Appendix 3

NPDO Model

The NPDO Model is a variant on PFI/PPP. Its key difference from a typical PFI model is that it seeks to ensure that all private sector profits are generated through the construction, service and management contracts which underlie the main Project Agreement. Excesses over and above the base case, which in other types of agreement would be distributed in the form of dividends to shareholders, are applied to agreed priorities, generally including community bodies such as charities.

Each council that has employed the NPDO model has set slightly different objectives for the model, however, the following points set out the common principles.

The <u>objectives</u> of the NPDO delivery model are:

> To promote engagement with the community over the life of the project;
>
> To utilise a structure where decision making is not driven by the profit motive;
>
> To utilise a delivery model which re-invests financial returns to the benefit of the community for agreed purposes and via an identified charity.

The <u>principles</u> of the SPV within the NPDO model are:

> To have commercial freedom to manage its own affairs;
>
> To protect of the fundamental concepts of:
>
> - transparency and openness;
> - no distribution of surplus to shareholders;
> - a private sector classified body conducting a trade and with the objective of maximising surpluses;
>
> To manage conflicts of interest and protect NPDO principles;
>
> To utilise a tax efficient structure.

The <u>key features</u> of current SPV models in an NPDO delivery model are:

> It is a company limited by shares;
>
> It has a small board of directors (typically five directors which may include a stakeholder director and independent director);
>
> The Board will generally include a Stakeholder Director whose features and roles will typically be:
>
> - Non-Executive, whose position is entrenched;
> - A representative of the recipient body (eg a charity);
> - A protector of transparency and openness between the SPV and the community;

The Board will typically include an Independent director who:

- Is a protector of the NPDO principles;
- Is a Non-Executive Director, whose position is entrenched;
- Is required to be independent of the Council and the SPV;
- Will bring a range of business skills and operate per a code of conduct;
- Will manage conflicts of interest at SPV level.

The remaining directors are likely to be representatives of consortium members;

It will adopt the three key distribution policies:

- there are no distributions of dividends to shareholders
- application of surpluses according to agreed priorities,
- having satisfied all other statutory and fiduciary duties to deliver value for money;

Surpluses will be applied according to agreed priorities which might include:

- management incentives within limits defined by the SPV;
- a build up of reserves and provisions within the SPV to ensure long term security and management of risks;
- delivery of additional scope of services under the NPDO contract;
- donations to a community body or charity with objectives/policies which will benefit the area.

Conclusions

In conclusion, the key issues regarding the NPDO model are:

It is a proven mechanism for procuring education facilities;

It has, where adopted, been demonstrated to provide value for money;

Its underlying principles are built around the ability to bring benefits to the community;

It differs from conventional PPP/PFI models in that it has the potential to distribute surpluses to the community rather than private sector profit;

Its corporate governance structures include provisions to protect the public interest.