



Glasgow City Council

PROJECT 2002

FULL BUSINESS CASE



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FOREWORD

The Background and Objectives to the Project

GLASGOW is the largest Council in Scotland. Glasgow is proud of its educational status and the eminence, importance and expectations that parents, teachers and young people attach to education.

Glasgow, however, has a range of economic and social conditions that make the continuity and realisation of these values and aspirations challenging. The prevalence of social deprivation and economic uncertainty has not diminished the esteem that the people of Glasgow have for a quality education system. Glasgow City Council believes that it is crucial that young people experiencing social and economic deprivation do not also experience educational deprivation.

The Council believes that the positioning of raising standards for all pupils in Glasgow schools at the core of its educational service will be a vital and invigorating factor in meeting the wider strategic Council objective of the regeneration of the economy of Glasgow. This project complements other exciting developments in Glasgow including the housing stock transfer and the modernisation of the management of local government.

Raising educational standards, however, is a complex challenge, calling for a range of initiatives. It is well documented that pupils are more respectful of and keen to learn in a school which has benefited from physical improvements. The Council is committed to the view that learning and teaching in well maintained and equipped schools will assist in raising of standards.

In addition, the Council believes that pupils, teachers, parents and the community should have the skills and opportunities to access and benefit from the ongoing developments in information and communications technology.

The prevailing conditions of the secondary school estate, however, did not support these strategic aims. Glasgow Secondary Schools have lacked adequate investment in building maintenance in recent years. At the end of the 20th century, Glasgow's secondary schools required essential building work to provide an appropriate and sustainable standard of school accommodation. Historically ICT (Information and Communications Technology) developments were mostly piecemeal; the existing infrastructure was incapable of meeting the technical demands that the present and future ICT opportunities required.

It was evident that a long term strategic solution to the needs of Glasgow Secondary Schools would require a review of existing Council policy and a major capital investment for extensive building works and ICT provision.

Full Business Case

THIS is the Full Business Case for the Glasgow secondary schools' public private partnership project. The Outline Business Case for the project was submitted by the Scottish Office in June 1998.

NOTE: *The Full Business Case is a technical document and is not an explanation of public/private project procurement.*

The financial analysis in this document has been provided by the Council's financial advisers, PricewaterhouseCoopers. A standard approach has been applied to the bids received and the Public Sector Comparator thus providing for a fair and consistent basis for comparison.

1 Executive Summary

1.1 A Brief Chronology of Developments of the Project

IN October 1997, The Directors of Education Services and Financial Services submitted a joint report on a feasibility study for a public and private partnership project in education.

November 1997, the Council appointed financial and legal advisers to assist the Council to evaluate the potential of a public private partnership project to improve the accommodation and ICT services in all secondary schools

February 1998, Glasgow City Council decided to reduce its secondary school estate from 38 to 29 secondary schools, reinvest the savings and prepare an Outline Business Case to assess the affordability and value for money of a public private partnership for the modernisation of its secondary school estate. Subsequent developments relating to the modernisation of Glasgow secondary schools buildings and the introduction of an ICT programme (known as the Glasgow Secondary Schools Project and more recently as Project 2002) were based on this Council strategy.

June 1998, the Council submitted its Outline Business Case to the Scottish Executive and placed an advert in the Official Journal of the European Community inviting potential bidders for the project.

July 1998, the Council appointed legal, financial and technical advisers to assist the Council to progress the PPP project to its financial close.

August 1998, four consortia were shortlisted for the project:

1. *Jarvis PLC/ICL*
2. *Babcock & Brown/Research Machines*
3. *Balfour Beatty/WS Atkins*
4. *Miller/Mitel & Hewlett Packard (3ED)*

November 1998, the Invitation to Negotiate (ITN) documentation was issued to the 4 consortia. The ITN detailed the Council's requirements, established the form for bid returns and an outline of the criteria for evaluation.

June 1999, following detailed evaluation the Balfour Beatty / WS Atkins and 3ED Consortia were selected to proceed to the Best & Final Offer Stage

November 1999, the 3ED consortium was selected as the Preferred Bidder and invited to finalise its proposals following a detailed evaluation of the bids received through discussion and negotiation with the Council.

April 2000, the Full Business Case was submitted to the Council's Policy and Resources Committee.

1.2 Description of the Preferred Option

3ED met the Council requirements as set out in its ITN and demonstrated elements of innovation that differentiated it from other consortia.

A brief summary of the 3ED solution is:

- Deliver 11 new secondary schools and 1 new primary school (plus the International School at Shawlands Academy which was an additional Council requirement)
- Extend and refurbish 7 secondary schools (to include the School of Sport and The Dance School)
- Refurbish 10 secondary schools
- A financial model that meets the Council's level of affordability
- Achieve energy consumption reductions of between 35% and 45%
- Deliver a Facilities Management service integrated with the building and ICT environment
- Deliver a managed ICT service to help the Council meet its objective of raising standards including the evolving targets for core skills, literacy and numeracy

1.3 Summary of the Economic and Financial (i.e. affordability) Appraisals of the Project

The Council had set its affordability level in the Invitation to Negotiate document at £43m.

This was later reduced as a result of catering being retained as an in-house service following a Best Value analysis.

The first full unitary payment of £40.5 million in 2003/4 is within the affordability level set by the Council.

The following table demonstrates the revenue implications starting from the first full operational year of the PPP project:

Year	03/04	04/05	09/10	19/20	28/29
Cashflow	£m	£m	£m	£m	£m
Unitary Charges – Accommodation	36.7	38.0	42.7	50.3	58.4
Unitary Charges – ICT	3.8	3.9	4.4	–	–
Total Unitary Charges	40.5	41.9	47.1	50.3	58.3

N.B. Subject to final sensitivity analysis

In achieving affordability the Council has taken full account of entitlement to additional funding available from the Scottish Executive through Level Playing Field Support. This additional funding will be paid through the existing mechanism of Aggregate External Finance and will be separately identifiable each year. The level of support available to this project is £13.8 million for six years, starting from financial year 2001/2002 and increasing to £16.1 million for the remainder of the contract.

1.4 **The Key Points of the Procurement with 3ED**

The Council will enter into a *29 year contract for accommodation and a 12 year contract for ICT, known as the Project Agreement, with 3ED. The key points are:

- the provision, operation and maintenance of 29 secondary schools and 1 primary school and the design, delivery, commissioning and maintenance of a managed ICT provision will be 3ED's responsibility;
- all schools will remain within the ownership and control of the Council;
- the core service of education will remain with the Council; schools will continue to be managed by head teachers;
- following a Best Value Study by the Council the surplus school sites will be excluded from the contract;
- the Council will pay a monthly unitary charge to 3ED to cover accommodation and ICT services;
- the unitary charge will be subject to availability and performance criteria being met;
- a payment deduction regime will be applied where performance standards are not met;

1.5 **The Key Milestones and Timetable from Financial Close to Delivery of Full Service Contract**

3ED and the Council have agreed a programme for implementation of the project which will be completed for all schools except St. Thomas Aquinas by August 2002. 3ED submitted a variant bid that included a new build school for St. Thomas Aquinas which was acceptable to the Council. Due to the decanting arrangements of two other schools preceding it, St Thomas Aquinas can not be started until July 2002.

The programme is detailed in the following table.

* *The contact period has changed to 30 years. Please refer to Section 1 (1.8)*

Date	Comment	School
May 2000	Start on site for Building & ICT works	Cleveden, Castlemilk, St. Mungo's, Notre Dame, Eastbank
June 2000	Start on site for Building & ICT works	Hillhead
July 2000	Transfer of TUPE staff	
July & August 2000	Early Roll Out ICT Programme	
July 2000	Start on site for Building & ICT works Holyrood, Lochend	Lourdes, Shawlands, Knightswood Primary,
August 2000	Start on site for Building & ICT works	All Saints, St. Andrew's
September 2000	Start on site for Building & ICT works	Drumchapel
October 2000	Start on site for Building & ICT works	St. Roch's, Bellahouston
December 2000	Joins PPP after refurbishment work	Bellarmino
January 2001	Start on site for Building & ICT works	*Rosshall, Knightswood Secondary
February 2001	Start on site for Building & ICT works	Springburn
March 2001	Start on site for Building & ICT works	Smithycroft
May 2001	Start on site for Building & ICT works	Hillpark, St. Margaret Mary's, Whitehill
July 2001	Start on site for Building & ICT works	John Paul, Bannerman, Hyndland
October 2001	Start on site for Building & ICT works	Govan, King's Park
July 2002	Start on site for Building & ICT works	St. Thomas Aquinas'
August 2002	Completion of Project 2002 Schools except St Thomas Aquinas'	
August 2003	Completion	St. Thomas Aquinas'

** NB Depends on outline planning consent being granted at Rosshall.*

1.6 Decision in Principle

Council took the decision in principle in February 2000 to appoint 3ED as service provider for Project 2002.

Council officials have agreed with 3ED the key principles required for commercial close. This has been approved by the Policy and Resources Committee.

The project agreement is now being finalised to reflect the agreement of the key principles.

If this Full Business Case is approved, finance documents will be finalised allowing financial close to be achieved by early summer 2000.

1.7 Value for Money Analysis

The Council conducted a highly competitive bidding process reflecting guidance from the Treasury and National Audit Office. The original 4 bidding consortia submitted compliant bids. The two consortia who proceeded to BaFO were selected on the overall quality of their proposals to meet the technical requirement of the project and on quality.

3ED was selected as preferred bidder both on price and quality of its bid.

The project negotiations have fully reflected Treasury Taskforce Guidance. The Treasury Taskforce has approved the Project Agreement.

Arthur Andersen, commissioned by the Treasury Taskforce, published a report in January 2000 on Value for Money Drivers in the Private Finance Initiative. The six primary value for money drivers are

- risk transfer
- output based specification
- long-term nature of contracts (including whole life costings)
- performance measurement and incentives
- competition
- private sector management skills

This project and its bidding process ranks highly on all of the Value for Money drivers.

3ED's bid for ICT was £11 million cheaper than its BaFO competitor.

The authoritative reference source for construction costs in school building projects is "Spon's Building Costs for Education Premises". This is based on conventionally procured projects which, normally, are less focused on whole life costings than PPP projects. The construction costs in the 3ED bid were compared with those in "Spon's" and (for new builds, extensions and refurbishments) were regarded as being fair and reasonable.

The normal value for money analysis in a PPP is with the Public Sector Comparartor. Details of this comparison are given in Section 6. It has been concluded that the Council has obtained best value for the PPP.

1.8 **Change in Contact Period**

The operational period of the contact in the Full Business Case is assumed at 29.25 years. However, during the final negotiation phase of the PPP process, it was agreed to extend the contract period to 30 years. In agreeing to this change the Council's Project Team were satisfied that the revised period maintained the value for money aspects of the Project.

This change does not have any material impact on the financial analysis contained in the Full Business Case.

1.9 **Summary**

The 3ED solution meets, on a cost effective basis, for both accommodation and ICT the aspirations of the Council's strategy for secondary education in particular by

- obtaining advantage from a competitive bidding process
- through the PPP having the project completed by August 2002 (with St Thomas Aquinas by 2003). This timescale is significantly shorter than that possible through conventional procurement
- best value to the Council through the PPP
- optimum transfer of risk to the private sector
- having an affordable project to the Council with the assistance of level playing field support from the Scottish Executive

2 The Outline Business Case

(Submitted To The Scottish Office In June 1998)

THIS section provides a summary of the Outline Business Case which was submitted to the Scottish Office as a proposal for a PPP which would be supported by additional funding (level playing field support).

2.1 Shortcomings with Provision in 1997

In 1997 Glasgow City Building Department identified necessary maintenance and repair requirements totalling £70 million across the city's remaining secondary schools. There was no prospect of funding this entire backlog of repairs from either the Council's revenue budget or capital programme.

All of the requirements were priority. The figure of £70 million did not include life cycle maintenance costs.

The Council had by this time addressed the surplus capacity in secondary schools with the closure of 9 secondary schools. Temporary arrangements had been made which included retaining four of the closed schools' buildings as temporary annexes. In other schools temporary hutted accommodation was provided.

The ICT provision was variable. Schools had a diverse range of equipment. Few schools had any networking arrangements or access to the internet. Maintenance was a major problem.

Given these issues across the full secondary sector, the Directors of Education and Finance identified as the major recommendation in a Feasibility Study that a PPP was the only realistic solution.

2.2 Content of the Outline Business Case

The Outline Business Case set out the rationale for modernising the secondary school portfolio and one primary school along with an ICT managed service. It identified the requirements and the options to deal with them, determining the extent of risk transfer, detailing the structure for managing the project and a value for money analysis and comparisons.

It also set out proposals to deal with the procurement of a public/private partnership contract covering specifically:

- the proposed Council project team and internal reporting structure;
- the requirement for external technical, legal and financial advisers;
- the relationship between this project and other projects procured in the education sector and the extent to which precedents could be set;
- the form of competition and the proposed timetable for procuring a PPP contract.

2.3 Option Appraisal

The Outline Business Case contained 5 financial models which developed the range of options examined in a feasibility report considered by Council in February 1998.

The models sub-divided into two general categories. Models 1 & 2 were based on conventional procurement. Models 3, 4 and 5 involved in part or in full a Public / Private Partnership. The financial data on the cost of refurbishments was provided by Doig & Smith (Chartered Surveyors) who carried out surveys of schools to assess the construction requirements to bring them up to a 'bankable' standard.

Model No. 1 (Status Quo) _____

This model outlined the capital requirements if the secondary school closure programme had not been implemented and all 38 secondary schools retained. It highlighted the expenditure required to bring the schools up to an acceptable standard in both buildings and ICT. The programme of works would be completed in 2014 if the Council was able to allocate £7 million per year from its capital programme for this purpose.

There would still be a shortfall in the required £3m for funding ICT. Additionally, this model would have produced no revenue savings, given there would have been no school closures.

No funds would be available to run a managed ICT service.

The Council would be unable to invest in improvements from within its current resources e.g. fund an increase in teaching or support staff.

Model 2 (Public Sector Comparator) _____

This is the Public Sector Comparator (PSC). It assumed 9 school closures with savings reinvested.

The PSC model was constructed to allow a like for like comparison to the Reference project (Model 5) in that it assumed that the capital works could be undertaken over a 3 year period. However, the level of capital and revenue funding required was not available to the Council. A more realistic scenario would be that it would take to 2014 to complete the programme.

The PSC assumed capital spend in the 3 year construction period of £56.2 million for new build and extensions, £88.5 million for refurbishments and £14.5 million for ICT investment. (See Section 6 for details).

Model 3 (Part PPP) _____

Under this model a PPP would fund the building of 2 new schools and 6 extensions. All operations and risks attached to these schools only, would transfer to a PPP.

The Council would refurbish the remaining 19 schools and these would continue to be serviced by the Council.

The ICT provision for all the secondary schools would be supplied through a Public / Private Partnership.

The advantage of this option was the improved timescale to complete the building works programme through a PPP.

The Council would have to refurbish 19 schools from limited resources and no guarantees could be given about standards and timescale.

The difference in accommodation standards would be unacceptable.

Model 4 (Part PPP)

This is a development of Model 3 except that all the Facilities Management Services costs would be transferred to the Private Sector and all the refurbishment work would be carried out by the Council with the retention of latent defects risks on the 19 schools being refurbished by the Council.

The Council would be disadvantaged by the high on going life cycle maintenance expenditure and latent defects risk due to the refurbishments not being up to a bankable standard.

The ICT provision for all schools would be through a Public/Private Partnership.

Neither Model 3 nor 4 was regarded as offering value for money and would result in differing standards across the city. There would also be a substantial dilution of the risk transfer. The Council's objectives for the project would not be fully realised.

Model 5 (Public Private Partnership)

This full PPP option was preferred by the Council.

All new builds, extensions and refurbishments would be financed through a PPP which would result in a significant transfer of risk to the Private Sector.

The provision of ICT equipment and a city wide managed service would be a central part of the Public / Private Partnership.

Facilities Management and building, grounds and ICT maintenance would be the responsibility of the private contractor.

This option provided a uniform standard of building maintenance and facilities management across all 29 retained secondary schools.

Some of the attractive elements of this model were:

- Value for money and thus meeting the Best Value Programme
- Affordable to the Council (if level playing field support available)
- The rationalisation programme would be completed more rapidly
- A standard level of provision of building maintenance and resources
- Sufficient transfer of risk to ensure off balance sheet accounting treatment thereby obtaining level playing field support

2.4 Review of the Outline Business Case

The development of the Outline Business Case was assisted by the Treasury Task Force and representatives from the Scottish Office (Scottish Executive).

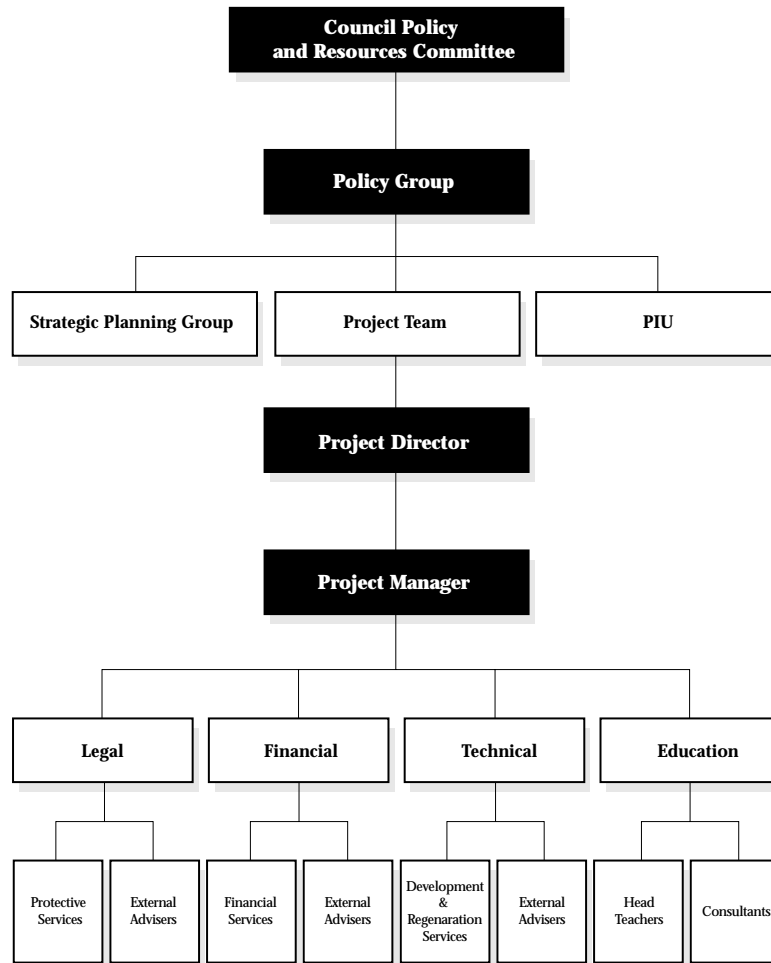
Evaluation of the models was based on a value for money analysis of the public sector comparator and the PPP option. The public sector comparator assumed that finance would be available to deliver the same accommodation and ICT requirements within the same timescale as that envisaged by the PPP option. This level of funding was not available to the Council. Level playing field support was only available for a PPP.

However, to allow for a value for money comparison of the public sector comparator (PSC) with a PPP it was assumed that funding be available to complete the PSC on the same timescale as the PPP. On this basis the PPP still provided best value to the Council mainly as a result of the significant transfer of risk in the PPP which would be retained in the PSC.

3 The PPP Procurement Process

3.1 Methodology

The progress of the procurement of the PPP Contract was directed, managed and reviewed by a policy group drawn from across the full Council with external advisers as illustrated in the following chart –



3.2 Roles and Responsibilities of Project Team Members

The Depute Director of Education acting as Project Director leads the team. The project director was and continues to be responsible for the overall control and coordination of the procurement process of the PPP Contract. The project director is assisted by a project manager from the Council's education department who is responsible for the day to day management of the procurement process.

It is the responsibility of the project manager to co-ordinate input to the procurement process from the other members of the Council project team and the external advisers.

The Council project team has a membership that reflects the Council departments' expertise to support the procurement process and the disciplines provided from external sources.

The Director of Finance is a member of the Council project team and was responsible for coordinating the financial input to the procurement process from the Council's Financial Services Department and the external financial advisers.

A senior Council lawyer coordinated the input from the Council's internal legal department and the external legal advisers

Council staff including personnel from Development and Regeneration, Culture and Leisure, Direct and Care, Building and Land Services provided the technical input up to the completion of the Outline Business Case, preparation of the Invitation to Negotiate documentation, evaluation of bids, discussions and negotiations with bidders.

Educational input into the group structure was provided by head teachers, senior members of the teaching staff and the education support service.

Communications and meetings were set up with the schools and school boards.

Responsibility for the day-to-day progress of the procurement process was delegated to the Council project team. These responsibilities included:

- Preparation of the timetable for the procurement process;
- Preparation of information to be provided to bidding consortia expressing an interest to be invited to negotiate;
- Development of the criteria that formed the basis for selecting the bidding consortia that will be invited to negotiate;
- Reviewing pre-qualification submissions presented by bidding consortia;
- Recommendations to the steering group and the Council on the selection of bidding consortia invited to negotiate;
- Preparation of the invitation to negotiate (ITN) document;
- Development of the output specification (i.e. Council's technical and operational requirements);
- Requirements for financial information including details of the method of financing;
- Development of the draft services contract and the lender's direct agreement;
- Development of the criteria to be used in awarding the PPP contract (having regard to the EU procurement legislative requirements);
- Reviewing and evaluating submissions received having regard to the criteria contained within the ITN;
- Making recommendations to the Policy Group and the Council on the bidding and selection of the consortia invited to make best and final offer submissions;
- Preparation of the best and final offer invitation;
- Making recommendations to the Policy Group and the Council (the preferred bidder);
- Negotiation of the detailed terms, conditions and scope of PPP contract with the preferred bidder;
- Liaison with funders in relation to due diligence

- Ongoing contract monitoring
- Liaison/negotiation with the Scottish Office / Scottish Executive
- Liaison with the Treasury Taskforce

3.3 Reporting within the Council

The Council project team reported to a Policy Group formed by the Council. The members of the policy group are senior officers of the Council from the following departments:

- Education
- Chief Executive
- Finance
- Protective Services (Legal)
- Development and Regeneration Services
- Personnel Services
- Direct and Care Services
- Land Services

The primary responsibility of the Policy Group was to consider recommendations made by the Council project team.

The Policy Group reported to the Council's Policy and Resources Committee.

3.4 The Treasury Taskforce and Scottish Executive

The Treasury Taskforce selected a number of projects regarded as priorities to receive guidance, expertise and advice in a public / private partnership procurement from members of the force.

The Glasgow schools programme was adopted as a flagship programme by the Treasury Taskforce and received its support at all stages of the process.

The head of the PFI Unit, Scottish Executive was a member of the Policy Group and advised on the pace and progress of the project.

3.5 Appointment of Advisers to the Project

The size, diversity and scope of such a project raises a number of complex technical, legal and financial issues.

A distinguishing feature of the Glasgow schools is the mix of new builds, refurbishments, facilities management, life cycle maintenance and ICT. It was acknowledged at an early stage that while representatives from various Council services could provide a high level of professional skills, there was not within the Council, the necessary expertise and experience of developing, negotiating and concluding a public / private partnership agreement.

Accordingly the Council appointed external advisers to provide essential and professional input in 2 phases. The first being the preparation of the Outline Business Case and the second from the OJEC notice to financial close.

Phase 1

Following invitation and interview the following advisers were appointed:

Financial Advisers: *Arthur Andersen, 18 Charlotte Square, Edinburgh, EH2 4DF*

Legal Advisers: *Dundas & Wilson, 191 West George Street, Glasgow, G2 2LB*

Phase 2

Following advertisement and interviews the following advisers were appointed:

Technical Advisers: *Turner & Townsend Project Management, Mercantile Chambers, 53 Bothwell Street, Glasgow, G2 6TS*

Financial Advisers: *PricewaterhouseCoopers, PO Box Erskine House, 68-73 Queen Street, Edinburgh, EH2 4NH*

Legal Advisers: *Dundas & Wilson, 191 West George Street, Glasgow, G2 2LB*

3.6 Invitation to Negotiate (ITN)

A definition of what was expected from bidders, including the invitation to be innovative along with a description of the stages of the procurement process leading to the Contract Award were contained in the Council document, Invitation to Negotiate. Future negotiations, preparation and evaluation of the bid submissions were based on the contents of this document.

A summary of the scope of the project, as set out in the ITN, is contained in the following sections A – D:

A. Building Works

To provide a construction solution to meet the following requirements:

- 26 secondary schools to be refurbished, 7 of which to have a new extension and 1 to be rationalised (plus Bellarmine from December 2000);
- 1 new build school on a new site;
- 1 school to be either a refurbishment with a new extension, or a new build;
- 1 replacement new build for a primary school and nursery school.

B. Life Cycle Maintenance _____

To design and implement a comprehensive programme of Life Cycle Maintenance throughout the contract that includes:

- Planned maintenance i.e. activities undertaken at regular intervals to retain the functional and operational qualities of the asset;
- Reactive maintenance i.e. responding to failures in the operation of assets;
- Life Cycle replacements at the end of an asset's economic life.

C. Facilities Management _____

To deliver a managed Facilities Management service to support the operation of all-29 secondary schools and 1 primary school covering

- Janitorial and Security Service
- Mail, Portering and Churn Management
- Utilities Supply and Energy Management
- Building Fabric & Services Maintenance
- Grounds Maintenance
- Cleaning
- Catering Services (NB: withdrawn from the project scope at the Best & Final Offer Stage as a result of a Best Value analysis)
- Disaster Management
- Fire & Emergency Management
- Help Desk

Bidders submitted bids which they considered met the Council Requirements.

D. ICT – (12 Year Contract) _____

The provision of Information and Communication Technology within Glasgow Secondary schools has the following objectives:

- To raise the educational attainment of all secondary pupils through the effective use of ICT in line with agreed national targets relating to English language and mathematics within the 5-14 programme and SQA qualifications at standard grade and higher.
- To improve the attendance of pupils through more effective monitoring using ICT.
- To ensure that all young people meet the evolving targets for ICT core skills.
- To use ICT to promote life long learning.
- To reduce the administrative burden on teachers through the more effective use of ICT

Information and communication technology in the form of computers, printers, scanners, digital cameras, video equipment etc are currently deployed in secondary schools in a numbers of ways including:

- The provision of specialist rooms where between 10 and 20 computers are used for teaching IT intensive subjects such as computing studies and business education.
- Technological subjects, where computers are used in conjunction with pneumatic and low voltage equipment for teaching technological studies and graphical communication.
- Science subjects, where computers are used in conjunction with interfacing devices and probes to monitor, record and analyse the results of experiments.
- Libraries, study areas and general purpose classrooms, where computers are used as a resource to provide enrichment to the learning and teaching process and as a research tool.
- Staff bases, where computers are used by staff for the preparation of learning materials and for recording pupil progress using a variety of databases.
- Guidance staff bases where computers are used for careers education and information and to maintain pupil records.
- Administration staff and members of the senior management team areas where computers are used to record attendance, produce reports and letters etc.

3.7 Selection of Preferred Bidder

The decision to appoint 3ED as preferred bidder was based on a multi-discipline evaluation by 6 teams covering technical, facilities management (i.e. cleaning, janitation and maintenance), education, ICT (Information & Communications Technology) financial and legal criteria.

The technical evaluation concluded that 3ED's accommodation solution and life cycle maintenance would meet the Council requirements particularly in relation to:

- costs
- more new secondary schools
- higher initial investment in the refurbishment programme until August 2002
- higher investment in life cycle programme from August 2002 until the end of the concession period
- better "day one" template to compare future maintenance against
- more external sports provision
- more replacement of fixtures and fittings
- electrical refurbishment made more flexible for information and communications technology installation
- enhanced toilet provision
- improved social space provision within the refurbished schools
- asbestos risk removed in new schools and asbestos risk accepted by the consortium in refurbished schools

- considerable expenditure in maintenance of schools towards the end of the concession period to ensure a fit for purpose statement for 5 years beyond the end of the contract
- less disruption to operation of schools due to higher level of new build

This FM evaluation concluded that the 3 Ed bid would more effectively meet the Council immediate and long term requirements for schools facilities management particularly in the following areas:

- cost assessment
- interface with the Council
- helpdesk
- employee issues (i.e. TUPE)
- management structure
- transition arrangements
- innovative approach

This ICT evaluation concluded that 3ED provided a solution which best met the Council's needs in terms of hardware, software provision, quality of the managed service, refreshment design, and staff development and the training programme.

The financial deliverable evaluation concluded that 3ED had submitted the economically most advantageous bid as indicated by the Net Present Value (NPV) of unitary charges.

The legal evaluation concluded that progress could be made in resolving a range of contractual issues associated with 3 Ed. This gave the Council confidence that it would reach a contract with 3ED in accordance with Taskforce guidance - fully accord with the Council strategy for the city, contribute to Best Value and be compatible with the Treasury Taskforce guidelines for PFI contracts.

A group of head teachers and Council officers evaluated the bidders on educational criteria covering -

- Room sizes
- Appropriateness of fixtures and fittings
- Circulation space
- Clustering of accommodation
- Quality of specialist rooms
- Social space
- External sports provision

This education evaluation concluded that the 3ED bid offered a solution that would provide a safe maintained and attractive learning environment, motivate young people and facilitate teachers and the Council in their efforts to raise the standards of achievement in all secondary schools. The 3ED solution offered opportunities for Head Teachers, staff and pupils to undertake a fresh and innovative approach to teaching and learning supported by high quality ICT, that would impact on every school's efforts to raise standards of attainment.

Inherent to the 3ED bid was an accumulation of cost drivers and value for money elements that elevated the 3ED solution above other bids and a conventional procurement. These are indicated in the tables below:

<i>DRIVER</i>	<i>ASSESSMENT</i>
Construction Costs	The most comprehensive information on construction costs for education projects is published in SPON's. A detailed comparison of the project construction costs compared to those given in SPON's has concluded that 3ED's bid contains construction costs which are both fair and reasonable. The economies of scale (12 new builds) reduces average costs for contingencies, inflation and fees. The construction risk is passed to 3ED.
Life Cycle Maintenance	Including the energy costs the Life Cycle total is approximately £200 million for *29 years. Due to the high initial capital expenditure, Life Cycle costs do not commence until Year 7. Costs increase towards the end of the concession to allow for minimal maintenance requirements after handback.
Energy Costs	The new builds and rationalisation of some schools provide a schedule of accommodation that effectively meets the accommodation required for present and future school rolls. The reductions in overall floor space, along with energy efficient materials have reduced the energy requirements across the estate.
F M Costs	The reduction in overall floor space has reduced F M costs. Present expenditure on Rates will be reduced. Also there is innovation, e.g. the Help Desk, Management Structure, which facilitate the successful implementation of the project.
ICT	The solution will provide quality and value. The pupil place rate represents value for money to the Council. ICT flexibility in management and curricular to meet the needs of schools is central to the bid. There will be a major reduction in telephone charges with the possibility of future adaptations to the contract bringing savings to the Council.
Interest Rates	3 Ed's bid used the Reference Interest Rate of 6% The interest rate has been subject to a sensitivity test at 6.25%.
Indexation	In the procurement process the Council required that consortia bid as RPI/x indexation formula to promote value for money in risk transfer. The rate of annual indexation set by 3ED is lower than its competitors.
Sports Pitches	3 Ed have allocated approximately £4 million to the refurbishing and building of new sports pitches. This brings a high degree of innovation in meeting the Council requirements.
Project Management	As the bid has progressed, 3ED has developed its management structure to mirror that of the Council. This has facilitated clear channels of communication with representatives from the Council and 3 Ed developing the experience to negotiate and settle a range of ICT/Accommodation issues. The mutually agreed structure of co-ordination and communication provides the framework for addressing issues arising from implementation and performance monitoring.
Scope of the Project	The wide range of the project, (multi site, mixture of new builds, refurbishment's, life cycle maintenance and ICT), will promote a cross disciplinary yet integrated approach from Council services. The rigour of the payment mechanism will deliver a high quality provision of common performance standards across the full secondary estate.
Furniture	The contract will deliver a mix of high quality new and refurbished loose furniture e.g. new and refurbished desks and chairs at excellent value for money in all schools for the lifetime of the contract. By the twelfth year of the contract every school will have refurbished furniture replaced by new furniture.

* The contact period has changed to 30 years. Please refer to Section 1 (1.8)

3.8 **Levels of Interest, Responsiveness and Competitiveness**

Following the publication of the OJEC notice (Appendix 8) the Council received expressions of interest from 75 companies experienced in the construction, facilities management, finance, legal technical and ICT services.

The degree of interest encouraged the council to organise an Open Day to give interested parties the opportunity to meet with council officers and through presentations and questions and answers to increase their knowledge and understanding of the scope of the project.

The Open Day attracted 95 representatives from a variety of companies. In addition, documentation was sent to 13 firms who had not yet expressed an interest but whose details were contained in the 'House of Commons PFI Green Book'.

11 accommodation and 10 ICT organisations were invited to provide pre qualification submissions, 8 and 5 organisations respectively were selected for interview. Subsequent to council evaluation, 4 consortia were selected to progress to the ITN stage when 2 consortia were chosen to submit their Best and Final Offer (BaFO).

The council is confident that the quality of the 3Ed bid in terms of price, design, and completion dates have been influenced by the level of competition inherent in the procurement process from its inception to nomination of 3Ed as preferred bidder.

4 The Preferred Bidder and The Preferred Solution

4.1 Description of the Consortium and its Members

3ED is a consortium owned by the Miller Group Limited, Amey Ventures Ltd and Halifax Projects Investments Limited. The obligations of the consortium members will be guaranteed by their respective parent company where appropriate.

Miller with Amey will take responsibility for delivery of the design and build programme. Amey plc will be primarily responsible through Amey Building Services for delivery of the facilities management. Halifax along with the European Investment Bank will be responsible for the financing of the project.

The ICT service will be provided by Mitel, Hewlett Packard and Morse.

4.2 Financial Strength of the Consortium

The financial strength of the members comprising bidding consortia was initially assessed at the pre qualification submission stage. This assessment focused on the likely size of the commitments that the individual members would undertake in relation to their roles, together with an assessment of the overall fund-raising capability. These aspects were reviewed in detail at the time of the detailed financial evaluation process at ITN and BAFO. In addition, the degree of commitment demonstrated in relation to bidders financial proposals, financial robustness of the project companies and the willingness and ability to accept the financial effect of risks applicable to the project were also analysed in detail.

The preferred bidder has structured the allocation of risk within the consortium in a manner which ensures only a small exposure by the Project Company to the project risks, and consequently, the bidders finance plan incorporates a project finance structure with a high level of debt to equity.

The funding structure assumes pinpoint pure equity of £20,000 subordinated debt (quasi-equity) of up to £35 million representing 11% of the total funding requirement. The remaining 89% will be met by senior debt up to a level of £290 million. Typical Project Finance returns and conditions are attached to these facilities.

4.3 Description of the PPP Solution

ACCOMMODATION SOLUTION

The 3ED accommodation solution accepted by the Council, covering 12 new build schools, 17 refurbishments, 7 extensions and specialist provision for the Dance School of Scotland and the Sports Academy is shown in the following table:

School	No. of First Year (S1) Classes (30 pupils max.)	Operational Pupil Capacity	Description of Accommodation Solution
All Saints Secondary	7	1100	New build school
Bannerman High	9	1400	Minor reduction in current capacity. Major refurbishment of accommodation
Bellahouston & School of Sport	7	1100	Refurbishment of accommodation and new build Sports Academy
Bellarmino Secondary	6	950	Former Craighbank building being refurbished by traditional procurement. This involves a reduction in capacity by partial demolition, a redesign of retained accommodation and a refurbishment. This building will join the PPP as from its new date of completion in December 2000.
Castlemilk High	5	800	New build school
Clevedon Secondary	8	1250	Major extension and major refurbishment of existing accommodation
Drumchapel High	6	950	New build school
Eastbank Academy	9	1400	Major extension and major refurbishment of existing accommodation
Govan High	5	800	Reduction in current capacity. Major refurbishment of required accommodation
Hillpark Secondary	8	1250	Minor reduction in current capacity. Major refurbishment of accommodation
Hillhead High	7	1100	Major extension and major refurbishment
Holyrood Secondary	14	2350	Major extension and major refurbishment of existing accommodation
Hyndland Secondary	6	950	Redesign, extension and major refurbishment of current accommodation
John Paul Academy	5	800	Major refurbishment of accommodation
King's Park Secondary	7.5	1175	Major refurbishment of accommodation
Knightswood & Dance School	9	1400	Major extension. Refurbishment of existing accommodation. New build School of Dance
Lochend Community High	6	950	New build school
Lourdes Secondary	9	1400	Minor reduction in current capacity. Major refurbishment of accommodation
Notre Dame High	5	800	Extension and major refurbishment of current accommodation
Penilee Secondary	8	1250	New build school at Rosshall
Shawlands & International School	8	1250	Reduction in current capacity. Major refurbishment of required accommodation and addition of an International School
Smithycroft Secondary	6	950	New build school
Springburn Academy	6	950	New build school
St Andrew's Secondary	11	1700	New build school
St Margaret Mary's Secondary	5	800	New build school
St Mungo's Academy	7	1100	New build school
St Roch's Secondary	6	950	Reduction in current capacity. Major refurbishment of required accommodation
St Thomas Aquinas Secondary	6	950	New build school
Whitehill Secondary	6	950	Reduction in current capacity. Major refurbishment of required accommodation
Knightswood Primary	2 Stream	420	New build primary school plus a new build Rowena Nursery School

Standard of Accommodation

A design manual has been agreed between 3ED and the Council which outlines the specification for the accommodation including classrooms, practical rooms, staff bases, conference rooms, drama studios etc.

The specifications contained in this design manual will apply to all new accommodation. If elements of existing buildings require renewal of part of the refurbishment programme or later as part of the life cycle considerations, these specifications will also apply.

The specification for rooms (classrooms, science laboratory, ICT room, staff base, drama studio, conference room etc) are given in the design manual. These set the general standards which must be met. The exact room dimensions will vary according to either current accommodation constraints or design.

4.4 Information and Communication Technology

The ICT solution specified a high level of connectivity. Each school will be networked and in turn will become part of a city wide network. Each desktop will have the following facilities:

- E-Mail
- Management Information System
- Glasgow Schools Intranet
- Internet Access
- Curricular Software

Computers will be provided in the ratio of 1 to 5 pupil spaces and ICT specialist rooms will be linked to the number of first year classes. There will be a phased provision of laptops for each teacher.

Additional equipment, such as whiteboards, scanners, digital cameras, video conferencing and whiteboard, is available within the contract. The provision of equipment as part of the contract will be subject to separate discussions with individual schools. Therefore equipment provided will vary from school to school reflecting both current provision and future curriculum requirements.

The 3ED solution provides free telephony between all city secondary schools and to Council HQ as well as free internet access and a city wide intranet.

The system can initially support 8,000 desktop computers with an expansion capacity and scalability up to 19,198 units.

The ICT contract will run until August 2012 and will provide a managed service.

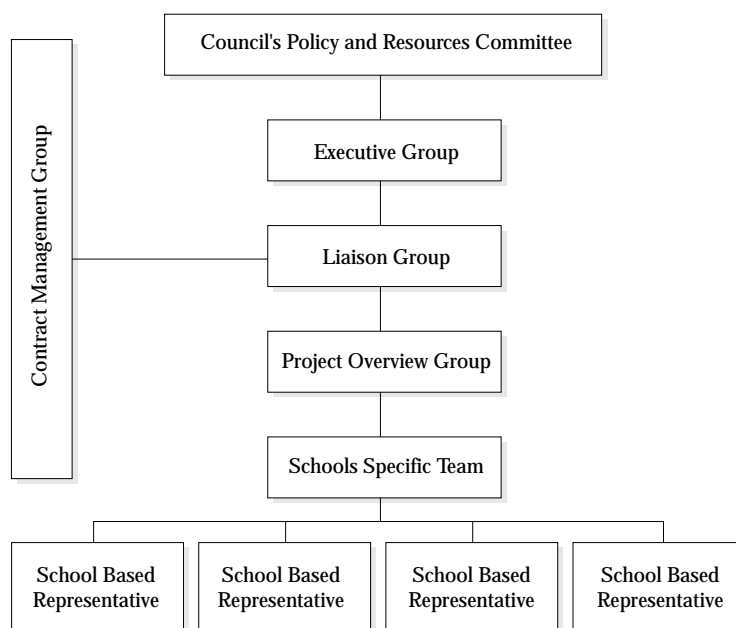
5 Project Management Arrangements

THE project management arrangements will cover the pre-construction and post construction phases and will, where appropriate, be co-ordinated either on an exclusive Council basis or jointly between the Council and 3ED.

The management arrangements will reflect the multi-site nature of the project. The hub of activities will be at 30 individual schools with a school representative being nominated by the head teacher to manage and co-ordinate the implementation of the 3ED solution for that particular school. The Council's project management is designed to support the head teacher, staff and school representative by responding to the needs of each school. At the core of the Council's project management arrangements will be the former Strategic Planning Group which has been re-titled the Contract Management Group. This will comprise the Council officers mainly responsible for the project since its inception.

Implementation of the management arrangements will be carried out at a range of levels – from school representative to an executive group. The Council's management framework for co-ordination, communication and performance monitoring is illustrated in the following chart:

The Council's Co-ordination & Communication Structure for Project 2002



The groups/teams at each level of the structure will have particular areas of interest and responsibilities. These are indicated below.

Management Group	Specification	Areas of Interest
Executive Group	Corporate Strategy	Strategic Management
Liaison Management Group	Development of partnership working schedules. Design of formal project management methodology. Financial management. Implementing the change control mechanism. Agree high level implementation plan for contractual milestones. Agree with 3ED. Authorisation of Payments	Problem solving at high level. Review of Performance. Help Desk and Reports referred by the Project Overview Group. Review issues referred by Council or service company representatives. Evaluation of proposed changes. Input to dispute resolutions. Appoint appropriate sub groups. Financial control and Management of costs.
Project Overview Group	Development of resource based transition plan to deliver the implementation of the project. Facilitating the relationships between the 30 schools and contractors. Preparation of contingency plans. Instigation of forward looking management of accommodation and ICT risks. Monitoring Payment Mechanism Regime Validating Invoices	Reviewing 3ED's monthly reports drawn from design and build, facilities management and ICT activities. Monitoring the overall 3ED programme. Requests for change. Decanting. Help desk reports. Monitoring payment mechanism requiring invoicing, agreed deductions, authority payments. ICT – monitoring of staff training and development plans (working with ESS), overview of web site, responding to issues arising from server farm at Nye Bevan House, monitoring of method statements procedures, collating requests for change, quality assurance, centralising and evaluating records of schools' contact with help desk, liaising with 3ED's development manager, referring issues to Control Management Group
School Specific Teams	Assisting in the management of the Implementation Process by co-ordinating the interfaces between construction, facilities management and ICT. Assisting in the management of Transition Period. Implement and test transitional performance monitoring system	Helping to resolve issues identified by school reps. Monitoring that developments are in line with design. Implementing routine checks. Liaising with transport and police. Site set up construction progress / programme. Statutory consents. Utilities. Security. Quality control Health & safety
School Based Representatives	Implementation and operation of the contract Developing user acceptance of the ICT services. Responding to user implementation issues	Working with head teachers and staff. Flagging up issues to be resolved by the School Specific Group. Review of the previous week's work. Day to day on site contact with 3ED for routine operations. Decanting arrangements. Health & safety. Site management and traffic. Hours of work. Level of disruption. Meeting school needs. Help desk – calls/ monitoring. Staff development. Point of contact with 3ED's school programme manager. ICT operational matters. Implementing early roll out. Hard ware and soft ware management.

The School Specific Team will work in partnership with a mirror group from 3ED. Their main and joint tasks will be to support the head teacher and school representative by minimising the disruptions to school specific activities from construction work and to ensure the delivery of facilities management and ICT provision to agreed performance standards.

Meetings during construction will be focussed mainly on the interface caused by the construction works. Due to the complexity of working in an occupied building, it is anticipated that meetings for refurbishments will be required on a weekly basis. In a new build situation, meetings will be initially required weekly but thereafter fortnightly.

Post construction the School Specific Team meetings with 3ED will focus on the smooth running of the schools and in particular interface between school activities, FM provision and the ICT provision. These meetings will be held initially at fortnightly intervals and thereafter possibly monthly.

The Council's Project Overview Group will be complemented by a mirror group from 3ED. The purpose of this integrated group will be a citywide focus on the FM, ICT and Design & Build for operational aspects of the project across all schools. A precise status report will be provided covering all schools relative to each of the Service Provisions. It is intended that the groups will meet separately and jointly.

The Council's Contract Management Group will be complemented by 3ED's Liaison Group. The principal role for this integrated group will be a strategic evaluation of the project e.g. costs, level of unitary payments, the future direction of the project and evaluation of proposals for implementing the change mechanism.

Overlaying the structure for co-ordination and management will be the communication process linking personnel at key strategic levels within both organisations.

5.1 **3 Areas of Managing the Project**

A major focus for project management following completion of the construction and ICT works will be in

- monitoring the performance of 3ED
- operating the mechanisms for change
- resolving disputes

These will be embedded in the structure for on going communication and co-ordination at school and Council level.

5.2 **Performance Monitoring**

The Project Agreement requires that throughout the contract 3ED will maintain records that the Council can access. These records will also include monthly operational reports from 3ED drawn from the Help Desk Report, Programmed Work and Overall Service Performance from School and Service Representatives and Meetings of Liaison Group.

Maintaining service delivery will be a key element of the project. The process will start at mobilisation and continue throughout the life of the contract.

Self monitoring of a comprehensive coverage of the activities and of the level of performance will be undertaken by 3ED in two main ways.

- a. Performance Monitoring via the Help Desk.
- b. Service monitoring undertaken by various levels of management team.

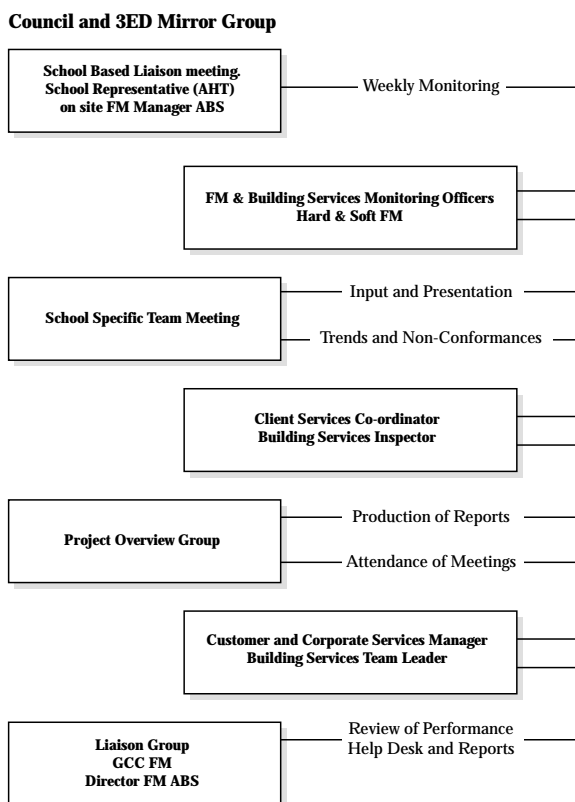
This will generate performance data from Help Desk Reports, Supervision Reports, Sub Contractors Programme of Activities, Council feedback from F/M and Council staff.

The Council's methodology for reviewing and monitoring of 3ED's performance is linked to the project management. These activities will be mainly carried out by experienced staff from the Council's Direct & Care Services.

The operational activities of the Council's Direct and Care Services staff for monitoring 3ED's performance and the links with the overall structure for communication and co-ordination is illustrated in the following table

Performance Monitoring Structure and Links with other Groups

The Council will agree with 3ED an auditable self monitoring and reporting system. The Council's monitoring team, drawn principally from experienced personnel from Direct and Care Services will monitor contract delivery and 3ED's quality assurance system. The team will liaise with and report to the various levels within the communication and co-ordination structure. The process is illustrated in the table below.



5.3 **The Change Mechanism**

The management structure will have the capability to initiate, implement and evaluate changes to the contract. The Project Agreement sets out the mechanism for both organisations to implement a change and the obligations and responsibilities of each party.

The Council and 3ED may request a change to the Project Agreement during the contract period.

Each has to serve notice on the other that a change will be requested. Each will evaluate the proposal with an estimate of the costs in savings, the proposed timetable and the impact on the project.

When 3ED requests a change it should provide the Council with an evaluation of the effect of the changes.

Neither party shall unreasonably withhold its consent to a request for change .

While it is anticipated that changes might occur with either of the partnerships, disputes arising from the change mechanism will be referred to an expert under the Dispute Resolution Procedures.

5.4 **Dispute Resolution**

The Council will nominate a Council Representative and 3ED a Service Representative who will liaise on a frequent basis to seek to secure the proper implementation and operation of the project. The representatives will attempt to resolve issues arising from the project which could be on an individual school or city wide basis relating to the accommodation and ICT services.

If the representatives are unable to resolve an issue it will be referred to the Liaison Committee.

The Liaison Committee will attempt to resolve any dispute or claim arising from the Project Agreement by making recommendations for the settlement of disputes.

If either party is dissatisfied with the Liaison Committee's resolution then either the Council or 3ED can refer the dispute to the Chief Executive Officer of each party for joint resolution.

If either party is dissatisfied with any joint recommendation, then either party may refer the dispute to an Expert who will be qualified by education, experience and training to determine the matter in dispute.

As a finality, if either party is dissatisfied with the decision of the Expert, the dispute may be referred to the courts.

6 Public Sector Comparator (PSC)

6.1 Derivation of the Public Sector Comparator

A Public Sector Comparator (PSC) has been prepared taking account of guidance contained within the Treasury Taskforce

- Policy Statement No. 2 'Public Sector Comparators and Value for Money'
- Technical Note No. 5 'How to Construct a Public Sector Comparator'
- "Appraisal and Evaluation in Central Government" (the 'Green Book')

The PSC for the Full Business Case is based on the PSC for the Outline Business Case. The updated model has been prepared to represent the solution the Council would adopt if it was to procure the project conventionally and within the timescale of the PPP contract and included a detailed review of the risk quantification.

The PSC represents the underlying cost to the public sector of directly supplying the services required to meet the output specification, produced as part of the PFI procurement exercise.

It includes an assessment of the value of risks transferred to the private sector. The PSC therefore represents the cost to the public sector of:

Building:

- 2 new build secondary schools at Rosshall and St Andrews and 1 new build primary school at Knightswood;
- undertaking 26 refurbishments and extensions to existing schools as outlined in Section 3
- initial installation of ICT equipment; and
- the closure of 3 schools at Crookston, Penilee and Woodside.

Providing:

- facilities management services, maintenance and life cycle expenditure to the portfolio of schools from the PPP contract award date to its expiry date (i.e. the equivalent period to the PPP contract). The relevant periods for the Accommodation and ICT elements of the project are consistent with the PPP contract.

The basis of the PSC is that the Council would deliver the above services to the same Output Specification as that included in the Project Agreement. The Council's response to the Output Specification is set out above. This was assessed as the most appropriate at the time of submitting the Outline Business Case. For the purpose of this Full Business Case, the Council confirms that this still represents the response it would make to the Output Specification if it were to procure the project conventionally. (Comparability with the PPP

solution is therefore achieved in terms of the Output Specification rather than the response to it by 3ED which includes 12 new builds rather than only 3 as suggested by the Council although the Output Specification is the same).

The PSC cost estimate assumes that assets are acquired through conventional funding and that the Council retains significant managerial responsibility and exposure to risk. The construction period assumed for Glasgow's schools project PSC is approximately 2.5 years, a period consistent with the proposals put forward by the preferred bidder. The operational period is assumed to be *29.25 years from Contract Award.

The PSC cost estimate has been determined by the Council, with advice from the Council's technical advisers.

The table below summarises the result of the PSC after inclusion of the value of risks transferred.

CASH FLOW	£'000
NPV of capital costs	208,969
NPV of revenue costs	251,290
TOTAL NPV of PSC	460,259

A summary of the assumptions of the PSC is shown in Appendix 1. Key assumptions included within the PSC are:

- All costs are expressed in nominal terms as at 31 March 2000. Inflation of 2.5% per annum has been applied to all costs thereafter to give nominal costs in each year of the project. This provides an estimate, for information purposes, of the total nominal cost of the project;
- In the analysis of Net Present Value, all cash flows have been discounted at 6% (real); that is to say that the Treasury's discount rate of 6% has been applied to all cash flows stated in real prices as at 31 March 2000;
- A construction period of 2.5 years will be required, commencing in April 2000. The new schools and extensions will become available on a phased basis over the duration of the 2.5 years – further details on the proposed phasing are included within the detailed assumptions in Appendix 1;
- An operational period of *29.25 years from contract award for the Accommodation element has been assumed. The Accommodation services included within the PSC are cleaning, janitorial, power, ground maintenance, security, insurance and repairs and maintenance;
- ICT capital costs and operational costs are included for a 12 year period from contract award;
- The cost to the Council of managing and supervising the services to be undertaken by 3ED have not been included in the PPP cost. Also the equivalent cost of managing the services if they were to be procured internally has not been included in the PSC.

* The contact period has changed to 30 years. Please refer to Section 1 (1.8)

This is because they are not considered either to be materially different from each other nor material to the overall PSC. Furthermore, they would not be readily quantifiable in the same level of detail as the rest of the PSC. They have therefore been excluded;

- Third party revenue is not considered to be material and has been excluded;
- Land values are excluded from the PSC. The Council will lease the retained school sites to 3ED for the contract period for £1 per annum if asked;
- Residual value is assumed to be nil as the commercial agreement with 3ED states that the schools will revert to the Council on contract expiry at no cost.

6.2 Risk Analysis

In order to provide a risk adjusted PSC the Council's Project Team undertook a detailed risk analysis. The approach involved:

- complete review of all risks identified at the OBC stage and within the Invitation to Tender;
- confirmation of relevant risks based upon this review;
- identification of the potential cost of each risk and the probability of occurrence; and
- inclusion of these risks into the total NPV of the PSC.

Further details on the Council's approach to risk analysis, and the Project risks identified, are included within Section 8. The forecast risk premium is 18.2%.

The table below summarises the risk adjustment to the PSC:

CASH FLOW	£000
NPV of PSC	389,373
NPV of risk adjustment	70,886
NPV of risk adjusted PSC	460,259

The risk calculation summary is shown at Appendix 6.

7 Economic Appraisal (Value for Money Analysis)

7.1 Approach to Economic Appraisal

THE purpose of the economic appraisal of the project is to confirm that the PPP project represents value for money. The appraisal takes into account the guidance included within the Treasury Taskforce Policy Statement No. 2 'Public Sector Comparators and Value for Money' and Treasury Guidance "Appraisal and Evaluation in Central Government".

The appraisal comprises a comparison between the risk adjusted PSC and the unitary charges both discounted at 6% (real). A detailed description of the risks included in the PSC is given in section 8.

The Council conducted a detailed analysis of the capital costs tendered for each school in the project to establish whether value for money had been achieved. The results of the study have shown that, in comparison with National Cost targets, the costs within this project offer excellent value for money.

NEW BUILDS

In the case of new-build secondary schools, the average cost per square metre was in line with National Cost targets under traditional procurement. This did not however take account of a number of factors which exist within PFI and which increase the value to the Council in the longer term:

- Additional costs to take account of risk (proportionally higher in PPP as all risk for construction overruns, inflation etc rests with the Service Company).
- High quality of specification to ensure that the buildings minimise the risk of unavailability and service performance failures over the life of the contract.
- The cost and associated risks of the demolition of 10 existing buildings and reinstatement of site.
- Inclusion of additional costs necessary for the accommodation of full ICT provision within the school accommodation.

The cost of the new-build primary school was below National Cost targets, again demonstrating that PPP offers long and short term value for money to the Council delivered through the unitary charge.

EXTENSIONS

Similarly, for Extensions the average cost per square metre was below national cost targets for extensions to existing schools under traditional procurement. Again, as with New Build Schools, this did not reflect the added value to the Council in respect of areas listed in the New Build paragraphs above over the life of the concession.

REFURBISHMENTS

There are few guidelines available on refurbishment costs, these being related to the scope of the works, which is a function of the condition of the existing buildings and the balance adopted between up front capital works or higher ongoing life cycle costs. The refurbishment works, however are similar to those found on other PPP schemes and represent good value for money in relation to the scope of the works being carried out.

The cost to the Council of the PPP procurement is the NPV of the unitary charge over the contract duration. This cost relates directly to the provision of the required services, as outlined in Section 9.

The table below highlights the results of this analysis:

The Council considers that the difference of £36,245,000 demonstrates that the PPP project represents better value for money than the equivalent public sector procurement.

7.2 Key Assumptions

The key financial appraisal assumptions are included within Section 6 for the PSC and Section 9 for the appraisal of the 3ED bid. The following other key assumptions have been included within the economic appraisal.

	PUBLIC SECTOR COMPARATOR £'000	UNITARY CHARGE £'000
Total NPV	460,259	424,014

- The Council requires provision of secondary school services to 29 schools and to 1 primary school;
- The applicable discount rate is 6% (real);
- Section 8 contains a consideration of the risks associated with the project, including those retained by the Council and those transferred to the project company. The NPV of risks transferred to the project company in the PPP contract is included in the PSC shown in the table above. The risks retained have not been quantified but the same figure would be included in the PSC and in the PPP contract.

In order to evaluate the value for money of the proposed PPP project the Council has examined in detail:

- the risk transfer proposals of the Project (within Appendix 3);
- their proposed approach to managing the risks retained by the Council (within Section 8);
- the benefits to be derived from the Project;
- the sensitivity of the financial aspects of the value for money analysis, in terms of interest rate fluctuations.

7.3 Sensitivity Analysis

In order to establish the sensitivity of the financial aspects of the value for money analysis, the Council has reviewed the impact of the fluctuation of interest rates and inflation on the unitary charges. The results of this analysis are summarised in the following table:

PSC SENSITIVITIES	NPV £000
PSC (risk adjusted)	460,259
Base Case PPP (6.0% interest rate, 2.5% RPI)	424,014
High Interest Rate (6.25%)	428,458
High Inflation Rate (3.0%)	439,211
Low Inflation Rate (2.0%)	409,472

The table below demonstrates the effect of varying rates of inflation have on the Public Sector Comparator and on the bidder's financial model. The effect of three different inflation rates on the NPV's are compared applying the base case real public sector discount rate of 6% (8.65% nominal), and a real discount rate adjusted for the inflation assumption applicable.

Public Sector Comparator

The table below shows for the PSC the effect of movement in inflation rates on the calculated NPV at real discount rates of 6%, and at real discount rate incorporating inflation:

	Inflation Rate		
	2.0% £000	2.5% £000	3.0% £000
Discount Rate 8.12% - £'000	460,087	N/A	N/A
Discount Rate 8.65% - £'000	445,401	460,259	476,207
Discount Rate 9.18% - £'000	N/A	N/A	460,435

When the original public sector discount rate is retained, the PSC shows an NPV increase of approximately £15m for a 0.5% change in the inflation rate.

When revised discount rate is used in line with the inflation assumption, the NPV does not alter as all costs are inflated and are then subsequently deflated at the same rate as part of the discounting process.

Bidder Model

The table below shows, for the bidder's model, the effect of movements in inflation rates on the calculated NPV at real discount rates of 6%, and at real discount rate incorporating inflation:

	Inflation Rate		
	2.0% £000	2.5% £000	3.0% £000
Discount Rate 8.12% - £'000	432,990	N/A	N/A
Discount Rate 8.65% - £'000	409,472	424,014	439,211
Discount Rate 9.18% - £'000	N/A	N/A	415,300

When the original public sector discount rate is retained, the bidder model shows an NVP increase of approximately £15m for a 0.5% change in the inflation rate.

When a revised discount rate is used in line with the inflation assumption, the NPV alters as only certain costs of the private sector are subject to inflation.

Conclusion

The above tables demonstrate that in NPV terms, the financial models of the bidder and the PSC react in the same manner to a change in the rate of inflation when the public sector discount rate is retained. Therefore, there is no material change in the Council Value for Money margin.

8 Risk Analysis

THE Council has undertaken a detailed review of the potential risks associated with the Project. This section outlines the Council's approach to risk analysis and provides details of the key risks identified to date and the Council's negotiated position with respect to these risks.

8.1 Approach to the Risk Analysis

The Council firstly reviewed the project risks identified at the OBC stage of the Project, in conjunction with their advisers. The objective of this review was to:

- confirm that the risks identified at the OBC stage were still applicable;
- review the estimated cost of the risks to transfer to the public sector;
- review and confirm the probabilities of the risks occurring; and
- identify any risks not previously included within the risk analysis through the review of the ITN documentation and discussions held within a series of risk workshops.

Risks have been analysed at appendix 2 in terms of their allocation between the Council and the project company, and in terms of financial effect. Those risks which are transferred in the PPP contract to the project company have been quantified. Those which are retained by the Council have not been quantified; this is discussed further below.

These transferred risks were then reviewed within the context of the three generic project types involved within the schools project, namely new build schools, extensions to school and associated refurbishment and refurbishment only schools. For each category of project, the probability of occurrence was estimated and the basis of costing the risk identified. The estimated value of these risks has then been included within the PSC and the total NPV amounts to £70.9 million being a risk premium of 18.2% of the base cost of the PSC.

8.2 Risks Retained by the Council

The risk matrix at Appendix 3 identified the following significant risks which are retained by the Council in the PPP contract:

- changes to the specification instigated by the Council;
- general changes in law above the threshold of £4.5 million for accommodation and £1.5 million for ICT accepted by the project company;
- Force Majeure events;
- Council default;
- inflation.

While the above risks are well understood by the Council, and a management strategy has been put in place (discussed in Section at 8.3 of this business case), the nature of the risks makes them necessarily unquantifiable with a high degree of subjectivity. For this reason, with the exception of inflation, the Council has focused on the risk management strategy rather than attempting to include inappropriate, unjustifiable values for the risk. The effect of inflation is shown in Section 7 as a sensitivity.

8.3 Risk Management Strategy

RISK	MANAGEMENT
Education Delivery	The Council will continue as detailed in its policy strategies to improve academic standards
Future School Closures/ Schools added to the Project	Provision is contained in the change mechanism within the legal agreement to address the issue
Change in Requirements	Any change in requirements at the construction or operational stages will be dealt with by the change mechanism in the contract agreement.
Volume – Number of pupils attending	Sufficient flexibility has been built into the surplus places available to meet any demand variances indicated by the population statistics over the life of the contract.
Vandalism	The Council is liable for acts of vandalism by any persons under the supervision of the Council during school hours or community use of the premises.
Technology	The Council has allowed for increased volume usage of IT equipment up to a specified threshold. Thereafter the Council would consider the need for increase within its affordability limits.
Change to Education Legislation	The Council is liable for costs arising from this change. It would be usual for such a change to be funded by Central Government if it was a material nature. In any case the Council would carry out an impact analysis of such a change.
General Law Change	The risk is shared with the Joint Venture Company. The JVC is liable for the first £4.5 million of accommodation costs arising and £1.5 million of ICT costs arising. Thereafter the Council would carry out an impact analysis of such a change occurring above these thresholds.
Residual Value	The school accommodation reverts to the Council at the end of the contract at nil value and 3ED would be liable for any major repairs required for the first 5 years after this date. The ICT equipment requires to have at least 2 years of useful life after the contract expiry date.
Inflation	The Council accepts RPI as the basis of indexation. The actual indexation factor is mitigated to reflect the fixed element of the cost of finance arising from the swap arrangement

9 Financial Appraisal

9.1 Quantification of the Revenue Implications of the PSC and PFI Options

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 assessed as off-balance sheet and does not therefore count against the Council's Section 94 consent. (See Appendix 7)

The revenue implications of the PPP project are a function of the Unitary Charges payable to 3ED and the Level Playing Field support available from The Scottish Executive in respect of this project. The Council will be eligible for full Level Playing Field Support from 2001/02 given the level of capital expenditure at that time. The net charge to the Council will be met from the Council's revenue and capital resources, including the current secondary schools' budget and the budgetary savings achieved in the reduction of the secondary school estate from 38 to 29 schools.

The following table demonstrates the revenue implications starting from the first full operational year of the PPP project:

Year	03/04	04/05	09/10	19/20	28/29
Cashflow	£m	£m	£m	£m	£m
Unitary Charges – Accommodation	36.7	38.0	42.7	50.3	58.4
Unitary Charges – ICT	3.8	3.9	4.4	-	-
Total Unitary Charges	40.5	41.9	47.1	50.3	58.4

N.B. Subject to final sensitivity analysis

In achieving affordability the Council has taken full account of entitlement to additional funding available from the Scottish Executive through Level Playing Field Support. This additional funding will be paid through the existing mechanism of Aggregate External Finance and will be separately identifiable each year. The level of support available to the project is £13.8 million for six years starting from financial year 2001/2002 and increasing to £16.1 million for the remainder of the contract.

Notes:

- 1 The ICT contract expires in 2012/2013
- 2 Indexation applies at 1.77% per annum; the assumed rate of RPI is 2.5% per annum [issue under discussion with 3ED]

9.2 Assumed Interest Rate

The revenue implications for the Council have been assessed on the basis that the interest rate applicable to 3ED is 6.0%. At the time of submitting this Full Business Case, this assumed rate broadly reflects the market for fixed interest rate swaps available to project finance deals of this nature.

9.3 Sensitivity Analysis of the Effect on Price of an Increase or Decrease in Interest Rates

The Council recognises that the risk of interest rates up to financial close is retained and it therefore bears the financial effect of variations in interest rates up to that time.

The following table sets out the effect of a different interest rate on the Unitary Charges:

	Base Case: 6.0% £'000	Increase: 6.25% £'000
Unitary Charge in 2003/04	40,500	40,500
Net Present Value	424,014	428,458

N.B. Subject to final sensitivity analysis

The Council confirms that the project affordability is acceptable within these bands.

The commercial deal with 3ED is structured such that there is no pricing effect on the Council if any new build fails to achieve planning permission post financial close.

9.4 Impact on the Council's Balance Sheet

In compliance with the rules governing PPP projects the Council will lease the school sites to 3ED for the contract period. The Chartered Institute of Public Finance and Accountancy is currently producing guidance to local authorities on PFI contracts to which the Council will comply.

9.5 Assumptions made in the Financial Appraisal

The following basic assumptions have been made in the financial appraisal:-

- The interest rate applicable for 3ED is 6.0%;
- The Unitary Charges are stated before deduction for non-availability or poor performance by 3ED;
- Inflation is 2.5% per annum.

In order to calculate the Council budget for the services being undertaken by 3ED, the Council has utilised the existing secondary schools budgets, revenue savings and capital receipts from previous school closures and other related sources from within the Council's budgets. This is projected to inflate at 2.5% per annum, reflecting market predictions of the rate of RPI and the behaviour underlying the mix of cost categories within the total as they move relative to RPI. The majority of costs are wage-related, which tend to marginally exceed the rate of RPI. The Council has therefore taken a conservative view of indexation of its budget for the project.

The financial appraisal reflects the commercial deal with 3ED in respect of the transition phase. 3ED will be responsible for the costs of all of the services transferred from June 2000 onwards, but the Council will commence payment of Unitary Charges in respect of the Accommodation and ICT only when pupil places become available on the basis of the full Specification. This means that the full Unitary Charge only becomes payable in the year to 2003/04 when all of the pupil places are fully available to the Council. 3ED offered to the Council an alternative whereby all Unitary Charges are deferred until the year 2003/04, with the effect that the Net Present Value of Unitary Charges is marginally lower but the affordability year on year is more difficult for the Council to manage. Effectively, it requires the Council to accrue amounts during the years up until 2003/04 in order to fund the higher subsequent Unitary Charges. This strategy has therefore been rejected.

The Council has also explored with 3ED the possibility of achieving NPV savings by sculpting the Unitary Charges to reflect the underlying cash flows of the Special Purpose Company. This reduces the NPV of the Unitary Charges by reducing the costs of funding working capital during the project. This strategy has also been rejected because, as with the deferral of transition phase Unitary Charges, the Council would be required to set up an accruals fund to deal with the year-on-year fluctuations.

9.6 Calculation of Loans Charges Support

The Scottish Executive has advised the Council that the Level Playing Field support for the project will be based on £13.8 million per annum for the first six years starting in 2001/2002 and £16.1 million per annum over the remainder of the contract.

9.7 VAT Treatment

Glasgow City Council is VAT registered and can reclaim input VAT using the refund provisions under Section 33 of the VAT Act 1994.

The separate unitary charges for accommodation and ICT services paid by the Council to the Services Company are regarded as taxable supplies on which the Council can reclaim VAT. The Council will continue to be responsible for community letting which is an exempt supply and this will not therefore be a change to the existing Council position in regard to the overall VAT exempt supply limit.

The Service Company, in consultation with the Council, has an option to use the schools for alternative use when not required by the Council. There may be a profit sharing payment made to the Council by the Service Company and although this would increase the Council's exempt supply amount, it would not be regarded as a material change.

All amounts quoted in this document and within the Project Agreement are exclusive of any VAT properly charged thereon.

9.8 Land and Buildings

Each site is leased to 3ED for *29 years and leased back to the Council for the Services period.

* The contact period has changed to 30 years. Please refer to Section 1 (1.8)

10 Accounting Treatment

THE Council believes that the schools PFI project meets the criteria required to ensure that the scheme will be assessed as off-balance sheet in accordance with FRS5, having taken into account the Treasury's note, 'How to apply FRS5 to PFI Transactions'. The Council has obtained advice from its financial advisers, PricewaterhouseCoopers. An accounting opinion, providing an off balance sheet opinion for the accommodation services and ICT contract, has already been received – see Appendix 4 and 5. The accounting treatment opinion from Audit Scotland is contained in Appendix 7.

11 Project Agreement

11.1 Summary Of Project Agreement

Parties	Glasgow City Council and 3ED Glasgow Limited (3ED)
Purpose:	The provision, operation and maintenance of accommodation, and information and communication technology (ICT) for 29 Schools.
Duration:	*29 years for accommodation, 12 years for ICT.

Key Terms:

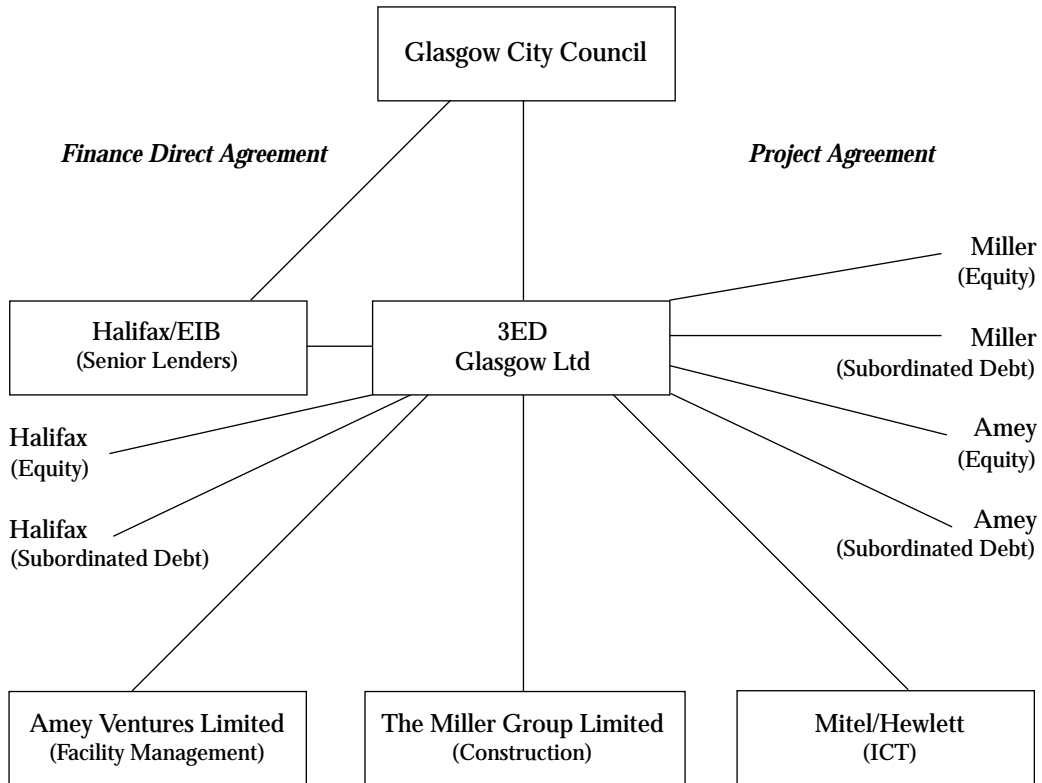
Maintenance:	3ED is responsible for maintaining the Schools, internally and externally and the ICT Systems being provided by it.
Planning & Consents:	3ED is responsible for obtaining necessary planning consents for the refurbishment of existing Schools and construction of new Schools.
Availability Certificate	As each School fulfils completion criteria an Availability Certificate will be issued. From the commencement date up to the issue of the Availability Certificate 3ED will provide each School with a transitional service.
Payment and Deductions:	No payment is due by the Council to 3ED for each School until an Availability Certificate for that School has been issued. Once an Availability Certificate has been issued the Council will make monthly payments to 3ED for the services provided, (such amounts to include payment for the services provided prior to the issue of the Availability Certificate, which have been rolled up until the Availability Certificate is issued) less deductions for poor or inadequate service.
TUPE:	The employment of some Council employees will transfer to 3ED and the terms of the Transfer of Undertakings (Protection of Employment) Regulations 1981 will apply to their transfer. The Council indemnifies 3ED for any claims the transferring employees may have against their employer relating to the period prior to transfer to 3ED and 3ED indemnifies the Council for any claims the employees may have against their employer on or after their transfer to 3ED.
Indemnities:	3ED indemnifies the Council for losses or damage suffered by the Council (a) as a direct result of death or personal injury (b) damage to property or assets caused by 3ED and (c) following prosecution by the Council where the prosecution arose as a result of a person for whom 3ED is responsible, breaking the law. The Council provides similar indemnities to 3ED.

* The contact period has changed to 30 years. Please refer to Section 1 (1.8)

Step-In:	The Council has the right to Step-In and perform (or procure a third party to perform) 3ED's obligations under the contract where a serious risk to health, safety or the environment exists or where the Council is required to discharge a statutory duty. 3ED are liable for the Council's costs of stepping in where the Council has stepped in as a result of 3ED's breach. The Council must comply with Good Industry Practice when stepping in and where the Council fails to do so and causes damage, it indemnifies 3ED for any losses, costs or damages.
Termination by the Council:	The Council can terminate the agreement where 3ED (a) is insolvent (b) wilfully fails to provide the Works at a Project School for a continuous period in excess of 30 Business Days or a cumulative period in any twelve months in excess of 90 Business Days (c) breaches the agreement (d) fails to complete 5 or more Schools by the latest time for completion for each of the Schools (e) breaches the provisions of the agreement relating to the corrupt gifts or (f) deductions for poor or inadequate service have reached an agreed level within an agreed timescale (g) transfers or assigns the agreement within 12 months of the Completion Date for the last School (except where the transfer is to an associate of Amey, Miller and Hewlett Packard) or where the transferee is involved in tobacco, armaments, drugs, alcohol or gambling. Alternatively the Council can terminate the agreement by giving 3ED 6 months written notice. The Council is able to terminate that part of the agreement relating to ICT if 3ED wilfully fails to provide the ICT Services or breaches the agreement in relation to the provision of ICT Services.
Termination by 3ED:	3ED can terminate the agreement where the Council (a) fails to pay in excess of £450,000, where this sum is not disputed (b) breaches this agreement and has failed to remedy the breach (c) makes payment persistently and wilfully late (d) assigns or transfers the agreement to a party other than a statutory successor or (e) has been sequestrated under the Bankruptcy (Scotland) Act 1985, or (f) has its obligations transferred to a person other than an agency or department of the Government or any local authority with sufficient financial standing or resources to perform the Council's obligations under the agreement. 3ED can also terminate the agreement following a determination or order made on judicial review that the agreement should have no effect.
Effect of Termination:	(a) 3ED vacates Schools (b) 3ED so far as reasonably practicable transfer the benefit of any manufacturers warranties for mechanical or electrical equipment to the Council at no cost (c) the Council pays compensation to 3ED. The amount of compensation payable varies depending upon the grounds of termination. Where the Council has terminated the agreement in relation to the provision of the ICT Services only, 3ED's obligations relating to accommodation will continue.

<p>Force Majeure</p>	<p>The agreement contains restricted circumstances where the rights and obligations of the parties will be suspended. During events of Force Majeure, the Council is not obliged to make payment to 3ED, except for services provided. If an event of force majeure is or is likely to continue for 6 months or more, either party can terminate the agreement and compensation will be payable to 3ED or the Council may at its option, make Contract Payments to the Service Company after the 6 month period in which case the agreement will not terminate.</p>
<p>Relief Events</p>	<p>Where a party is unable to perform due to limited circumstances (such as storms, lightning strikes) that failure to perform will not lead to termination but 3ED will be liable for deductions to the extent it fails to perform due to a Relief Event.</p>
<p>Change Procedure:</p>	<p>Both the Council and 3ED can propose changes to the Contract, a mechanism within the agreement sets out how costs will be allocated where a change is a change requested by the Council or by 3ED or where a change in the law necessitates a change in how the services are to be performed.</p>
<p>Additional Terms:</p>	<p>A number of additional clauses relating to intellectual property rights and licences, confidentiality, insurances and handover provisions are also included.</p>

Legal Relationships



- Glasgow City Council (“the Council”) will contract with 3ED Glasgow Limited for the provision of Accomodation and ICT Services for 29 Schools (“the Project”)
- 3ED is a joint venture company owned by Amey ventures Ltd, Miller Group Ltd and Halifax project Investments Ltd.
- 3ED has obtained funding for the Project from Halifax. Funding may be provided by EIB. The Council will enter into a Finance Direct Agreement with Halifax.
- In order to perform the Project 3ED will contract with:-
 - Amey for Facilities Management
 - Miller for construction
 - Mitel/Hewlett Packard for ICT

12 Conclusions

- 1 The primary purpose of this initiative for secondary education and one primary school is to raise educational standards.
- 2 The poor condition of Glasgow secondary school buildings and variable ICT provision can only be properly addressed through a major capital investment programme.
- 3 Based on approval of the Full Business Case by the Council, Glasgow City Council will enter into a *29 year and 12 year contract with the 3ED consortium for the respective procurement of accommodation and ICT services. The contract agreement is based on Treasury Taskforce Guidance.
- 4 The impetus that schools, head teachers, pupils, staff and the local community receive from the impact of new builds, extensions, refurbishments, continuous maintenance and high quality ICT provision will enhance the ethos within each establishment and contribute significantly to the central strategy of 'Raising Standards'.
- 5 The Council set out its requirements for construction works, ICT capital investment and FM and ICT services on which bids were invited.
- 6 The Council carried out a rigorous and multi-disciplinary evaluation process on the submitted bids which concluded
 - a). The unsuccessful BaFO bidder submitted a solution which met these Council requirements and provided better value for money than demonstrated by the PSC.
 - b). The 3ED solution clearly achieves a more effective solution for the Council requirements and provides best value for money in comparison to both the unsuccessful bidder and the PSC over the project life.
 - c). The annual unitary charge of 3ED was affordable to the Council.
- 7 The PSC has been based on Treasury Task Force guidance. The NPV of the PSC is £460.3 million. The NPV of the 3ED solution is £424.0 million.
- 8 The Council has adopted a process for the identification, prioritisation and allocation of risks that accords with the practice set out by the Treasury Task Force guidelines and the treatment of risk. The Council has demonstrated that the transfer of risk is more than sufficient to ensure the accounting treatment places the project off balance sheet which is required to receive level playing field support from the Scottish Executive.
- 9 A suitable management structure will be put in place for the pre and post construction components of the project to achieve full and proper implementation and the realisation of the benefits.
- 10 As the project has developed and moved to financial close it has become increasingly evident there is an enhanced sense of optimism among head teachers, staff, pupils and local communities.

* The contact period has changed to 30 years. Please refer to Section 1 (1.8)