter weather.
Energy and Utilities Management	BAM shall be responsible for securing the physical supply of energy and utilities to all the school sites, as well as monitoring and reporting on energy and utility usage to the Council and providing general advice about good housekeeping practices, energy efficiency protocols and improvements to the service.

6.5 Key Commercial Project Issues

The key commercial project issues are being addressed through the derogation process. A list of derogations will be provided to the Scottish Government separately.

7 CONVENTIONAL PROCUREMENT ASSESSMENT

7.1 Derivation of The Conventional Procurement Assessment Model

This section outlines the key assumptions made in developing the Conventional Procurement Assessment Model ("CPAM"). The Council has followed current Scottish Government Guidance in relation to the CPAM and considers that the outcome from the model is robust. The CPAM was originally developed for the Outline Business Case in 2004, since when it has been maintained to act as a key benchmark of the Value for Money offered by the PPP procurement. In particular, it was updated immediately prior to receipt of ITN submissions in October 2006, to confirm that the Net Present Cost (NPC) of the forecast PPP service charges would be lower than the NPC of direct procurement of the schools included in the project, on a risk-adjusted basis. Since then, the CPAM has been adjusted to take account of:

- ❖ The exclusion of cleaning and grounds maintenance from the PPP Project Agreement, following the Council's decision to retain the in-house bidder to deliver these services;
- ❖ The exclusion of the Dumbarton Academy and Primary schools from the project, following the rejection of the planning application submitted by BAM for the proposed new Dumbarton Community Learning Centre in October 2007.

The full CPAM as at November 2007 is included as Appendix 1 to this Business Case.

7.2 Key Modelling Assumptions

A number of key assumptions have been made in constructing the CPAM and comparing this with the Preferred Bidder's costs on an equivalent basis. These assumptions were agreed at OBC, refined at ROBC, and finally updated in October 2006 prior to receipt of the ITN submissions from the three bidders. They are therefore genuinely independent of the bids received, and so represent a valid benchmark of the bids received, and in particular the Preferred Bid. The CPAM analysis assumes: -

- A construction programme commencing in January 2008 and extending over 3.5 years thereafter;
- an annual discount factor of 3.5% real, 6.089% nominal;
- an annual allowance of 2.5% has been assumed for inflation over the life of the contract;
- the Council's best estimates of all relevant costs have been made based on experience on other projects and market intelligence from the Council's technical advisers;
- the phased completion of the schools covered by the Project;
- that all of the schools covered by the Project will have a residual value of nil;
- that all operating costs for the management and supervision of the services which will be covered through the PPP deal are included in the CPAM calculation.

A summary of relevant assumptions is provided in Table 6 below with the position at Revised Outline Business Case shown for comparison.

Table 6: Key Assumptions in Calculating the CPAM

Key Assumptions	Revised OBC	FBC
Construction start date	Jan 2007	Jan 2008
Project Operational Term	2008/2009 – 2037/38	2009/10-2039/40
Construction period	3.5 years	3.5 years
Inflation rate	2.5%	2.5%
Discount Rate (real)	3.5%	3.5%
Discount Rate (nominal)	6.09%	6.09%
Price base – Revenue Costs	August 2005	March 2006 *
Price base – Capital Costs	August 2005	March 2006 *
Initial Capital Cost (risk adjusted)	£126m	£111m **
Annual Average Life Cycle Costs (risk adjusted)	£1.7m	£1.47m **
Annual Average Facilities Management Costs (risk adjusted)	£4.0m	£2.2m **
Other Annual Operating Costs	£0.5m	£0.5m

* Escalated to outturn costs applying the BCIS indices to capital and Life Cycle Maintenance costs, and an inflation assumption of 2.5% p.a. to revenue (FM) costs

** In outturn prices, risk adjusted. Revised OBC costs include Dumbarton, FBC costs exclude Dumbarton. For FM, the Revised OBC costs also include provision for cleaning and grounds maintenance. ROBC figures from "Appendix IV - Option 2 September 14th 2005.xls" FBC figures from "Appendix 1 – CPAM 301107.xls"

The changes from ROBC stage reflect the refinement of the project details and assumed costs under a conventional procurement approach. The most significant changes relate to the exclusion of Dumbarton Academy and Primary Schools from the overall scope of the project, and the exclusion of cleaning and grounds maintenance from the scope of services of the remaining schools. The technical cost base – in terms of the estimated capital cost per square metre, and the FM and life cycle maintenance costs – are consistent between the two models, although one year's escalation has been built in to the assumptions given above, to reflect the one year slippage in the construction start date from January 2007 in the ROBC to January 2008 in this FBC.

7.3 Main CPAM Cost Inputs

The CPAM cost estimate assumes that the assets being created through the Project are created through conventional means as part of the Council's capital programme and that the Council would therefore retain significant managerial responsibility and exposure to risk. Table 7 below summarises the main cost inputs to the CPAM in current prices.

Table 7: Main Cost Inputs to the CPAM

Cost Input	Estimated Total Cost – Risk Adjusted	Plus Optimism Bias	Estimated Outturn Cost
Capital Construction Costs	£111.0m	£7.0m	£118.0m
Lifecycle Maintenance Costs	£44.2m	£2.3m	£46.5m
Facilities Management Costs	£67.9m	-	£68.0m
Other Operating Costs	£18.6m	-	£18.6m
TOTAL	£241.8m	£9.3	£251.1m

FBC figures from "Appendix 1 – CPAM 301107.xls"

A detailed comparison has been undertaken of the construction, lifecycle and FM costs of the CPAM and the Preferred Bidder's financial model. This comparison confirms the view of the Council and its advisers that the inputs included within the CPAM are reasonable and indeed could be argued to be on the cautious side. This being the case the Council believes that its value for money assessment on the Project is robust.

7.4 Risk and Optimism Bias Analysis

The Council team undertook a detailed analysis of the risk and Optimism Bias factors that would apply to the Schools Partnership, in accordance with the Treasury Green Book *Appraisal and Evaluation in Central Government* and in particular the Supplementary Guidance contained therein on Optimism Bias.

The analysis determined that the proposed schools development is a Standard Buildings project for the purposes of appraising Optimism Bias (OB). In common with other schools projects, the design and construction of the West Dunbartonshire Schools project is unlikely to involve buildings that are unique or involve an exceptionally high degree of complexity and/or difficulty. Key factors in the OB assessment included the following:

1. **Project complexity.** If the WDC schools procurement were to be implemented under a direct Council contract, the Council would need to use the Major Contract Form, and be procuring a project of a far greater scale than any it has implemented to date.
2. **Contractor Capabilities.** Under traditional procurement, at the time of tender Council would need to be satisfied that the contractors had the required resources, as the Council would have followed the advertised procedures. Under both traditional and PPP procurement routes, the Council would use the Prequalification process to ensure that the tender list comprised experienced contractors with a track record of delivery success at this scale of procurement.
3. **Disputes & Claims.** The likelihood of disputes and claims under a direct procurement, although this possibility has been partly mitigated by the consultation process to agree the output specification and scope of services.
4. **Inadequacy of Business Case.** The Council has only developed a business case for a PPP option. It has not prepared a business case for

a Council-procured project, financed within the Prudential Borrowing regime.

5. **Funding Availability.** The uncertainties associated with funding availability have been partially mitigated under the PPP alternative, as the Council has secured approval for £7.15m p.a. from the Executive to augment its own resources. For a direct procurement, there would be wider uncertainties with respect to funding availability, which could lead to significant delays and cost escalation.
6. **Economic factors.** The Council has no control over external economic factors, such as interest and inflation rates, or the extent of construction-specific escalation.

At ITN stage, Optimism Bias of 9.02% were added to the Capital costs of the project to reflect Optimism Bias on costs, and 1.24% to reflect the effect of Optimism Bias on the duration. The capital costs used in the CPAM in this Final Business Case have been adjusted to reflect increased certainty in some of the provisional costs which were included in the cost estimates at ITN stage. Accordingly, the amount Optimism Bias has been reduced to 5.28% on cost and 1% on duration. The Optimism Bias factors which have been reduced are:

- “Disputes and Claims”: previously 40% mitigated, now 80% mitigated (duration and cost);
- “Adequacy of Business Case”: previously 90% mitigated, now 100% mitigated;
- “Project Intelligence” previously 80% mitigated, now 90% mitigated;
- “Site Characteristics” previously 60% mitigated, now 80% mitigated.

It should be borne in mind that, while the PPP procurement has been progressed to Financial Close, no similar development of a Conventional Procurement has occurred since submission of the Revised Outline Business Case. Therefore, were the PPP procurement option to be discontinued, the reality is that it would not be possible to progress a conventional procurement to commence in January 2008, leading to a significant delay in the date at which new schools would become available – and hence a loss of benefits – as well as cost escalation.

In addition to the OB factor, the Council also assessed the likely risk contingency that should be added to CPAM cost estimates, and concluded that:

- the total risk percentage on annual facilities management and LCM costs is 16.75%; and
- the total risk percentage on capital expenditure (capex) is 11.94%.

The most significant elements of risk that could be transferred to a PPP partner are:

- During installation and commissioning phase, the risk of increases in materials costs during procurement, and the risk of sub-contractor default;

- During operational phase, the risk of incurring increased costs to comply with contractually specified quality standards, and the risk of increases in the costs of labour or materials to deliver FM services.

The risk adjustment factors were estimated at the time the ITN was issued. As the CPAM costs are reflective of the project at that time, and the risk factors were estimated on the basis of a typical risk transfer profile under the Scottish Standard Schools Contract, the risk adjustment factors remain valid for the purposes of this Final Business Case.

7.5 Overall CPAM Output

Based on the cost inputs described above and adjusting for risk and optimism bias in line with the Council's assessment of these issues the overall CPAM output is as set out in Table 8 below:

Table 8: Overall CPAM Output

	ROBC	FBC	Movement
NPV of non-risk adjusted CPAM / PSC	£168.8m	£129.9m	-£38.9m
NPV of risk adjusted CPAM / PSC	£199.9m	£153.3m	-£46.6m

ROBC figures from "Appendix IV - Option 2 September 14th 2005.xls"

FBC figures from "Appendix 1 – CPAM 301107.xls"

The main reason for the movement in the NPV of the CPAM / PSC from that presented at ROBC stage is the exclusion of the Dumbarton Academy and the exclusion of cleaning services and grounds maintenance and utility costs.

8 VALUE FOR MONEY ANALYSIS

8.1 Methodology

It is important that the Council be satisfied that any proposed project represents value for money. A specific requirement in relation to proposed projects is that their value for money be tested through the construction of a Conventional Procurement Assessment Model (CPAM) in line with Scottish Government Guidance. The CPAM calculation process provides a means by which the cost of procuring the project through traditional means and the cost of procuring the same project via a PPP arrangement are compared. Projects should be procured on whatever basis represents the best value for money. The value for money test in PPP projects requires the PPP and traditional procurement options to be adjusted for risk, optimism bias and the differential impact of tax and to be stated in Net Present Value (NPV) terms.

The approach adopted and results arising from the Council's CPAM analysis are shown in Section 7 above. The following sections outline the comparative position in relation to the Preferred Bid and how this compares with the CPAM.

8.2 Value for Money – Preferred Bid

The cost of the Preferred Bid has been stated on a Net Present Cost basis and allows for the same project scope and service provision as assumed in the CPAM. Within this section of the FBC, we summarise the Value for Money position of the Project at appointment of Preferred Bidder and how this has subsequently changed through the Preferred Bidder negotiation period to the final position now presented. Table 9 below notes the key assumptions included within the financial model both then and now:

Table 9: Key Assumptions in Preferred Bidder's Financial Model

Key Assumptions	At PB Appointment	As at November 2007
LIBOR swap rate	4.75%	4.89%
Project Operational Term	30 Years	30 Years
Construction period	2.5 Years	2.5 Years
Inflation rate	2.5%	2.5%
Discount Rate (real)	3.5%	3.5%
Discount Rate (nominal)	6.09%	6.09%
Price base – Revenue Costs	Dec 2007	Dec 2007
Price base – Capital Costs	Dec 2007	Dec 2007
Proportion Unitary Charge Indexation Rate (at RPIx)	70%	50%
Financial Close Date	Dec 31 st 2007*	Dec 14 th 2007
First Schools Services Commencement	April 2009	June 2009
Final Schools Services Commencement	October 2010	October 2010

*In the BAFO submission, BAM submitted two financial models – one assuming financial close by end-September 2007, and the other assuming financial close by end-December 2007. The Table above is based on the December model.

The above reflects the final position on the Project.

8.3 PPP Cost Elements and Service Charge

The following sections consider each of the main cost inputs to the CPAM and Preferred Bidder's financial model which have informed the Council's overall value for money assessment.

8.4 Capital Costs

Table 10 below outlines the assumptions which have been made regarding capital construction costs.

Table 10: Capital Construction Costs

	CPAM Estimates			Bid Estimates		
	Capital Cost £'000	Area m ²	Cost per m ²	Capital Cost £'000	Area m ²	Cost per m ²
Capital Costs	99,193 <small>(outurn, non risk adjusted)</small>	45,719	£2,429	96,323	49,134	£1,960
Capital costs incl. set up costs				102,737	49,134	£2,091
Capital costs incl. risk and OB	118,010 <small>(outurn, risk adjusted)</small>	45,719	£2,581			

CPAM figures from "Appendix 1 - CPAM 301107.xls"

Bid estimates from "BAM WD.PostBaFO.Bank.007.00.xls"

8.5 Lifecycle Costs

Table 11 below summarises the lifecycle costs which have been included within the Preferred Bidder's model and the CPAM.

Table 11: Lifecycle Costs

	CPAM Estimates			Bid Estimates		
	Total Lifecycle Cost £'000	Area m ²	Average Cost per year over 30 years per m ²	Total Lifecycle cost £'000	Area m ²	Average Cost per year over 30 years per m ²
Lifecycle Costs	37,846	45,719	£27.59	34,473 nominal	49,134	£23.38
Lifecycle costs inc risk and OB	46,518	45,719	£33.92	n/a		

* In outturn prices, assuming inflation at 2.5% per annum

CPAM figures from "Appendix 1 - CPAM 301107.xls"

Bid estimates from "BAM WD.PostBaFO.Bank.007.00.xls"

8.6 Facilities Management Costs

Table 12 below summarises the facilities management costs included within the Preferred Bidder's model and the CPAM.

Table 12: Facilities Management Costs

	CPAM Estimates			Bid Estimates		
	Total FM Cost £'000	Area m ²	Average Cost per year over 30 years per m ²	Total FM cost £'000	Area m ²	Average Cost per year over 30 years per m ²
FM Costs Checked mf 301107	58,218	45,719	£42.45	85,460	49,134	£57.97
FM costs inc risk	67,969	45,719	£49.56	n/a	n/a	n/a

* In outturn prices, assuming inflation at 2.5% per annum

CPAM figures from "Appendix 1 - CPAM 301107.xls"

Bid estimates from "BAM WD.PostBaFO.Bank.007.00.xls"

It will be noted that the Preferred Bidder's FM cost is significantly greater than that of the CPAM. One of the reasons that the Council's in-house team was awarded the cleaning and grounds maintenance contract was that BAM's cost estimates with respect to these elements was high – relative to both the in-house team and the other two bidders. Nevertheless, overall the BAM bid represents good value for money and was more cost-effective than the two competing bids for the following reasons:

- ❖ BAM's design provides more spacious schools than those in the CPAM – with a floor area 7.5% greater, as shown in Table 12 above;
- ❖ BAM's LCM costs as given in Table 11 are significantly lower than those in the CPAM, which is balanced by the fact that BAM have a higher provision for recurrent maintenance within their FM costs;
- ❖ BAM's FM overhead is relatively high, but conversely their SPV administrative overhead was significantly lower than either Transform or WDSP – again, reflecting a difference in the apportionment of cost over the life cycle of the project.

8.7 Value for Money Assessment of Bank vs Bond Finance

At BAFO stage, the bond financed option was more expensive than the bank financed option. At the reference rate of 4.75%, the Net Present Cost of the BAM bid was 4.8% using bond finance than using bank finance, and a similar cost differential was evident in both the Transform and WDSP bids – the bond differential being 3.4% for the Transform bid, and 2.6% for the WDSP bid. Since BAFO, the Preferred Bidder has regularly reviewed the cost of bond versus bank finance, which has continued to show that bond financed option is more expensive, reflecting higher distribution lock up requirements and slightly wider spreads. The exclusion of the Dumbarton Academy would tend to make bond financing less attractive, by reducing the overall capital value of the project.

8.8 Qualitative Assessment of VfM

The Council recognises that the quantitative analysis of VfM set out in this VfM report does not take into account a number of wider VfM factors, the nature of which render it unfeasible to quantify in purely numeric terms. To ensure that the VfM analysis addresses all relevant issues, these factors are addressed below in qualitative terms:

- The principal qualitative benefit identified by the Council concerns speed of delivery. The PPP solution provides a speedy construction programme under which the first schools will be available in July 2009, and the last schools available in October 2010. Internal resource constraints would render it extremely difficult for the Council to procure directly the project facilities within the timescales set out;
- Many of the problems with the existing facilities stem from a reactive approach to preventative maintenance within the schools facilities that has led to significant backlog of maintenance requirements and investment in the schools. Much of this is captured within the scope of the PPP, which addresses the major deficiencies within the whole of the Secondary Schools' Estate and promotes the Council's vision of co-located services in Community Learning Centres in Clydebank and the Vale of Leven, and at the same time addresses the particular problems at Vale of Leven Academy associated with the major fire there in June 2002. It also addresses major deficiencies in a significant proportion of our Primary Schools whilst significantly reducing surplus capacity
- The Council believes that by procuring the project by means of a PPP, it will ensure that budgets will be committed from the outset to put in place a life cycle maintenance regime that will maintain the facilities to a high standard for the duration of the contract.
- The Council understands the difficulties that can be encountered when seeking to refurbish buildings under a PPP contract, and has settled on a project scope that has no refurbished elements;
- The payment mechanism which forms part of the Scottish Standard Schools Contract provides a means of incentivising high standards of service delivery. The Council believes that this mechanism will deliver standards of service that are consistently high for the duration of the contract, and that it will provide a robust deduction regime which will ensure that deviations in performance are identified and quickly rectified;
- By bundling design, build, finance and operating into a single contract, the Council believes that an integrated approach will be taken by bidders, delivering facilities which are not only of a high design standard, but which can be maintained to this standard in a cost effective manner for the duration of the contract.

In summary, the Council considers that, on qualitative ground alone, the PPP offers excellent value for money and will enable new facilities suitable for the

delivery of education in the 21st century to be developed at a far faster rate than would be achievable under any other procurement methods.

The Scottish Government VfM proforma has been completed and is incorporated at Appendix 13.

8.9 Overall Value for Money Assessment

The overall value for money analysis compares the Net Present Value (NPV) of the risk adjusted CPAM with the NPV of the Unitary Charge as calculated in the bidder's financial model. Table 13 below summarises the comparison of the CPAM against the Unitary Charge.

Table 13: CPAM and Unitary Charge Comparison

	FBC
NPV Of Risk Adjusted CPAM	£153.3m
NPV Of Bid Unitary Charge ¹	£135.3
VfM Margin	£18.0

CPAM figures from "Appendix 1 - CPAM 301107.xls"

Bid estimates from "BAM WD.PostBaFO.Bank.007.00.xls"

The comparison detailed above highlights that the PPP procurement option demonstrates better value than the alternative of direct procurement, with a VfM margin equating to 11.7% of the NPV of the risk-adjusted CPAM, reflecting:

- the strong competition for the project at bid stage;
- the fact that the pace of programme implementation is somewhat faster than assumed in the CPAM model – which is to the Council's benefit;
- prices for the construction and services elements of the project

8.10 Sensitivity Analysis

The above review indicates that the Project is value for money on the basis of the assumptions made regarding inflation rates and interest rates with a clear margin in favour of PPP being evident. Sensitivity analysis of the VfM position has been undertaken to test the robustness of this conclusion.

Sensitivity testing indicates that the PPP option remains better value for money under a range of plausible scenarios regarding capital and FM costs and interest rates. The VfM margin diminishes as underlying interest rates increase, but it would require an increase in excess of 1% to completely erode the VfM margin.

¹ Calculated on the same basis as the CPAM, using figures in Annual Cashflow (CF(A)) row 11.

9 AFFORDABILITY ANALYSIS

9.1 Financial Analysis

The Council has examined the financial implications of the project on the basis that it is funded out of the revenue budget. This is because the project is believed to be off-balance sheet from an accounting treatment perspective and does not therefore count against the Council's capital budget.

9.2 Revenue Support Grant (RSG)

The Council received a conditional offer of Revenue Support Grant from the Scottish Executive in December 2005 in response to the Outline Business Case (OBC) submitted by the Council in September 2005.

The award was set at a maximum of £214.5m in total over 30 years. This equates to £7.15m per annum throughout the project and is not indexed.

In achieving an affordable solution, the Council has assumed full entitlement of the RSG based upon the cost profile contained within the bidder's financial model.

In line with guidance received from the Scottish Executive, the project is based upon a phased delivery approach, with RSG being recognised upon delivery of the project facilities. Accordingly, where the RSG is not maximised during the construction period, the unutilised sums are re-profiled over the period from full operations to the end of the applicable 30 years and added to the annual award of £7.15m.

An initial calculation has assumed re-phased RSG payments in the first full year of operations (including Baseline Payment, Redetermined Payment and Spread Payment) of £7.191m. This can be seen in the table 'Net Revenue Cost to Council' below.

An indicative Annex B has been submitted to the Scottish Government for review. At Financial Close, the Council will submit a pro-forma delivery timetable, Annex A and the final Annex B form as required by the Scottish Government.

9.3 Revenue Implications

The revenue implications of the project are a function of the Unitary Charge payable to BAM, the payment to the In-house Service Provider for FM services, the cost of utilities, the RSG available from the Scottish Government in respect of the project, operational and property cost savings, receipts from the sale of sites which become vacant following the merger of schools and the insurance receipt following the fire at Vale of Leven Academy in 2002.

It is proposed that the capital receipts from the sale of land and the insurance receipt be placed in a sinking fund which will receive interest at the Council's rate for interest on revenue balances. The sinking fund will then be applied to smooth out the amount which will be required from the Council budget to meet any shortfall in resources.

Table 14 below demonstrates the revenue implications of the project based upon the information available as at November 29th 2007.

Table 14: Revenue Implications of Project: £'000s (NPV in £m)

Project year		1	5	10	15	20	25	30
Year	NPV, £m	2009/10	2013/14	2018/19	2023/24	2028/29	2033/34	2038/39
Unitary Charge	135.9	6,505	10,549	11,225	11,945	12,710	13,525	14,391
Payment to DSO	12.7	524	893	1,010	1,143	1,293	1,463	1,655
Utilities	6.6	273	466	527	596	675	763	864
<i>Total Payments</i>	<i>155.2</i>	<i>7,302</i>	<i>11,908</i>	<i>12,762</i>	<i>13,684</i>	<i>14,678</i>	<i>15,751</i>	<i>16,910</i>
RSG	84.9	4,660	7,191	7,191	7,191	7,191	7,191	7,191
Operational / Property Cost Savings	61.8	2,555	4,352	4,924	5,571	6,304	7,132	8,069
Sinking Fund Contribution	8.5	87	364	647	921	1,183	1,427	1,650
<i>Total Funding</i>	<i>155.2</i>	<i>7,302</i>	<i>11,908</i>	<i>12,762</i>	<i>13,684</i>	<i>14,678</i>	<i>15,751</i>	<i>16,910</i>
Sum to be Met from Revenue Budget	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>

9.4 Sensitivity Testing - Impact of Interest Rate Movements on Unitary Charge and Council Contribution

The main area of risk to the Council in terms of affordability is in relation to movement in the senior debt interest rate from that currently assumed.

The Council's affordability assessment in this document is based on a senior debt interest rate of 4.89% (exclusive of margins) which is the market rate quoted by BAM as at 16th November 2007. Barring major market movements the Council are hopeful that the senior debt interest rate prevailing at Financial Close will be broadly in line with the 4.89% currently assumed. Table 15 below shows the sensitivity of the Unitary Charge to movements in interest rates up to Financial Close:

Table 15: Impact of Interest Rate Changes on Unitary Charge and Council

	Interest Rate on Senior Debt	Unitary Charge (2012/13) £m	Compounded Council Contribution £k
Base Case	4.89%	10.419	Nil
Interest rates + 0.25%:	5.14%	10.610	10.7
Interest rates + 0.50%:	5.39%	10.802	27.7
Interest rates - 0.25%	4.64%	10.228	Nil
Interest rates - 0.50%	4.39%	10.036	Nil

The table shows that within the range of interest rate fluctuations considered, each 0.01% change in the rate payable on senior debt up to Financial Close would result in a change of approximately £7,350 in the annual Unitary Charge payable by the Council. Significant increases in interest rates beyond the base case assumed in this FBC would be required before the Council would face a major affordability problem. Such increases are not thought likely at this time.

In the event of a modest increase in interest rates beyond the current base case it is considered that the Project would remain affordable to the Council without amendment to the Project scope.

In the event of rates falling the Compounded Council Contribution could become Nil and it may be possible to retain a proportion of the capital receipts for other investment.

9.5 Sensitivity Testing - Impact of Inflation on Unitary Charge and Council Contribution

Another area of risk to the Council in terms of affordability is in relation to movement in the inflation rate from that currently assumed.

The Council's affordability assessment in this document is based on an inflation rate of 2.5%. Table 16 below shows the sensitivity of the Unitary Charge to movements in inflation:

Table 16: Impact of Inflation on Unitary Charge and Council Contribution

	Inflation Rate	Unitary Charge (2012/13) £m	Compounded Council Contribution £k
Base Case	2.5%	10.419	4.3
Inflation rate + 0.50%	3.0%	10.496	13.9
Inflation Rate + 1.00%	3.5%	10.574	22.5

The table shows that within the range of inflation rates considered, each 0.1% change in the rate would result in a change of approximately £15,500 in the annual Unitary Charge payable by the Council and £17,600 in the Compounded Council Contribution.

9.6 VAT Treatment

All amounts quoted in this document and within the Project Agreement are exclusive of any VAT properly charged thereon. The provision of statutory education is a non-business activity and it has, therefore, been assumed that any VAT levied on the Unitary Charge will be recoverable.

10 ACCOUNTING TREATMENT

10.1 Basis of Accounting Treatment

The figures in this section have been produced on the basis of the financial model "BAM WD.PostBaFO.Bank.006.04.xls" – the best available information at the time the accounting analysis was carried out. The figures produced provide an indication of the position, and will be updated (including the financial analysis) after all material issues have been settled. The accounting treatment paper will be then be updated and submitted to the Council's auditors for their final review.

The auditors have been provided with the initial accounting treatment paper produced by the Council's financial advisers (based on financial model "BAM bank standard bid model Sept07.xls"). On the basis of this model the auditors are not minded to challenge the initial view that it will be appropriate for the property provided under the Scheme not to be accounted for on the Council's balance sheet.

10.2 Background

The Council recognises the critical nature of assessing the accounting treatment for the Project. The Council's financial advisers are liaising with the Director of Finance in order that he can make his final assessment of the accounting treatment for the Project in accordance with Treasury Guidelines and professional accounting standards.

The final Accounting Treatment Assessment report will then be submitted to the Council's external auditor for review once the final material issues have been concluded. The key issues are summarised in the sections below.

10.3 Application of SSAP 21 or FRS 5

The Council has analysed whether the Project should be accounted for under FRS 5 (Reporting the Substance of Transactions) or SSAP 21 (Accounting for Leases and Hire Purchase Contracts). This was completed by reviewing whether any aspects of the Project require to be excluded from the accounting analysis against a number of predefined criteria. This analysis indicated that cleaning services, grounds maintenance, waste management, pest control, insurance and utilities should not be considered in determining the appropriate accounting treatment for the schools as these services are subject to benchmarking.

10.4 Qualitative Review - FRS 5 Specific Indicators

The Council has considered the three specific indicators identified within the Accounting Guidance which provide the first indication as to whether the schools are an asset of the Council or not. These are concerned with the separability of different elements of the PPP contract. Appendix 4 provides further details on the Council's assessments of these but in summary the Council has concluded that the contract is not separable under any of the three indicators.

10.5 Qualitative Review - FRS 5 Principal Risks

An assessment of the principal risks associated with the Project also indicates that the assets are off balance sheet for the Council. Table 17 below indicates who bears each of the principal risks identified by the Treasury Technical Note.

Table 17: Allocation of Principal Risks between Council & BAM PPP

Risk	Borne by the Council	Borne by BAM PPP
Demand	√	
Third party revenue ¹	-	-
Design Risk		√
Penalty regime		√
Changes in relevant cost		√
Obsolescence including the effects of changes in technology	-	√
Residual value	√	

Note 1: no third party revenue is included in the project and consequently there is no quantifiable risk for either party in this regard.

10.6 Conclusions of Qualitative Review

The qualitative review of the risks indicate an off balance sheet position – the three specific indicators suggest that this is the most appropriate accounting treatment and the analysis of principal risks indicates that risks are shared between both parties. However, the qualitative analysis does not provide an indication of the relative magnitude of the risks borne by each party, although:

- The majority of the risks lie with the private sector which would tend to imply an off balance sheet opinion;
- The Technical Note (4.10) indicates that the key risks in determining whether an asset is on or off balance sheet are normally demand and residual value risk, where these are significant. The analysis above shows that these are retained by the public sector. Within this Project, it is the opinion of the Council that neither of these risks is significant in the context of the overall risk position for the Project.

10.7 Quantitative Review

Notwithstanding the conclusions from the qualitative review and given the limitations of the qualitative analysis output, a quantitative analysis has also been undertaken. The current detailed analysis is included within Appendices 4 of this FBC and the results summarised within Table 18 below. The analysis indicates that the Council bear 42.2% of the risks associated with the Project and the contractor bears 57.8% - it therefore clearly indicates that the Project is not an asset of the Council.

[Note: Table 18 will be updated on conclusion of the agreement of the final costs Accounting Treatment Analysis update to be supplied as Appendix 4 to this FBC.]

Table 18: Accounting Treatment - Results of Quantitative Analysis of Risks

Risk	% borne by Council	% borne by BAM	Council £'000	BAM £'000
1 Demand Risk	100	0	659	0
2. Third party revenue	-	-	-	-
3. Design Risk	0	100	0	896
4. Penalty regime (year 1)	0	100	0	153
(year 2 onwards)	0	100	0	1,285
5. Changes in relevant cost	0	100	0	132
6. Obsolescence / Legislative Change	-	-	-	-
7. Residual value	100	0	4,882	0
Total NPV			5,541	2,467
Lower Limit (5% end of distribution)			5,256	2,488
Mean			5,996	3,558
Upper Limit (95% end of distribution)			6,993	4,868
Range at 95% confidence level			1,737	2,379
Total Potential Variation in property profits/losses			4,117	
Council share of variation			42.2%	
Contractor share in variation			57.8%	

The above analysis indicates that the contractor is taking on the greater potential variation in property profits, indicating the property is not an asset of the Council and that an off balance sheet accounting treatment for the property is the most appropriate for the Council. This analysis will be updated when the final agreed position is available.

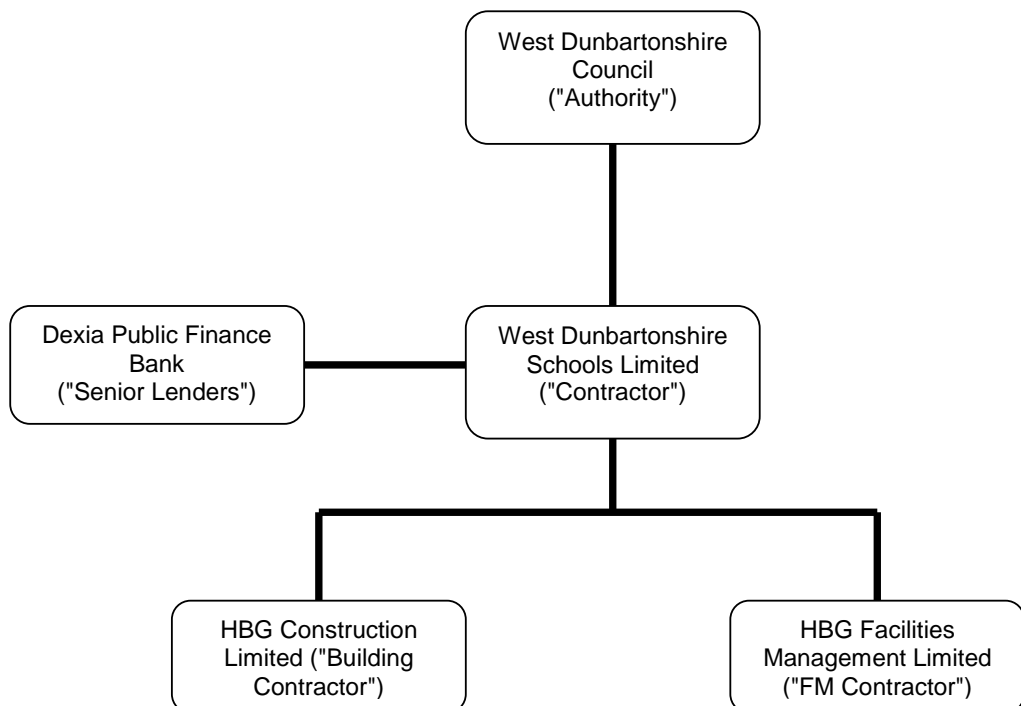
11 THE PROJECT AGREEMENT

11.1 Overview

The Project Agreement is based on the Scottish Standard Schools Contract Version 3 ("SSSC3"). The SSSC3 establishes a balance of risks and responsibilities between the public and private sector interests, and is based on the 'Standardisation of PFI Contracts' document issued by HM Treasury and adopted as a standard throughout the UK.

11.2 Contractual Framework of the Project

The contractual arrangements are set out below.



As shown in the Figure, West Dunbartonshire Council will enter the Project Agreement with West Dunbartonshire Schools Limited (an SPV owned by BAM PPP Investments bv) for the design, build, finance and operation of the new schools.

West Dunbartonshire Schools Limited has sub-contracted the component elements of the design and build service to HBG Construction Limited and the facilities management services to HBG Facilities Management Limited.

Finance for the project is arranged in the form of senior debt from Dexia Public Finance Bank, and subordinated loans from BAM PPP Investments UK bv.

11.3 Derogations from Scottish Schools Standard Contract

The Council will secure the Scottish Government's Financial Partnerships Unit's approval to derogations to the SSSC3 on the basis of:

- the "Golden Rule" of precedence where that derogation has been accepted in at least two signed deals;
- the amendments being Project Specific; or
- the proposed changes not jeopardising the standardisation policy and/or creating any unwelcome precedents for the public sector.

The current draft of the Project Agreement represents the commercial position agreed between the parties to date. However there is likely to be a number of further amendments, as is normal in the latter stages of a PPP project, which will be submitted to the Scottish Government for approval before financial close.

The Delta View version of the latest draft of the Project Agreement is appended as Appendix 7.