

WEST DUNBARTONSHIRE COUNCIL

Report by Chief Executive

Council: 30 January 2008

Subject: Financial Close of Schools' PPP Project

1. Purpose

- 1.1** The purpose of this report is to inform Council of the details of the Financial Close of West Dunbartonshire Council's schools' PPP project.

2. Background

- 2.1** At a Special Meeting on Tuesday 11 December 2007, Council gave officers authority to negotiate Financial Close with the Preferred Bidder (BAM PPP) on the schools' PPP project within certain financial parameters.

- 2.2** The final scope of the project is as follows:-

- new build Vale of Leven Academy on its present site;
- new build Clydebank High School on its present site;
- new build St Peter the Apostle High School, formed by the amalgamation of St Andrew's and St Columba's High Schools on the present St Columba's site and adjacent land;
- new build St Eunan's Primary School and Early Education and Childcare Centre (EECC) on a part of the existing St. Columba's site;
- enhanced sporting and community facilities on all three campuses;
- life cycle maintenance of the buildings and grounds for 30 years.

- 2.3** As previously reported, the Council's in-house teams will be responsible for the cleaning and grounds maintenance of the project schools.

3. Main Issues

- 3.1** Following the Council meeting on 11 December, Council officers continued to negotiate with BAM PPP with the aim of achieving either Financial Close or an Advance Works Agreement before the end of 2007. Because of the Christmas holiday period, this effectively meant that agreement had to be reached by 21 December 2007.

- 3.2** Despite the best efforts of all concerned to arrive at a negotiated settlement, there remained a significant outstanding issue in relation to the contaminated land on which the sports pitches for St Peter the Apostle High School are to be constructed. Officers were unwilling to sign any agreement or to authorise Advance Works until the risk profile on this issue was satisfactorily resolved.

- 3.3** Negotiations continued until 3.00 pm on 21 December 2007, at which point BAM PPP offered to hold its prices until 21 January 2008 to allow time for further consideration of the outstanding issues. Officers accepted this offer and reported this arrangement to the Scottish Government, who indicated that the Revenue Support Grant (RSG) of £7.15 million per annum would continue to be available to the Council until 31 January 2008.
- 3.4** Negotiations resumed on Monday 7 January 2008. Over the subsequent two weeks, all outstanding issues were resolved. Specifically, the risk profile on the contaminated land was resolved to our satisfaction. Further details of the contractor's remediation plan for the site were also revealed and it was agreed that a final remediation plan would be submitted to the Council's Environmental Health Section by week commencing 28 January. It should, however, be noted that both Environmental Health and the Scottish Environmental Protection Agency (SEPA) have approved the principles on which BAM's remediation plan is based and any amendment required is likely to be by way of refinement and fine tuning, with the contractor bearing the costs of any additional work involved.
- 3.5** The Project Agreement was signed on the morning of Monday 21 January 2008 at a Swap Rate of 4.71%. It should be noted that this rate is 0.18%, or 18 basis points, lower than the lowest interest rate figure reported to Council on 11 December 2007 and is therefore well within the affordability envelope approved by Council.
- 3.6** Following the signing of the Project Agreement, BAM's subcontractors were mobilised and construction work commenced on all three sites on Tuesday 22 January 2008.
- 3.7** This means that the three secondary schools will be handed over as scheduled during the summer of 2009, with St Eunan's Primary School and EECC following in October 2010.

4. Personnel Issues

- 4.1** There are no personnel issues directly associated with this report. The personnel implications of the project in general have been reported previously to Council and these remain unchanged.

5. Financial Implications

- 5.1** As indicated in 3.5 above, the deal was closed on a Swap Rate of 4.71%. This rate will apply for the lifetime of the project.
- 5.2** On 11 December 2007, Council gave officers authority to negotiate Financial Close within certain financial parameters.

- 5.3** Not only has Financial Close been achieved within the parameters allowed, the rate of 4.71% is 0.18% or 18 basis points lower than the lowest rate reported to Council in the tables contained in Appendix 2 of the Report to Council on 11 December 2007, which modelled Swap Rates between 4.89% and 5.35%.
- 5.4** In fact, the rate of 4.71% is the lowest Swap Rate which has been available since Preferred Bidder was appointed and is 0.04% lower than the “Reference Rate” upon which the Council’s original financial model was based.
- 5.5** The main implications of the fact that the deal was signed at such a low Swap Rate are that:-
- the RSG of £7.15 million per annum from the Scottish Government, together with the capital receipts and revenue savings generated by the project itself and the insurance receipt from the fire at Vale of Leven Academy in 2002 will cover all of the Unitary Charge payable to the contractor;
 - there will therefore be no “Affordability Gap” and the Council will not require to find any additional monies from increased Council Tax, additional revenue savings or other sources in order to fund the project;
 - the sinking fund, formed by the capital receipts, revenue savings and insurance receipt, which will be established to assist with the funding of the project, should generate a surplus over the lifetime of the project;
 - the overall affordability of the project is significantly better at Financial Close than it has been at any other stage at which it has been reported to Council or to the PPP Project Board.

6. Risk Analysis

- 6.1** As previously reported, risk analysis and optimism bias assessment have been integral aspects of this project.
- 6.2** Final risk analyses were carried out on all outstanding legal, financial and technical issues during the weeks leading to Financial Close. The establishment of an acceptable risk profile for the Council on the contaminated land issue was an important driver in the final negotiations.

7. Conclusions

- 7.1** Financial Close has been reached on the West Dunbartonshire Schools’ PPP project at an interest rate which is very favourable to the Council.

- 7.2** There is no “Affordability Gap” on the project, which will be entirely financed by the RSG of £7.15 million per annum from the Scottish Government, together with the capital receipts and revenue savings generated by the project itself and the insurance receipt from the fire at Vale of Leven Academy.
- 7.3** The sinking fund, formed by the capital receipts, revenue savings and insurance receipt should generate a surplus over the lifetime of the project.
- 7.4** Construction work has already started on all three sites and the schools should be handed over on schedule (the secondary schools in summer 2009 and the primary/EECC in October 2010).
- 8. Recommendation**
- 8.1 It is recommended that Council should note the contents of this report.**

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Chief Executive
Date: 23 January 2008

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Appendices: None

Background Papers: Report to Special Council – 11 December 2007

Wards Affected: All