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**BALFRON HIGH SCHOOL PFI PROJECT**

**FULL BUSINESS CASE**

**NOVEMBER 1999**

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## **1. Executive Summary**

### **1.1. Background**

Stirling Council has identified the pressing need to replace Balfroun High School due to significant problems of over-crowding and deterioration of the fabric of the school. The Council recognises the need to address this situation urgently and has prepared this Full Business Case to take forward the replacement of the High School under the Private Finance Initiative.

The aim of the Full Business Case is to:

- consider a range of options to deal with the above concerns;
- evaluate each of these options against the Council's objectives in terms of the relative benefits and associated risks and costs of each option, and;
- identify the preferred option to take the matter forward;
- identify the most effective solution for delivering the preferred option;
- present the case for the preferred solution to the Scottish Executive in order to access Level Playing Field Support.

### **1.2. Preferred Option**

The Council's preferred option is to replace the High School with a new building on the current school playing field site, since this option achieves close to the maximum potential benefit score, as described in the Outline Business Case. Since the submission of the Outline Business Case, the Council has progressed the project through the Private Finance Initiative. The Council advertised the project in OJEC in April 1998, shortlisting bidders in June 1998. After issuing an Invitation to Negotiate in December 1998, 2 bidders were invited to submit Best and Final Offers in June 1999. Jarvis Projects Limited were selected as Preferred Bidder in September 1999, since when the Council has been involved in detailed negotiations with Jarvis. The Council now believes that the Jarvis proposal represents a Best Value solution for the replacement of Balfroun High School.

### **1.3. Economic and Financial Appraisal**

**1.3.1.** The Full Business Case considers in detail the issues of risk transfer and affordability of the preferred option in relation to the requirements of the Private Finance Initiative. The preferred PFI solution is compared to a risk adjusted Public Sector Comparator model to ensure that the solution provides value for money.

**1.3.2.** The Full Business Case considers the affordability of the project by modelling the expected annual contract payments of £2.177M and then deducting Level Playing Field support and revenue cost reductions which will arise. The

need to generate sufficient savings to fund the overall additional cost to the Council is recognised and accepted. The affordability model used estimates an initial funding gap in real terms of £199,000 per annum and subsequent annual funding gaps of up to £42,000 per annum.

**1.3.3.** The Council has addressed the need to fund these additional costs from within its own resources and will ensure that the cost of the Balfroun PFI Project is fully incorporated within the framework of the Council’s revenue budget processes.

**1.3.4.** Guidance on the accounting treatment of PFI contracts has developed during the course of the project to date. The Council is fully aware of the importance of risk transfer and contract and pricing structure in ensuring that off balance sheet status can be attained. These issues have been fully addressed within the Invitation to Tender and further stages of the Project. The Council is satisfied that the assets created through the PFI contract will not be on the Council’s balance sheet.

#### **1.4. The PFI Agreement**

Jarvis Projects will be contracted to build, run and maintain the new Balfroun High School buildings on the site of the present school playing fields. A summary of the contract structure is contained in section 10.

#### **1.5. Key Milestones**

The key milestones for the remainder of the project up to the date of the proposed opening of the school are:

Negotiation Period	September 1999 - Dec 1999
Acceptance of Full Business Case	November/December 1999
Financial Close	December/January 1999
Commencement of Site Clearance	January/February 2000
Construction Start	March 2000
Construction Complete	July 2001
School Opens	August 2001

## **2. Strategic Context**

### **2.1. Key Objectives**

Stirling Council has a number of key objectives which relate to the project to replace Balfron High School. These are:

- to continue to provide teaching and learning within a local authority context;
- to facilitate the development of appropriate learning and teaching strategies to enable the development of a curriculum which provides a wide variety of opportunities for all learners;
- to provide flexible use of accommodation which facilitates both the current and likely future curricular requirements;
- to ensure there are no access barriers to any areas of the school or curriculum;
- to ensure that school security is a key consideration within the design of the school;
- to maximise the benefit derived by the local community from the school;
- to achieve value for money and an affordable scheme;
- to transfer risks involved with design, construction, maintenance and facilities management to Jarvis Projects;
- to work in partnership with Jarvis Projects to secure as much third party income as possible.

### **2.2 Authorities Requirements**

The proposal will enable the Council to continue to take full responsibility for educational provision in terms of curriculum, staffing and organisation whilst taking advantage of the private sector's expertise in managing the risk in construction, maintenance and facilities management. The transfer of risk and the resulting value for money offered to the Council by the project are described in other sections of this document.

### **2.3 Key Assumptions – Summary.**

The following assumptions have been made in progressing the project.

- The Local Authority will continue to be responsible for educational provision.
- The demand for school facilities will continue at the same level as at present.
- West Stirling is an area of population growth.
- Private sector expertise exists in building, running and maintaining large buildings.

Since the submission of the Outline Business Case there have been no changes which effect the strategic analysis.

## **2.4 Catchment Population and Service Activity.**

**2.4.1** Balfron is situated in the Endrick Valley, approximately 20 miles from Stirling and Glasgow. The catchment area of the school covers most of rural West Stirling encompassing villages such as Killearn, Strathblane, Drymen, Fintry, Buchlyvie and Kippen. Its position, in an area of housing demand, is recognised in the Structure Plan where population growth is clearly anticipated. Stirling Council wishes to ensure that such growth is allowed for in the development of a new Balfron High School.

**2.4.2** The current roll of the school is 842 with numbers being around this figure for several years. The school's educational record is well regarded throughout the area and the school attracts around 140 placing request pupils each year from outwith the catchment area. The population of the catchment area is approximately 13,000.

**2.4.3.** The present school consists of a collection of buildings of varying age and quality. The oldest part of the building dates from 1871. In 1963 a large extension was built to give a capacity of 450 pupils and since then twenty temporary huts have been installed to cater for the growing roll.

**2.4.4.** With such haphazard growth, the buildings are no longer fit for their purpose. Classrooms are crowded, there is practically no social space for pupils and several departments are severely restricted in terms of the educational activities they can offer. Similarly, provision for community activities has been severely restricted by the present accommodation.

## **2.5 Size and Scope of the Project**

**2.5.1.** Stirling Council wishes to replace the existing Balfron High School with modern educational and community facilities for an anticipated roll of 920. The buildings have to be designed in such a fashion as to be adaptable to changing learning and teaching approaches as well as maximising the possibilities for community use.

**2.5.2** For the benefit of bidders, the Council produced a curriculum model which outlined its vision in terms of flexibility of accommodation and curricular links. There are four main elements to the model:

- learning and teaching areas of different sizes, grouped in curricular zones to suit the numbers being taught and the methods being used;
- accessible multi-purpose areas - adjacent to classrooms to be available for small groups, displays, demonstrations, testing etc;

- an atrium to act as a social gathering place during non-teaching time and as a gathering place for formal large groups. This area would include a dining area;
- convenient and easy circulation routes around the school.

The atrium, and carefully planned circulation will play an important part in creating a positive ethos in the school.

## **2.6. Demand for Services**

The Council is confident that the projected level of school and community use is accurate.

**2.6.1.** The roll of the school has been at near capacity (840) for several years, the problem being exacerbated by a continuing high number of placing requests. In addition, present planning applications will add around 45 places to the school roll and the new Structure Plan will allow for a significant number of other developments. The steady growth in the school roll has resulted in twenty classrooms being located in temporary huts. Consequently, the Council feels that the ageing infrastructure at Balfroon High School will not support either modern educational requirements or the increased school population.

**2.6.2.** In addition, the inferior condition of the buildings and the lack of community facilities act against the concept of a community school. In accordance with government policy the Council wishes to maximise community use of the school and will work with Jarvis Projects to consolidate traditional uses and also find innovative ways of opening up the school to the community.

**2.6.3.** The Council recognises that the lack of recreational facilities in rural West Stirling will create an opportunity when the new school is built. Travel times and restricted public transport to Stirling and Glasgow mean that a high uptake of recreational activities can be expected. An extensive survey carried out by the Council indicated a large demand for recreational facilities. This has been confirmed in studies undertaken by Jarvis.

**2.6.4.** The Council is seeking to commission a school with capacity for 920 pupils which will allow for population growth over the next 25 years. This capacity is currently around 205 places (29%) higher than the demand created from within the catchment area. However the popularity of the school which generates significant numbers of placing requests, together with predicted population growth means that the school is likely to be operating at around 94% capacity in August 2001. The flexibility allowed by placing requests means that it is projected that demand will remain at this level throughout the life of the project, but that it will not outstrip the Council's responsibility to supply places.

### **3. Outline Business Case (OBC)**

#### **3.1. Summary**

**3.1.1.** The OBC for the proposal to replace the existing Balfroun High School sought to establish the most appropriate option for the construction of the school and to assess whether the preferred option was affordable under the PFI. The aim of the OBC was not to dictate a preferred option to private sector operators. Instead, the identification of a preferred option was intended to highlight the Council's preferences, particularly in relation to its educational objectives and the benefits sought.

**3.1.2.** The background to the need for a replacement school at Balfroun and the funding/other constraints within which the Council operates were discussed and the costs and benefits of the different possibilities were considered. Each option was subject to different risks and uncertainties. These were examined before a recommendation for a preferred option was made.

#### **3.2. List of Options**

**3.2.1.** In developing a strategy for continuing to provide secondary education to Balfroun High School's existing catchment area, Stirling Council considered a number of options. These are discussed fully in Appendix 1. (Pages 6-13 of OBC)

##### **3.2.1.1. Option A Do Minimum**

This involved the upgrading of the existing facilities to ensure compliance with relevant health and safety regulations to the extent that this is possible within the existing fabric of the building. This option achieved only one of the objectives listed in section 2.1 above.

##### **3.2.1.2. Option B Partial Rebuild**

This involved the replacement of some or all of the hatted accommodation, the construction of a new annexe on the existing site and the upgrading of certain aspects of the structure and services of the remaining buildings. This option partially achieved some of the objectives listed in section 2.1 above.

##### **3.2.1.3. Option C New Build on Existing Site**

This involved the construction of new school buildings on the existing playing field site and the demolition of the current buildings. It is envisaged that on completion of this option the site

of the current buildings would be made available for redevelopment. This option would enable the Council to meet all of the objectives in section 2.1 above as well as promoting sharing of the facilities with Balfron Primary School which lies adjacent to the existing playing fields.

#### 3.2.1.4. Option D New Build on New Site

This option involved the construction on a new site and the disposal of the current site. It is envisaged that any new build would continue to be located within the vicinity of Balfron given the centrality of this location to the rest of the catchment area. This option meets all of the objectives in Section 2.1, improves road safety but does not promote sharing of facilities with the primary school.

3.2.2. The Council conducted a widespread survey of local opinion regarding the preferred location of the proposed new school. The existing school playing fields site was overwhelmingly regarded as the best location. Since this land is in Council ownership, it obviously has the added attraction of being the lowest land cost option.

### 3.3. Economic Appraisal of Options

3.3.1. A summary of the economic appraisal in the OBC of each option is shown below:

Option	Net Present Value (NPV) £'000s	Ranking
Do minimum	50,840	1
Partial rebuild	54,047	2
Replace, existing site	57,436	3
Replace, new site	57,462	4

Costs for each option have been classified in two categories:

- Capital costs, including construction costs, on-costs (a % to cover unplanned changes), fees and equipment;
- Revenue costs, excluding capital charges.

3.3.2. In accordance with recommended practice, each stream of net costs was profiled and discounted at 6% over a 50 year period to produce an estimate in present value terms of the full economic costs of each option.

### 3.4. Benefits Analysis of Options

**3.4.1.** Council Officers and school representatives carried out a benefits analysis based on the policy objectives listed in section 2.1. above. Benefits were identified by examining these objectives, identifying who would benefit from their achievement and listing how they would benefit. In each case, benefits were weighted on the basis of the perceived relative importance of the individual benefits.

**3.4.2.** A summary of the results of the benefits analysis from the OBC is shown below:

<b>Option</b>	<b>% of Maximum Score</b>	<b>Ranking</b>
Do minimum	22	4
Partial rebuild	43	3
Replace, existing site	96	2
Replace, new site	97	1

### **3.5. Sensitivity Analysis of Options - Capacity**

**3.5.1.** The Council analysed the following operational sensitivities as part of their option appraisal within the OBC:

- Pupil numbers exceeding planned capacity of the school (920 pupils) - insufficient capacity
- Pupil numbers below planned capacity – surplus capacity

#### **3.5.2. Insufficient Capacity**

Options A and B have limited ability to absorb increases other than through extending the short-term measures already adopted. Options C and D will incorporate the ability to extend the facilities to cater for increases in pupil numbers.

#### **3.5.3. Surplus Capacity**

The Council believes that the likelihood of surplus capacity is relatively low given that:

- Current demographic trends are available for the next ten years and do not indicate a fall in school roll;
- The school has attained a high educational standard and regularly receives placing requests.

### **3.6. Review of Outline Business Case Assumptions**

**3.6.1.** A review of the assumptions made in compiling the Outline Business Case has been carried out and the key points summarised below. The review has confirmed that Option C is the Council's preferred option.

#### **3.6.1.1. Option A and B**

It is estimated that the cost of complying with new health and safety standards would need to be increased from the original £1.83m

#### **3.6.1.2. Options C and D**

- Building costs have been revised downwards from the original £17.471m.
- There will be no land acquisition necessary within Option C
- Asset disposal will realise £1.1m instead of the £310,000 envisaged in OBC.
- A survey of local people confirmed that Option C was by far the most popular solution

#### **3.6.1.3. Option D**

Land acquisition costs are now estimated at around £500,000 (depending on the site selected) compared to the £210,000 envisaged in the OBC. Planning difficulties could also add to the costs involved and would be likely to cause an unacceptable time delay.

#### **3.6.1.4. All Options**

Home to School Transport services will continue to be commissioned directly by the Council.

## 4. The Public Sector Comparator (PSC)

### 4.1. The Outline Business Case

**4.1.1.** In the Outline Business Case submitted to the Scottish Office by the Council in September 1997 the Council outlined the costs of its Preferred Option as follows:

- Construction and associated costs of £17.661m
- Sale of the existing school site for £440,000
- Annual operational costs of £651,000
- One-off transitional costs of £35,000
- Income, including income from school meals of £118,000

Within this original submission the Preferred Option was marginally in favour of a new build on a new site.

**4.1.2.** In June 1998 the Council submitted a supplement to the Outline Business Case to the Scottish Office. Within the supplement a number of key changes had been recognised and reflected in the cost estimates of the Preferred Option. These were:

- the change of Preferred Option to a new build on the existing school playing field site, following a community consultation exercise
- the consideration of moving some of the Council facilities currently provided within Balfron from their current locations into the new building e.g. town library
- a re-appraisal of the estimated capital, life cycle and operating costs for the new building which were carried out as part of a Risk Workshop facilitated for the Council by Alan Seywright of the PF Unit in May 1998. This concluded that the original capital cost estimates had been too high and that the operating and life cycle costs for the new building were too low. The Council's experience at Local Government Reorganisation also indicated that the transitional costs allowed were too low
- the Council would retain income raised from the sale of school meals for VAT reasons

**4.1.3.** As a result of these considerations the June 1998 Supplement to the Outline Business Case included the following table of estimated costs:

	<b>£'000</b>
Construction Costs (including Fees and Fit Out)	16,520
Transitional Costs	95
Surplus Site Sales	(460)
Capitalised Maintenance: Total Costs	2,407
Net Revenue Costs: Year 1	763
Net Revenue Costs: Year 25	802

All costs were quoted at April 1998 prices.

## **4.2. PSC and Comparability to the PFI Solution**

**4.2.1.** Subsequent to the production of the June 1998 Supplement, it has been necessary to make a number of further changes to the costs of the Preferred Option to enable the information to be used for the purposes of a Public Sector Comparator:

- Following the issue of guidance on Level Playing Field Support by the Scottish Office in November 1998, the Council decided to make reductions in the scope of the building prior to the issue of the Invitation to Negotiate in December 1998, with a view to improving the affordability of the project. This resulted in the estimated size of the building reducing from 13,000 square metres to 12, 778 square metres.
- Part of the reduction in the specification included cancelling proposals to move other Council facilities, including the public library to the new building. This left the existing school site as the only surplus property available. A valuation of this site by the Council's Estates services was commissioned. This produced a valuation of £520,000.
- The costings produced in June 1998 were based at April 1998 prices. The price base used for Best and Final Offer bids is December 1999. An uprating to reflect inflation over 20 months has therefore been required.
- The Best and Final Offer document provided a minimum amount of time that the Council would wish the facility to be open for Community use, particularly of the sports facilities and community and adult education. This has increased the level of operating costs particularly in relation to cleaning, janitorial and energy.
- The requirement to provide Home to School transport was removed at the Invitation to Negotiate stage of the project.
- A detailed study undertaken by the Council's Estates Services which analysed in full the Life Cycle cost requirements of the project.

**4.2.2.** A revision of the figures as provided in the June Supplement to the Outline Business Case are as follows (December 1999 prices):

	<b>£'000</b>
Construction Costs (including Fees and Fit Out)	16,804
Transitional Costs	98
Surplus Site Sales	(537)
Capitalised Maintenance: Total Costs	4,629
Net Revenue Costs: Year 1	598
Net Revenue Costs: Year 25	638

**4.2.3.** The Public Sector Comparator provides a Net Present Value (NPV) of cash flows over the life of the project of £24,278M, using the recognised Treasury discount factor of 6%. Details of the NPV calculation are contained in Appendix 2. It should be noted that this NPV does not include an adjustment for risk. This will be considered in Section 7 of the Business Case - Economic Appraisal (Value for Money Analysis).

## 5. PFI Procurement Process

### 5.1. Introduction

The Outline Business Case had highlighted both the need for a new High School in Balforn and the lack of available capital funding through the traditional route of section 94 capital consent. It was therefore decided that a PFI solution would be pursued.

### 5.2. Procurement Methodology

After deciding upon the PFI route for the replacement of Balforn High School, Stirling Council formed a Project Steering Group and appointed a Project Manager. A Project Team to support the Manager was put in place. The roles and responsibilities involved are described fully in Section 12.

The Council acknowledges the assistance given by the Scottish Executive Private Finance Unit throughout the procurement process. Their readiness to clarify processes through meetings and workshops was of great help.

### 5.3. External Advisers

The Council appointed the following external advisers to assist Council Officers:

Finance	PricewaterhouseCoopers
Legal	Dundas and Wilson
Technical	MacKenzie Partnership

PricewaterhouseCoopers had already assisted the Council in producing the Outline Business Case.

### 5.4. Prequalification Selection

An OJEC advertisement for the project was placed in April 1998 and attracted responses from 25 parties of whom 14 submitted requests to be placed on the shortlist for preferred bidder. A copy of the OJEC Notice is attached as Appendix 3. Each consortia was carefully evaluated in terms of technical and financial matters and six selected for long list interview. This took place in June 1998 when the six were reduced to a short list of three for progression to the Invitation to Negotiate stage, after extensive evaluation and interviews. Careful records were kept of the evaluation scoring and feedback offered to the unsuccessful bidders. All companies took up this offer.

<u>Long List</u>	<u>Short List</u>
Miller Group	Robertson Rotch

Robertson Rotch  
Sunley Turriff/Lilley  
Education Link  
Jarvis Projects  
WS Atkins and Morrison

WS Atkins and Morrison  
Jarvis Projects

## **5.5. Summary of The Invitation to Negotiate (ITN)**

**5.5.1.** The Invitation to Negotiate (ITN) documents were issued in December 1998 to the three short-listed bidders. The Council had waited for the confirmation of the availability of Level Playing Field Support before progressing to the next stage of the project.

**5.5.2.** The ITN documentation consisted of four volumes:

### **Volume I Instructions to Tenderers**

This volume outlined the background to the project and gave details of the tender process, requirements and evaluation.

### **Volume II Occupier's Brief**

This volume discussed the educational philosophy behind the design details and gave design requirements as well as furniture, fittings and equipment details.

### **Volume III Facilities Management Requirements**

This volume detailed services to be provided and the service requirements. Details of expected quality assurance and performance monitoring are also covered together with the linkages to the payment penalty mechanism through poor and non performance.

### **Volume IV Project Agreement**

This volume contains the legal and finance agreements for the project.

The Bidders were given until early March 1999 to return their submissions.

## **5.6. ITN Evaluation Process**

**5.6.1.** During the bid submission process, official minuted clarification meetings were held with each of the bidders. This gave all parties the opportunity to raise issues of concern and to make amendments to their proposals in light of opinions expressed. In addition, a formal process was set up whereby both the Council and bidders could seek clarification on any matter.

**5.6.2.** After all bids were received and all clarification requests were returned, Council Officers met with their external Advisers to evaluate the bids according to the process laid out in the ITN. The evaluation process contained 2 main areas, the

financial and the non-financial. The technical evaluation was further broken down with each area to be evaluated given a weighting and scored according to a pre-arranged points allocation as shown below:

<b>Non-Financial Criteria</b>	<b>Weighting</b>
Education	24
Planning, Architectural & Design	24
Engineering	15
FM Requirements	22
Management Capacity & Project Delivery	15
<b>Total Evaluation</b>	<b>100</b>

Each of the Non-Financial criteria were themselves further sub-divided as illustrated below for education:

<b>Criteria</b>	<b>Weighting</b>
Understanding of learning and teaching environment and integrated opportunities for community/Adult Education	24
Addressed the issues of providing FM services within an educational environment	19
Imaginative, practical and flexible room layouts, capable of expansion to deliver the curriculum effectively	28
Addressed the issues contained in Standard Circular and Health and Safety documents	14
Addressed detail provided in the schedule of accommodation	15
<b>Total</b>	<b>100</b>

**5.6.3.** The process revealed that one bidder, Robertson/Rotch, was substantially behind the other two on most categories of the evaluation. The results were close enough between the other two bidders to invite them to submit Best and Final Offers. Robertson/Rotch were invited to remain as a reserve bidder in the event of the withdrawal of one of the other two parties.

**5.7. Best and Final Offers (BAFO)**

**5.7.1.** The two remaining Bidders were issued with a Best and Final Offer

document in June 1999. The document provided the Bidder with details of clarification issues still outstanding and provided more information on Council requirements. Submissions were to be returned to the Council by mid July.

- 5.7.2.** The bids received were subject to a further round of clarifications throughout July and August. The evaluation was then repeated following the same process as used at the ITN stage of the project. In late August the Project Steering Group endorsed the selection of Jarvis Projects as the Preferred Bidder. This decision was ratified at a Special Meeting of the Resources Committee in September 1999.

## **5.8. Preferred Bidder**

- 5.8.1.** Following the appointment of the Preferred Bidder detailed negotiations on the remaining outstanding issues commenced immediately. The BAFO process was successful in ironing out a number of key points and the negotiations largely centred on final design, legal and financial issues still outstanding. In particular these included:

- finalisation of the detailed services specification, and in particular the main availability criteria;
- confirmation of room data sheet information and minor revisions to room relationships and curricular and social areas;
- consideration of funding and indexation models to select the option which provides best value to the Council;
- revision of some of the penalty deductions within the payment mechanism;
- removal of the deductions contingency from Jarvis's operating costs;
- completion of key contractual areas, in particular compensation for early termination, Council step in rights, TUPE arrangements and contractor default.

The parties have now reached agreement in principal on all of the material issues affecting the contract. This is reflected in the draft contract documentation referred to in Section 10.

## **6. Preferred PFI Solution**

### **6.1 Full Business Case**

#### **6.1.1 Consortium**

Jarvis Projects has been selected as the preferred bidder. Stirling Council have made exhaustive enquiries into the standing of this company and its parent company Jarvis Group and are satisfied that they have the financial resources, expertise and experience necessary to construct and service the proposed development. Jarvis Project's funder, Barclays Bank are fully in support of the project. Confirmations have included letters of intent and detailed funding term sheets.

#### **6.1.2 Special Purpose Company**

A Special Purpose Company (SPC) will be established as a wholly owned subsidiary of the Jarvis Group which will be incorporated as a private limited company. The SPC will be the contracting party with Stirling Council and will be responsible for the delivery of the completed facility by an agreed date and to an agreed design and quality that will enable the provision of the specialised services throughout the duration of the contract. The Jarvis Group will provide parent company guarantees to suit the SPC in respect of construction and facilities management.

#### **6.1.3 Key Contractual Relationships**

The SPC will enter into three key contractual relationships with others, namely:

- A funding agreement with their funder for the provision of senior and subordinated debt required for the delivery of the completed facilities.
- A contract with Jarvis Construction (UK) Limited for the design and construction of the new facilities.
- A contract with Jarvis Facilities Management Limited for the delivery of the specified services throughout the term of the principal agreement with Stirling Council.

### **6.2 Description of PFI Solution**

**6.2.1** The design for the new school is attached in Appendix 4. Details of the Facilities Management Schedules are attached at Appendix 5. In summary these include:

- responsibilities for catering, caretaking, security, waste disposal, energy, utilities, building maintenance, communications, cleaning, building services grounds maintenance and health and safety;

- agreed response times for maintenance and failures;
- the provision of soft FM services to Balfron Primary School, which is located on the same site as the new High School;
- renewal and replacement of fitted and loose furniture, equipment and ICT infrastructure;
- quality standards requiring the provider to exercise reasonable skill and care in the design construction and operation of all facilities in a manner appropriate for a secondary school;
- compliance with all building and health and safety regulations

### 6.3 Planning Permission

**6.3.1** Outline planning permission was granted in August 1999 and Jarvis Projects expects to gain detailed planning consent before financial close. This is expected to be in December 1999.

### 6.4 Timetable to Financial Close and Delivery of Services

Sept - December 1999	Negotiation with Preferred Bidder to Financial Close and Award of Contract
January 2000 - June 2001	Construction Period
July/August 2001	Commissioning and Occupation

### 6.5 Price and Interest Rate Sensitivity

**6.5.1.** Following submission of BAFO bids and subsequent clarifications, the PFI solution will yield an initial annual charge plus catering adjustment of £2.177M. An extract from the project financial model is attached in Appendix 6.

**6.5.2.** Jarvis Projects have stated that their price quoted is firm until 31st January 2000. The price quoted is based on an assumed Reference Interest Rate of 6.50% It is estimated that variations of 0.5% from the Reference Interest Rate in either direction will lead to an increase or decrease to the Annual Charge plus Catering Adjustment of around £50,000.

**6.5.3.** The initial annual charge, payable for the year from August 2001 to July 2002 will inflate by a factor of RPI. The Council's cash flows, which include the estimated project development costs, are estimated to have a Net Present Value (NPV) of £24.817M. It is estimated that variations of 0.5% from the Reference Interest Rate in either direction will lead to an increase or

decrease in the NPV of the project of around £500,000. A summary of the NPV of the project is contained in Appendix 7.

## 7. Economic Appraisal (Value for Money Analysis)

7.1. A Net Present Value comparison of the Public Sector Comparator (PSC) with the PFI Preferred Option is contained in the Table below. In both cases the NPV is based on costs that the Council would experience over a period up to August 2026. This covers the 18-month build programme for the new school, plus the 25-year PFI concession period. Where costs have been identical between each option (eg school running costs up to August 2001 and home to school transport costs) they have been ignored.

### NPV Comparison of PFI and Public Sector Comparator solutions

<b>Solution</b>	<b>NPV (£'000)</b>
Private Finance Initiative	24,817
Public Sector Comparator	24,278

A further comparison of the PFI preferred solution with the Public Sector Comparator with an adjustment for Risk Transfer shows a clear advantage, in Value for Money Terms, of the PFI preferred option. This is shown in the table below:

### Risk Adjusted NPV Comparison of PFI and Public Sector Comparator solutions

<b>Solution</b>	<b>NPV (£'000)</b>
Private Finance Initiative	24,817
Public Sector Comparator	26,356
Difference	1,539

Details of the NPV calculations are shown in Appendices 7 and 8.

7.2. The main reasons why it is considered that the PFI solution has been able to achieve better value for money are as follows:

- significant levels of risk transfer, particularly in relation to construction related costs and through performance assurance over the life of the contract through the penalty deduction mechanism;

- a sharp competitive process through the Invitation to Negotiate and Best and Final Offer stages to ensure that the most cost effective solution was obtained. The nature of the PFI market at present where a number of companies/consortia are keen to get a “foot in the door” of the education sector in Scotland has worked in the Council’s favour. This has been assisted by the relatively uncomplicated nature of the project ie it is not multi school and does not involve the refurbishment of existing buildings. This has meant that it is likely to be Scotland’s second schools PFI project to reach completion;
- the enhanced value of the surplus site obtained by the operator being able to use developer’s profits to reduce the net capital requirement. This solution would be unlikely to be available to the Council developing the site through the traditional method;

As the NPV analysis shows, the main additional costs of the PFI approach (ie PFI development costs and the effects of the burden of corporation tax) have been more than outweighed by the benefits arising outlined above.

### **7.3. Lottery**

The Council is currently in the process of applying for funding for elements of the project from both the Arts and Sports Lottery. The outcome of these applications will not be known until December 1999 and March 2000 respectively. The applications are for a total level of Lottery support of £600,000. For the purpose of the economic and financial analysis within this section and within the remainder of this document it has been assumed that the Council is not successful. However it is recognised that the success of either or both Lottery applications would significantly improve the Value for Money Analysis noted above and reduce the affordability gap of the project as noted in Section 9.

## 8. Risk Analysis

### 8.1. Risk Matrix

The management and allocation of risk between the parties to the PFI contract has formed an essential part of the Council’s strategy for achieving value for money from the Project. It has been essential that the Council and the operator have duly recognised that risk is best borne by those who are best able to control it, otherwise inefficiencies will be introduced. It has been recognised that where an entity bears risk that it cannot control or influence then price is unlikely to reflect best value. The project process has ensured that efficient risk allocation has taken place. The risk matrix outlined below summarises the allocation of risk between the 2 parties. Jarvis have indicated that they will manage their own risk by in turn laying off risk to the party best suited to bear it ie construction and service provider companies and insurers.

Risk	Borne By:		
	Stirling Council	Jarvis Projects	Shared
<b>Achieving Full Planning Permission</b>		X	
<b>Pre Commissioning</b>			
Site conditions following acceptance of site		X	
Access to Site		X	
Safety on Site		X	
Design Faults		X	
<b>Construction</b>			
Bad Workmanship		X	
Departures from Construction Contract		X	
Construction Cost Overruns		X	
Construction Time delays		X	
<b>Commissioning</b>			
Period for Commissioning		X	
Decanting - time, cost and effectiveness		X	
<b>Operational and Facilities Management</b>			
<b>Level of Usage</b>			
Educational Requirements	X		
Other Uses			X
<b>Maintenance of Building</b>			
Achievement of quality standards		X	
Achievement of safety standards		X	

<b>Risk</b>	<b>Borne By:</b>		
	<b>Stirling Council</b>	<b>Jarvis Projects</b>	<b>Shared</b>
Cost Overruns		X	
Insurable Risks		X	
Impact of latent Defects		X	
Insurable Risks		X	
Residual Value	X		
<b>Operation of Services</b>			
Meeting quality standards		X	
Meeting safety standards		X	
Service Cost overruns		X	
Energy Costs			X
Insurable Risks		X	
<b>Reconfiguration of Accommodation at Stirling Council's request</b>			
Impact on Capital and Operating Costs	X		
Construction Cost Overruns		X	
Availability of Funding			X
<b>Achieving Environmental Standards</b>			
Pre Construction		X	
During Construction		X	
During Operation		X	
<b>Financing</b>			
Interest Rates		X	
Inflation			X
<b>Regulatory Change during the Operational Period</b>			
Discriminatory	X		
Non Discriminatory		X	

## 8.2. Risk Workshop

In May 1998 the Council, in conjunction with Scott Wilson Kirkpatrick and the Scottish Office Private Finance Unit undertook a Risk Workshop which examined the risks inherent within the project. The Workshop concentrated mainly on risks relating to Construction and Operation and Maintenance of the building over the life of the project.

The workshop was attended by stakeholders in the project from within the Council and followed the following format:

- estimate of base construction, operation and maintenance costs over the life of the project (completed prior to the workshop);
- identification of all known risks and their classification into High, Medium and Low depending on estimated probability of occurrence;
- discussion of each risk identified as High or Medium to assess its occurrence probability, the likely cost impact assuming the risk materialised, and the maximum and minimum cost impacts;
- application of findings from the risk identification and assessment to the estimate of base costs via a Monte Carlo simulation within the @Risk System;
- production of a probability distribution of estimated construction and operation and maintenance costs over the life of the project.

**8.3. The Risk Workshop Report** highlighted the additional risk premium associated with the project over its life. In summary the risk premia identified were as follows:

- Construction Risk Premium totalling £1.843m over the Construction period
- Operational Risk premium totalling £702,440 over the Operating period

Both Risk Premia were based on April 1998 prices and the 50 Percentile Risk from the @Risk Model

Extracts from the Risk Workshop report are included in Appendix 9. to this report.

#### **8.4. Revisions to the Risk Workshop Report.**

The findings of the Risk Workshop have now been revisited to produce a final estimate of the risks involved within the project. Changes have been necessary to the analysis as:

- changes to the base cost estimate have been required to ensure comparability between the PFI solution and the PSC (see Section 4 of this report above)
- differentiation between project risk retained by the Council and risk transferred to Jarvis Projects has been necessary to ensure comparability

The results of this additional analysis are contained in the Table below (all figures are £'000):

<b>Construction Base Costs</b>	<b>Transferred Risk Premium</b>	<b>Retained Risk Premium</b>	<b>Total Risk Adjusted Construction Costs</b>
15,842	1,432	565	17,839
<b>Operation and Maintenance Base Costs (25 years)</b>	<b>Transferred Risk Premium</b>	<b>Retained Risk Premium</b>	<b>Total Risk Adjusted Operation and Maintenance Costs</b>
18,741	476	245	19,462

Details of the revised analysis are contained in Appendix 10 to the report. Figures are based on the 50-percentile risk premium.

## 8.5. Other Risks

**8.5.1.** In addition to the Risks contained within the Risk Workshop analysis, the Workshop also identified that a PFI operator would experience Operational Risk in the form of payment penalties included in the payment mechanism. Due to time constraints on the day of the Workshop it was not possible to develop these Risks further within the Risk model. However discussions with the Bidders at the Best and Final Offer stage of the project would indicate that the risk associated with likely payment penalties is in the region of £40,000 per annum (based at Dec 99 prices). This has therefore been included within the risk adjusted Public Sector Comparator for the purpose of the value for money analysis in Section 7.

## **9. Financial Appraisal (Affordability Analysis)**

### **9.1. Revenue Implications to the Council**

#### **9.1.1. PFI Preferred Option**

**9.1.1.1.** Under the PFI option the Council will make payments to the operator from August 2001 to August 2026. The Payment will consist of an Annual Charge, the Basic Annual Payment, plus a Catering Adjustment payment which reflects meal volume. The payments will be inflated on an annual basis each year according to the indexation factor included in the agreement (ie RPI). A schedule of the estimated payments over the life of the project have been included in Appendix 11.

**9.1.1.2.** The Council will require to find adequate funding within its revenue budget from the years 2001/02 to 2026/27 to meet its PFI costs. The Council will receive Level Playing Field Support funding from the Scottish Executive of £1.59m per year throughout the life of the project (Details of the calculation of LPF support are contained in Paragraph 9.2. below) In addition the Council has identified savings from within its current revenue budget which will accrue as the result of no longer requiring to fund services and maintenance at the school. These amount to £378,000 per annum based on expected 2001/02 budget levels.

**9.1.1.3.** With Level Playing Field (LPF) Support remaining constant over the life of the project, the Council will experience both an initial and an ongoing affordability issue which will require to be addressed through the annual revenue budget process. Although the PFI payments are indexed at a rate which is equivalent to the annual rate of inflation, the Council will experience inflation in only part of the resources which support such a payment due to the fixed nature of LPF support. This is modelled in Appendix 11 based on annual inflation of 2.5%. This shows an initial budgeting gap of £139,000 in 2001/02 and £94,000 in 2002/03, with further gaps in subsequent years of up to £42,000. Appendices 12 and 13 model the budgetary pressures at different inflation rates of 1.5% and 3.5% respectively. These are summarised in the table below:

<b>Inflation Rate Assumption</b>	<b>Budget Gap (Real) 2000/01 (£'000)</b>	<b>Budget Gap (Real) 2001/02 (£'000)</b>	<b>Largest Budget Gap (Real) thereafter (£'000)</b>
<b>1.5%</b>	139	84	26
<b>2.5%</b>	139	94	42
<b>3.5%</b>	139	103	58

**9.1.1.4.** The nature of the PFI agreement, commencing as it does in 2001/02 allows the Council to address the initial budgetary pressure over 2 financial years. This in itself gives the Council greater flexibility to choose the means by which it will respond. The Council is faced with 2 options to close the budget gap ie either to reduce net costs within existing Council budgets or to increase resources by increasing Council tax (or a combination of the two). The Council is of the view that the budget gaps illustrated above are manageable within this framework. The likely budget gaps were presented to the Council's Resources Committee in September, at the time of approval of Jarvis Projects as Preferred Bidder.

**9.1.2. The Public Sector Comparator (PSC)**

**9.1.2.1** Under the PSC option, the Council would require to fund the initial build cost, plus the major part of life cycle expenditure from within its capital programme. Anticipated receipts from the sale of the school site would be used to augment the programme. It is estimated that the impact on the capital programme over the life of the project would be as follows (figures at December 1999 prices). Detailed information is contained in Appendix 14:

<b>Year of Impact on Council capital programme</b>	<b>Estimated Impact (£'000)</b>
1999/2000	5,907
2000/01	10,458
2005/06	31
2010/11	186
2015/16	294
2020/21	575
2025/26	57
<b>Total</b>	<b>17,508</b>

Based on current section 94 levels it is highly unlikely that this level of expenditure would be achievable, particularly in 1999/00 and 2000/01.

**9.1.2.2.** The Council's revenue budget would also be affected as the

running costs of the new school plus part of the life cycle costs would require to be borne. The running costs of the new school will be significantly higher than existing costs as the school is larger, is open for more hours, and is operated and maintained to a higher standard than at present. These costs will be offset by the existing school related budgets that are available. The net effect upon the Council revenue budget over the life of the project is summarised below (details contained in Appendix 14). It is appreciated that some smoothing of the cost profile could be achieved through planned rephasing of some elements of the life cycle expenditure eg scheduling internal re-decoration costs on a year by year basis.

<b>Year</b>	<b>Additional Revenue Budget required (£'000)</b>
2000/01	0
2001/02	220
2002/03	220
2003/04	220
2004/05	220
2005/06	730
2006/07	240
2007/08	601
2008/09	240
2009/10	240
2010/11	732
2011/12	242
2012/13	242
2013/14	242
2014/15	603
2015/16	736
2016/17	245
2017/18	245
2018/19	245
2019/20	245
2020/21	738
2021/22	609
2022/23	247
2023/24	247
2024/25	247
2025/26	741
2026/27	247

The Council will also be required to meet the loans charges associated with the capital expenditure noted in paragraph 9.1.2.1 above. Under

the current GAE mechanism this cost is fully supported by Revenue Support Grant received from the Scottish Office, and as such has not been included in this analysis.

## **9.2. Level Playing Field Support**

**9.2.1.** The Council will receive Level Playing Field (LPF) Support from the Scottish

Executive, of £1.59 million per annum over the 25 year life of the project. The support is given to enable PFI projects to be evaluated by Councils on the same basis as traditionally procured projects, hence the term “level playing field”. LPF support effectively mirrors the support that Councils are given to fund annual loans charges via Revenue Support Grant.

**9.2.2.** The amount of Level Playing Field Support is dependent on the following items:

- the level of additional capital expenditure incurred, including capitalised interest;
- the element of life cycle maintenance costs that the Council would normally incur as part of its capital programme;
- the level of the Broadly Commercial Rate, which is the interest rate determined by the Treasury for use in PFI projects. This currently stands at 8.5713%;
- the level of capital receipts generated and invested in the project (the higher the receipt, the lower the level of support);
- the level of third party revenues

The Scottish Executive have set a cap on annual LPF support for the project of £1.59m. The Council must also satisfy the Scottish Executive that the property created is off the Council’s balance sheet in order for it to attract LPF support. This issue is dealt with in Section 11.

**9.2.3.** The costs of the PFI preferred option, as noted in Appendix 16, have been run through the standard Level Playing Field model as used by the Scottish Executive. This calculates annual Level Playing Field Support of £1.622m. The cap on support of £1.59m therefore applies. Details of the calculation of LPF support are contained in Appendices 15 and 16. Appendix 15 separates Life Cycle Costs into those deemed as capital and those deemed as revenue. Appendix 16 then shows the information provided to the Scottish Executive to undertake the LPF calculation.

### **9.3. The Existing School Site**

**9.3.1.** Within the PFI option the existing school site is surplus to requirements. Under the tendering process bidders were invited to provide bids at the ITN stage based on the site passing to them to provide funding for part of the solution. A valuation had been placed on the site of £520,000 and details of the valuation were made available to bidders. At the Best and Final Offer (BAFO) stage, the 2 remaining bidders were then requested to provide alternative bids assuming both inclusion and exclusion of the site from the solution.

**9.3.2.** The preferred solution incorporates a value from the transfer of the site to the operator of £1.1M. This equates to a reduction in the annual charge payable by the Council over 25 years of approximately £100,000. When compared to the original valuation for the site as noted in paragraph 9.3.1. above this provides clear value for money to the Council from the site transfer.

## 10. Summary of Contract Structure

### 10.1 Principal Contracts

The main contract for the Balfour PFI School Project will be a Project Agreement between Stirling Council and Jarvis Projects Limited, a Special Purpose Vehicle (SPV) established by the Service Provider. The overall structure of the contractual agreements is set out in Appendix 17.

In terms of the structure the Council will:

- enter into a Project Agreement with the SPV for the construction period plus 25 years;
- ensure that in terms of that Agreement the SPV will develop or have developed the Council's chosen site to provide the new facility, the underlying ownership of the site remaining with the Council;
- ensure that throughout the life of the Project the Council will be provided with the requested facilities, equipment, management and services;
- transfer ownership of the existing High School site to Jarvis Projects Limited's nominee once it is surplus to requirements.

There is also a Finance Direct Agreement between Stirling Council, Jarvis Projects Limited and Barclays Bank plc which is the bank providing the debt funding to the SPV. This agreement will deal with step-in rights, default and termination, and the application of insurance proceeds.

Finally there will be various subsidiary documents such as Direct Agreements with underlying sub contractors, collateral warranties with design teams, lease and lease back provisions which are in nature of security documentation and do not define the project itself. Accordingly no further mention is made of these documents here.

### 10.2. Main Provisions of the Project Agreement

- 10.2.1. The main provisions of the Project Agreement cover the design and construction of the new school to satisfy the specifications of the Council and all the appropriate technical standards. The SPV will then deliver particular facilities management services at these premises to satisfy the output specifications of the Council in return for payments of the unitary charge. The unitary charge will fluctuate in accordance with the availability of the required accommodation and the extent to which the required performance standards in delivery of ongoing services have been achieved. The services provided by the SPV will include building maintenance, grounds maintenance, catering, cleaning, security, provision of equipment and its replacement, and energy/utility related services. The Council will have responsibility for the teaching and the curriculum and shall bear the risk if demand for places is more or less than forecast. There will be provisions governing community use of the school.

10.2.2. The Council and the SPV are negotiating the detailed terms of these arrangements at present. These negotiations are not expected to alter the basic contract structure that has been outlined, but may affect particular aspects of the arrangements.

10.2.3. At present the contractual documentation has the following main features:

- there are Conditions Precedent eg documentary evidence of the SPV's existence, constitution and authority, obtaining all necessary approvals which are to be achieved prior to financial close
- the Council will appoint a Council representative and Jarvis Projects Limited will appoint a service company representative through whom all parties dealings with each other shall be conducted
- depending upon funding requirements there may be a head lease from the Council to the SPV and a sub lease from the SPV to the Council. The Council will have the right to terminate the Head Lease and so have unfettered ownership of the facility for no additional payment at the end of the concession
- specification of the works in detail. The SPV will obtain all the necessary consents and approvals (including detailed planning); not infringe the rights of owners of adjoining properties and make good any damage to such properties; oblige to indemnify the Council against any claims made in connection with the Works as a result of the acts and omissions of the SPV, its employees, contractors etc; commence and pursue the Works to the quality required and see to the safety, security and cleanliness of the site; to permit the Council's representatives access and presence at project review meetings and remedy of any defects; the time for completion of the works; consequences of variations, defaults, termination, step-in rights, dispute and resolution procedure;
- to the extent that CDM Regulations are applicable the SPV will agree to be the client for the purposes of any regulations and indemnify the Council in respect of any breach of the Regulations;
- the SPV is to achieve practical completion of the accommodation by a defined date to allow the facility to be properly staffed and available for pupil intake by the commencement of the academic year in August 2001.
- payment of the PFI unitary charge will commence from the Council taking up occupation of the accommodation, and will be variable depending on the required standards of availability of accommodation and performance in the delivery of services.
- the Project Agreement defines the standards to be achieved in different zones of the facility to meet the definition of availability, including the levels of heat and light, furniture and equipment required etc.

- the required service standards and acceptable response times for all of the services will be specified within the contract, and a regime of performance reviews and payment deductions applied for failures to meet the required standards.
- insolvency of the SPV, failure to achieve practical completion by an agreed date, irredeemable or material breach, unavailability of the facility beyond a certain level or accumulation of more than a defined amount of payment deductions will each entitle the Council to terminate.
- the Council will be able to request changes in the accommodation and services being required, and these could result in an adjustment to the unitary charge.
- it is contracted that TUPE will apply at the start of the operating phase. Consequently the contracts of employment of those employees affected will transfer to the relevant services provider at this point. There are contractual protections to safeguard such employment terms, to ensure on-going security of tenure and protect pension rights.
- each of the SPV and the Council indemnify the other for personal injury or loss or damage to property caused by the other or their respective employees and contractors or subcontractors. The Council is responsible for damage to the school by wilful or reckless acts of bona fide pupils during school hours.
- changes of requirements as a result of changes in legislation will generally be the responsibility of the SPV unless the change gives rise to a capital expenditure in excess of the threshold amount which is to be agreed between the parties or is the consequence of a discriminatory change in law.
- on early termination, differing levels of termination payment and payable depending on which party has defaulted. For SPV default the Council will be required to pay, on an instalment basis, only the amount by which it is financially advantaged as a consequence of no longer having to pay the unitary fee, taking into account the cost of continuing to provide the services.
- on expiry of the contract after the 25 year operating phase the facility will require to be in suitable condition which will be tested by surveys initiated some years prior to the expiry date.

10.2.4. The Council has accepted an offer from Jarvis to proceed by way of an alternative funding structure to achieve improved value for money. As a consequence, after the construction phase, the Council has agreed to pay to the SPV, a minimum floor payment notwithstanding deductions or other claims the Council would otherwise have had against the SPV. Likewise on termination for SPV default, the Council has agreed to pay sufficient compensation to cover outstanding Bank borrowings.

To ensure the Council is not financially disadvantaged, Jarvis plc indemnifies the Council against any amounts which it has to pay to the SPV in excess of the amounts it would otherwise have had to pay if these provisions did not apply. Certain protections, including an enhanced insurance package (including latent defect cover) and a third party performance bond are being provided to reduce the risk to the Council of taking Jarvis plc's covenant risk in this way.

As stated above, these provisions do not apply during the construction phase. Additionally, however, they do not apply if the SPV fails to provide the insurance cover to which it has committed.

### **10.3. Finance Direct Agreement**

The Finance Direct Agreement with the Funders covers the Council's rights in the case of the Bank or the Council having to step in. They both have a common interest to ensure that once the work starts on the building it will be completed.

## **11. Accounting Treatment**

### **11.1. Accounting Background**

The accounting treatment of PFI contracts and solutions has been a source of much debate over the life of the Balfroon project. Within the Outline Business Case submitted to the Scottish Office in September 1997, the Council gave its initial view of where the assets created by the project would sit in relation to the accounting guidance in place at that time. Since then the guidance available has gone through a series of updates. In September 1997 the Treasury published its “Interim Guidance on the Application of FRS5 to Accounting for PFI Transactions in Public Sector Accounts”. This document was issued in the void caused by the delay in guidance on this issue being provided by the Accounting Standards Board (ASB). This duly arrived in January 1998 with the issue of “Exposure Draft - Amendments to FRS5 - Reporting the Substance of Transactions - The Private Finance Initiative” and the eventual issue of the FRS5 Update. The ASB’s documents have been subject to much debate and in July 1999 the Private Finance Treasury Taskforce issued its “Technical Note No 1 (Revised) - How to Account for PFI Transactions”. It is against the background of the document issued by the Private Finance Initiative Treasury Taskforce that the Council, its advisers and auditors have viewed the accounting treatment of assets to be created as a result of the Balfroon PFI contract.

### **11.2. Separability and Risk Transfer**

The Technical Note provides guidance on how to identify the ownership of assets created as a result of PFI deals. The Treasury Taskforce Note (para 3.1.) identifies the first stage of the accounting analysis being the need to determine whether the PFI contract is “separable” ie whether the commercial effect of the contract is that elements of the PFI payment operate independently from each other. Once those elements that can be separated out have been identified, the remainder of the contract should be examined to establish the extent to which each party to the property bears the potential variations in property profits (or losses). The key here is to distinguish between potential variations in costs and revenues that flow from features of the property, and those which do not. These potential variations (ie risks), which may be both quantitative and qualitative then need to be analysed to determine which party bears more of the risk. The party bearing more of the risk is deemed to be the property owner, and as such, should include the asset within their own balance sheet.

### **11.3. The Balfroon Project**

Analysis of the Balfroon PFI Project Agreement, and particularly the project payment mechanism clearly identifies the contract as being broadly non-separable, as the payment mechanism fits closely with Treasury Taskforce Model B (para 3.5.). However the Council recognises that the costs of Soft Facilities Management services such as Catering and to a lesser extent Cleaning need to be excluded when considering the risk analysis for accounting purposes. These risks are therefore seen as potential variations that do not flow

from features of the property. The remaining risk within the contract must therefore be identified and analysed to assess which party bears most risk.

#### **11.4. FRS5 Risk Analysis.**

The risk analysis required can be divided into 2 sections - quantitative and qualitative risk.

##### **11.4.1. Quantitative Risk.**

The risk borne by each party is summarised below.

###### **11.4.1.1. Demand Risk.**

The contractual relationship with the operator does not provide for any variation in Unitary Charges via the Payment Mechanism. In this sense, demand risk rests with Jarvis. However to the extent that increases in the school roll may lead to additional unitary charges because of further capital expenditure or operating costs, or a lower school roll represents an opportunity cost to the Council, demand risk is assessed as a risk retained. The nature of a schools PFI project, and the Balfroun project in particular means that there is little demand related or volume risk. The Council has commissioned the building of a school with a capacity of 920. Under extreme circumstances it is envisaged that this capacity could be extended to around 995 although this may compromise the operation of the school. The existing school currently has a school role of 850, but this includes 140 placing request pupils. The demand for the school from within the school catchment area is therefore approximately 710 places. Thus the school has been designed with adequate surplus capacity to ensure that it will be able to meet demand over the project life, while at the same time ensure value for money, with placing requests ensuring that surplus capacity is utilised. Demand risk is therefore seen as negligible with the only real risk to the Council being the possible need to expand the school towards the end of the concession period. Even this is seen as highly unlikely. This is clearly illustrated in the School Roll projections contained in Appendix 17.

###### **11.4.1.2. Third Party Revenue Risk.**

The school facilities will be available for Community Use for specified hours outwith the core school hours. Jarvis Projects have based their annual charge to the Council under the contract on an assumed level of third party revenue. All risk in relation to raising this amount lies with the operator, who will also benefit from any additional revenue generated. However, any income generated in excess of £131,000 per annum, inflated over the project life, will be shared on a 50/50 basis by the Council and Jarvis Projects. It is not envisaged that these amounts will be significant. The majority of third party revenue risk is therefore clearly borne by the operator.

#### **11.4.1.3. Design Risk.**

Jarvis Projects have been responsible for designing and will be responsible for building the new Balfroon High School. Although the Council provided a detailed Output Specification in Volume 2 of its Invitation to Negotiate, the operator has made key decisions, producing a design solution that effects both the operational efficiency and the life cycle costs of the project.

Jarvis's financial model, clearly shows that their PFI solution is based on an expected level of property related and life cycle costs. Variance from this cost profile will be to the detriment or benefit of the operator. The nature of the performance penalty mechanism also means that design faults which lead to provision of a sub standard facility will lead to payment penalties, which in extreme cases may be severe.

#### **11.4.1.4. Potential Changes in Relevant Costs**

The risk that relevant property related costs will be greater or less than was expected at the outset of the project due to either volume or price is a key risk that has been passed to the operator. The project payment mechanism allows for indexation of annual payment at a fixed rate which is directly related to RPI. Payments made will not vary in relation to price increases of underlying cost structures with the exception of price risk in relation to energy, which has been retained by the Council. Rates costs will also remain with the Council. Thus the larger part of risk of price variance particularly in life cycle and building maintenance (including relevant staff) costs is borne by the operator. For the purpose of the accounting analysis only building related changes in relevant costs have been considered.

In addition the payment penalty mechanism ensures that the standard of facility provided over the life of the project will be maintained, thus ensuring that the operator bears the risk that initial estimates of life cycle costing requirements are inaccurate. The relationships between design risk and life cycle cost has already been mentioned in paragraph 11.4.1.3. above.

#### **11.4.1.5. Obsolescence Risk**

Obsolescence risk mainly relates to the provision of Information and Communications Technology (ICT) equipment within the school. The project brief has been specific in this area and has limited the operator's input to the provision of the original infrastructure and hardware, and the maintenance of that infrastructure over the life of

the project. In the quantitative analysis below it is assumed that obsolescence risk is subsumed within design risk.

#### **11.4.1.6. Residual Value Risk**

The project agreement allows for the school to be transferred to the ownership of the Council at no cost at the end of the project. Thus the residual value risk rests with the Council. The contract includes provision for the handover of the school to the Council in a pre-defined state of repair. The effect of these provisions is to bring forward for the account of the operator, maintenance and life cycle risks that might otherwise arise beyond the end of the contract. In evaluating residual value risk it has been recognised that the school is a specialised property and as such has little or no alternative use.

#### **11.4.1.7. NPV analysis**

An NPV analysis of the quantifiable risks involved in the project has been carried out by PricewaterhouseCoopers under the broad headings as outlined in paragraphs 11.4.1.1. to 11.4.1.6 above. The Project Team together with advisors have considered the risk categories noted above and estimated the maximum and minimum cost/profit scenarios under each heading. These are noted in the quantitative risk analysis provided by PricewaterhouseCoopers (see Appendix 19). The analysis then considers the probability of each risk category, and using a Monte Carlo simulation examines the results where the upper and lower limits are at the 5%/95% ends of the distribution. The potential variation in costs/profits for both the operator and the Council are thus quantified and the information used to assess asset ownership. Details of the accounting opinion, the NPV analysis and the Monte Carlo simulation are contained in Appendices 19 and 20.

The Monte Carlo simulation, with a 95% upper and lower limit shows a range of potential profit for Jarvis of £XXX and a range of possible cost for the Council of £XXX. The quantitative analysis of risk would therefore indicate that the Jarvis rather than the Council has an asset of the property.

## **11.4.2. Qualitative Indicators**

### **11.4.2.1. Termination for Operator Default**

Under the Treasury Taskforce Guidance it is stated that “a financing arrangement would be indicated where, in the event that the contract is terminated early, the bank financing will be fully paid out by the purchaser under all events of default, including operator default”. Such a situation would indicate that the asset was on the Council’s balance sheet.

Although the Council generally bears an obligation to pay out the bank’s debt in the case of Jarvis Project’s default it does not do so in all cases ie the Council does not bear such an obligation during the riskiest stage of the project (ie construction), nor does it bear such an obligation where the operator has failed to make such insurance arrangements as it is contracted to under the Project Agreement.

In addition the nature of the council’s commitment to pay out bank debt in the event of operator default masks the underlying substance of the contract in which the Council is reimbursed by the parent company (Jarvis plc) for any additional costs it may incur as a result of this obligation. Protection through the parent company guarantee, and in the event of the failure of that guarantee, from both latent defects and other insurances and from a surety bond (all of which have been put in place by the operator and its parent company) mean that the probability that the Council will have to bear the cost of paying out bank debt is negligible.

### **11.4.2.2. Nature of Operator’s Financing**

The Treasury Taskforce Guidance states that “an assessment of the operator’s financing arrangements (all aspects should be taken into account eg the use of senior or subordinated debt and the presence of any guarantees) may indicate a level of debt funding that could be credible only if another party stood behind the operator.”

While the innovative nature of Jarvis’s funding arrangement indicates a low level of equity (1%) and a high level of gearing, the presence of a parent company guarantee which may be called upon in the event of poor performance from either the construction or service companies indicates a real level of investment in the service provider, with the guarantee bearing similar characteristics to uncalled share capital. It should be noted that the guarantee provided has an unlimited liability and that the level of risk borne by Jarvis through the project has been recognised by the Council during the negotiation phase.

### **11.4.2.3. Determining the Nature of the Property**

While the Council has provided the PFI operator with a detailed output brief at the Invitation to Negotiate stage of the project, the nature of the property has been largely determined by the operator. The tendering process identified the production of 3 very different building models all of which fulfilled the key criteria of the output brief. Tenderers were given scope to identify the most cost effective combination of initial design and life cycle and operating costs. The nature of the facility provided however, and the services required, mean that it is unlikely that the operator will either want or be able to make significant changes to the design of the building over the life of the project.

**11.4.2.4.** The Council is of the view that the qualitative indicators, when taken as a whole, indicate that the assets created through the PFI contract are off the Council's balance sheet.

**11.4.3. Summary of FRS5 Risk Analysis.**

The Council concludes that the summary of risk analysis indicates that the assets created under the Balfron PFI contract are not owned by the Council and, as such, should not appear on the Council's balance sheet.

**11.5. Other aspects of the Accounting Treatment**

**11.5.1. Surplus Site**

The contract involves arrangements for the operator to receive the proceeds from the sale of the surplus site. The substance of this transaction is that it will result in lower annual payments over the life of the contract. The sales value should therefore be treated as a prepayment in the balance sheet of the Council. The prepayment should then be written off as an operating cost over the life of the contract. The difference between the total reduction in annual payments and the sales value represents interest receivable by the Council on the outstanding debtor balance and should be apportioned over the period of the contract. The net effect on the Council's consolidated revenue account would be nil.

**11.5.2. Residual Value**

As the Council does not recognise the property as its asset, but has the option to obtain the property at nil consideration at the end of the contract, then a residual interest asset may be recognised. This should only be recognised if there is sufficient evidence of existence and the assets monetary value can be measured with sufficient reliability.

This will involve the Council building up an asset representing the residual interest in the new school over the period of the contract. The amount of the asset to be built up to should be the expected value of the residual interest (net of any amounts to be paid out) at the end of the contract. No amount

would be recorded as an asset at the start of the PFI contract. In each subsequent year a proportion of the annual payments made to the operator would be capitalised so that, by the end of the contract term the residual interest is recorded as an asset at its expected value. This would be done through the Appropriations Account. There would be no net effect upon the Council's section 94 position or upon the consolidated revenue account.

### **11.5.3. Disclosure Requirements**

Under SSAP 21: Lease and Hire Purchase Contracts, the Council will be required to make the following additional disclosures by way of notes to the accounts:

- the total amount charged to the consolidated revenue account as an expense in respect of the PFI transaction;
- the payments which the Council is required to make in relation to the contract in future years;
- a description of the scheme, the estimated capital value and the contract start and end dates.

### **11.6. External Adviser view of Accounting Treatment**

As part of the audit process the Council requested the project Financial Advisers Price waterhouseCoopers to provide an independent view of the balance sheet treatment of the asset created. The view provided is that the asset is off balance sheet. A copy of the view is attached in Appendix 20.

### **11.7. External Audit View of Accounting Treatment**

A key requirement of the process of gaining approval for Level Playing Field Support is that the Council's auditors will provide an audit view that the asset created under the PFI contract is            balance sheet for the Council. This has been provided and is attached as Appendix 21.

## **12. Project Management Arrangements**

### **12.1 Roles and responsibilities**

#### **12.1.1. Stirling Council**

The full Council will decide whether or not the proposed investment in the project should be made. It is envisaged that the meeting of the full Council scheduled for December 1999 will approve the contract allowing the project to reach financial close.

#### **12.1.2. Resources Committee**

During the course of the project the Council's Resources Committee has been responsible for receiving regular reports outlining the progress of the project, and for approving progression of the project through its key stages e.g. issue of the ITN and approval of Preferred Bidder.

#### **12.1.3. Project Steering Group**

A Project Steering Group was established, accountable to the Council for the project and its budget. The Steering Group is chaired by Gordon Jeyes, Director of Children's Services. Other members are:

Bill Dickson	Director of Finance and Information Services
Helen Munro	Director of Community Services
Jim Fleming	Headteacher, Balfroun High School
Bob Jack	Director of Civic Services

The Steering Group has been enlarged since the appointment of the Preferred Bidder to include the following representatives of the local community:

Michael Stone, representing the local community of Balfroun  
Colin Cameron representing the cluster School Boards  
Dianne Smith representing communities other than Balfroun

#### **12.1.4. Project Manager**

A Project Manager was appointed to be responsible to the Project Steering Group for the Council's functions in the project. The Project Manager is Drew Grieve who has been seconded from the Education Service for the duration of the project through to Financial Close. The Project Manager was responsible for the day to day management of the project.

#### **12.1.5. Project Team**

A Project Team was formed to assist the Project Manager in delivering a quality back-up service to the Steering Group. This consists of:

Ian Robertson (Chair)	Head of Planning and Resources (Education);
Bob Gil	Capital Finance Manager;
Liz Duncan	Principal Solicitor;
Joyce Wighton	Architect – Capital Projects;
Sandy Kelso	Depute Headteacher, Balforn High School;
Irene Crichton	Secretary.

Appendix 22 provides an overview of the Project Management Structure.

## 12.2 Stirling Council's Responsibilities

**12.2.1** The Council is responsible for approving the project and thereafter maintaining the visible and sustained senior management commitment to its delivery. Any threats or proposed changes to the project which might vary the original approval will be referred to the Council, seeking guidance or re-approval as appropriate.

**12.2.2** The Council has required and will need to be satisfied that:-

- the project is required;
  - all options (including PFI) for meeting the user's needs have been evaluated together with the risks and the consequences of their occurrence associated with each option;
  - the risks are clearly identified together with their potential impact on the project in terms of time, cost and performance;
  - the estimated cost is made up of the base estimate and the risk allowance;
  - the estimated cost includes fees and in-house costs;
  - the key issues on which the business case and investment proposals are based are clearly understood;
  - an appropriate skilled management structure (chain of command) is in place and named individuals have been appointed to the Project Steering Group, Project Team and Project Manager, and that an appropriate structure will remain in place through to August 2001 and beyond;
- the project will provide Best Value for the Council's business.

**12.2.3** The Council when considering a change in the scope or direction of the project, will take account of impacts to the Council in terms of time, cost and performance before reaching a decision. If a decision is made to change the scope or direction of the project, the project brief and the Project Manager's terms of appointment will be amended to reflect the change. Any changes will be clear, transparent, properly reasoned and recorded.

## **12.3 Project Steering Group's Responsibilities**

**12.3.1** The Project Steering Group for this Project comprised senior officers of the Council, appointed by, and reporting to, the Council. The Project Steering Group had the status and authority to provide the necessary leadership and to be clearly accountable for delivering the project requirements in accordance with the approvals given.

**12.3.2** The Project Steering Group's responsibilities were to:

- oversee the preparation of the business case and budget for the project, ensuring the proposals were realistic and meet the business objectives and submitting them to the Council for approval;
- establish an appropriate organisation structure and the necessary communication processes;
- ensure the users and other stakeholders were involved in and committed to the project;
- appoint the Project Manager and provide the terms of appointment, adequate resources and any necessary support;
- ensure that a brief was developed which clearly reflects the project objectives and was agreed by the users;
- establish a progress and reporting procedure, ensuring that any changes in circumstances affecting the project were evaluated and appropriate action taken;
- act as an arbiter on any disputes which occurred on the client side;
- approve any changes to the scope of the project, ensuring that any which impact on time, cost or objectives were assessed and reported to senior management as appropriate; and
- ensure that a post completion evaluation will be carried out and considered by all users and key stakeholders in the project.

**12.3.3** The Project Steering Group addressed strategic issues and major points of difficulty. The Project Steering Group formed part of a clear reporting line from senior management to the Project Manager.

**12.3.4** The Project Steering Group ensured that the business case was reviewed and that;

- the recommended option has met the user needs whilst providing the best value for money;
- all of the viable options have been properly evaluated;
- risks associated with each option have been clearly identified together with their impact on the project terms of time, cost and performance.

**12.3.5** The Project Steering Group will attend project reviews with senior personnel from the other parties involved in that stage of the project, at regular intervals to consider major issues, identify achievements and enable potential disputes to be resolved promptly. The Project Steering Group will also lead the post project evaluation.

#### **12.4 Project Team and Advisers**

The purpose of the Project Team and the Project Advisers has been to provide the necessary support to the Project Manager to ensure the efficient and effective delivery of his responsibilities as outlined above. The combination of internal and external expertise has achieved this. During the course of the project the Capital Finance Manager has also deputised for the Project Manager to cover a period of illness.

### **13. Benefits Assessment and Benefits Realisation Plan**

- 13.1** Stirling Council's Education Services serves 7 secondary schools, 42 primary schools and a range of special education needs services. The capital allocation for the service is in the region of £2.3M per annum. With so many schools to support, restrictions on the capital programme are significant. The traditional procurement route to replace Balforn High School would have proved impossible. The severe accommodation problems posed by piecemeal development of the school over decades required a more radical and urgent solution.
- 13.2** To support Local Authorities wishing to procure services through PFI, the Scottish Office set up a regime of Level Playing Field Support. After Scottish Office evaluation of the Council's Outline Business Case for the Project, Level Playing Field Support of £1.59M per annum amounting to a total of approximately £40M over the concession period of 25 years has been granted, subject to Scottish Executive approval of the project Full Business Case.
- 13.3** Within that Outline Business Case, the options appraisal demonstrated that a new build project provided the best solution. The PFI scheme proposed by the Council is affordable and represents Value for Money, when set against the public sector comparator (PSC).
- 13.4** An affordable solution and value for money were achieved by procuring an improvement in quality services, compared to current provision. When the Scottish Executive LPF support is added to the current operating costs of servicing and maintaining both Balforn High School and Balforn Primary School (costs likely to have increased across the concession period of 25 years because of deteriorating buildings and so forth), the net cost to the Council in acquiring the use of a completely new campus with significantly enhanced community access to new recreational and leisure facilities is in the region of £200,000 per annum. On-campus sports facilities will prove a great asset to all ages and stages of students as well as to the greater community in the Western Rural Area in which Balforn is centrally placed in a strategic location. The provision of such facilities is consistent with the Council's Rural Strategy.

The competitive element of PFI has ensured that bidding consortia have scaled down costs and profit margins to appropriate levels.

- 13.5** In procuring the services of designing, building, maintaining and operating the new building through PFI, the Council perceives that the benefits will be as follows:
- the curriculum model developed by the Education Service for the new building will be fully adhered to;
  - the provision of fully serviced accommodation at lower costs than the PSC (when taken over the life of the assets);

- the swifter availability of building compared to the traditional procurement route;
- Scottish Executive Level Playing Field support to mitigate Council costs of each service procurement;
- the provision of extended community facilities in an area demonstrably lacking in sports, leisure and recreational facilities;
- the transfer of appropriate risks (design, construction, operation and maintenance) to the private sector which is better able to manage such risks;
- less risk of obsolescence through provision and replacement of furniture and equipment (including IT) which is the responsibility of the operator in accordance with agreed contractual standards and periodic quality reviews.

In procuring the replacement of Balfron High School in this manner, the Education Service capital budget will be used across the concession period to bring about a more effective use of the available budget in supporting the remaining schools.

In addition, on termination of the contract after the concession period, the Council will have the option to take over the ownership of the building. At this point it will still have at least half of its projected design life remaining. It will also have been maintained during the concession period to the exacting quality standards in the services specification.

**13.6** In providing excellent learning and teaching facilities in the new building, the Council

anticipates that the already high standards of the school and the motivation of its students and staff will be improved, consistent with the national government and Council Education Service agenda on *Raising Achievement*. Through PFI, the Council has been able to allow the private sector to produce an innovative design for the new building based on an architectural schematic which is in accordance with current educational philosophy and principles. In particular the new design is consistent with the curriculum model developed for the design brief.

Priority in the new building has been given to providing improved space for Learning and Teaching. More active teaching and learning methodologies and the already widespread and increasing use of educational technology require more generous space, more flexibility and more responsiveness in building design. Internally the final design is capable of coping with any re-design requirements which may be occasioned by changes in teaching methodologies, national education initiatives or other pedagogical innovations across the concession period and beyond.

During the Invitation to Negotiate phase, consortia were exhorted to produce a design which would be capable of expansion to accommodate any potential increases in school roll. All bidding consortia responded positively to this criterion. The final design reflects a number of expansion possibilities which could be realised without damaging the integrity of the original architectural design. In

this way the accommodation problems created by piecemeal expansion of the school which have bedevilled the current building should be avoided.

Equally, design flexibility can cope with any decrease in roll the school might experience, however unlikely this proposition. The option that the Council could at the end of the contract period decide no longer to make use of the buildings is attractive, especially when bearing in mind the excessive provision of school accommodation currently suffered by some Councils. Once again although this is an improbable hypothesis, ensuring that the Council no longer requires to maintain unwanted educational accommodation is prudent.

Design requirements encouraged the creation of a more open accessible environment with the minimisation of pupil circulation through corridors. This has been achieved in the proposed design.

The principle to develop multi-purpose learning and teaching areas where appropriate to accord with more independent learning activities adjacent to classrooms has been realised in the final design. These areas will encourage the development of more autonomous learners in comfortable, open and well-lit surroundings under the less overt and obvious supervision of teaching staff.

The provision of an atrium as a focal point for the new school both to enhance the school ethos and to encourage and develop the use of the building as a community asset has also been incorporated into the final design. Whilst the ambience of the new building will be more open and accessible, the design has taken account of the pressing need to ensure a secure and safe environment for all users.

In developing an educational campus on the original school playing fields, the Council has created an educational and recreational campus which will include (ultimately) nursery facilities, the existing primary school, the new secondary school, adult education facilities and sports, leisure and recreational facilities to be enjoyed by the full age and stage range of users in the Western Rural Area.

The facilities management of the entire campus will be the responsibility of the operator, thereby providing a more rationalised and effective service to the client.

A significant amount of management time in the current school is spent dealing with problems associated with maintenance of older buildings. In handing over the facilities management of the campus to the operator, the management teams of schools on the campus will be able to move from those issues to concentrate on the more important learning and teaching issues in their establishments.

- 13.7** Throughout the project, the involvement of the various communities has been a key part of the strategy to develop community ‘ownership’. Despite the difficulties posed by commercial confidentiality, communication and consultation with the communities has been maintained in accordance with the governmental and Stirling Council’s

agenda for social inclusion and local democracy and participation. Community representatives have been elected onto the Project Steering Group during the latter stages of the bid process.

To develop this agenda further, it is proposed that a Management Executive for community usage will be established through a unique partnership between the Council, the operator and Community representatives. This Executive will market, review and develop community usage

Through possible Arts and Sports Lottery support, extended and enhanced recreational facilities will be on offer and subjected to the strict open public access criteria imposed by both Lottery Boards.

### **13.8 Benefits Realisation Plan**

In ensuring that the above benefits are indeed realised, strict monitoring and Quality Review procedures have been established in negotiation with the operator. These procedures have been written into the final contract between the operator and the Council, and will be subject to a regular reporting regime.

Effects on school procedures and developments which can only be facilitated through the provision of a new school environment will be exemplified in the School Development Plan, which forms part of the quality review procedures between the school and Education Services. Within these accountability procedures, target-setting in accordance with the *Raising Achievement* agenda will be delivered.

## **14. Risk Management Strategy**

### **14.1. General Strategy**

As noted in the section on Risk Analysis above, the Council's main risk management strategy has been to ensure that the allocation of risk during the procurement process has passed risk to the party best able to manage that risk. This ensures that value is obtained through avoiding the unnecessary pricing into the process of risk over which a given party has no control. The Council's remaining risk management strategy will therefore require to concentrate on the risk that is retained.

### **14.2. Retained Risk**

#### **14.2.1. Contract Termination**

On termination, the Council faces a risk, particularly in relation to operator default, that it will be unable to continue to operate the school in the required manner. The nature of the compensation payment in the event of operator default provides protection for the Council, as reimbursement of the operator is based on the principle that the Council will be neither worse off nor better off in the event of operator default. The Council may, therefore, seek an alternative supplier and pass any additional costs associated with such procurement, or any other rectification costs, on to the operator in the form of a lower compensation payment. The presence of the Jarvis parent company guarantee ensures that, where the level of debt outstanding exceeds the level of compensation under the terms of the agreement, the Council is fully reimbursed for such additional costs.

#### **14.2.2. Demand.**

Section 11 of the report above deals at length with the demand risk that the Council could experience over the life of the project. While this is seen to be negligible due to the flexibility that the Council is given by the placing request position, the possibility of the need to expand the school towards the end of the contract life cannot be ignored. The issue of school capacity will be monitored at Balfroun as at other schools as the contract progresses in order to ensure that the Council is able to react, either via its own capital programme, or through negotiation with Jarvis, to respond to demand.

#### **14.2.3 Obsolescence.**

The Council has retained responsibility for replacement of ICT hardware throughout the project and will budget for this accordingly.

#### **14.2.4. Price Risk**

While the Council has managed to pass most of the price risk to Jarvis, some risk (ie energy and rates) has been retained and will require to be managed. Through its position within the market as a major consumer, the Council is always likely to be able to negotiate successfully with power providers. As such, within Scotland, it will

be in a much better position to negotiate than the operator would be. A corporate approach to energy efficiency will continue to be adopted, to include Balfroon High school, thus ensuring that the best price available is obtained.

#### **14.2.5. Residual Value Risk.**

The project agreement passes the school facility to the ownership of the Council at the end of the 25 year contract life for nil cost. However the Council will expect to inherit a building which has a full operational life of 50 years, and thus will have at least 25 years left. To ensure this the Council has incorporated into the Project Agreement adequate mechanisms, through potential penalty payments and the services specification to ensure that the building is maintained to the required level. This should guarantee that the building is in the expected condition at the end of the concession period.

## **15. Post Project Evaluation Plan**

### **15.1. Project Development Officer.**

Stirling Council intends to appoint a Project Development Officer (PDO) to oversee the progress and completion of the construction of the new Balfron High School. This person will act as a 'one stop' link between the Council, Balfron High School, Balfron Primary School, the local community and Jarvis Projects.

The PDO will be responsible for:

- keeping the Council informed of the progress of the project;
- with the help of Council technical staff, ensuring that the specification of the brief is adhered to;
- taking issues raised by Jarvis Projects to the Council;
- ensuring the views of the local community are taken into consideration;
- setting up community groups to develop third party use of the school in conjunction with Jarvis Projects;
- involving school staff in relevant aspects of design and layout;
- involving pupils in relevant aspects of design and layout;
- co-ordinating the decant arrangements between the school and Jarvis Projects.

### **15.2. Project Steering Group**

Stirling Council intends to reconvene the Steering Group at regular intervals after the completion of the project. The purpose of this is to evaluate the evidence regarding project performance under the following headings:

Value for Money;  
Monitoring of Payment Mechanism;  
Educational Targets;  
Community Use;  
Contract Changes.

In this way, the Council will be able to evaluate the implementation of the project, thus ensuring that the original objectives are being achieved.

### **15.3. Project Team**

While the Project Team will cease to exist following the achievement of Financial Close, it is envisaged that members of the team will still be available to assist Education Services for the duration of the construction period and beyond on a needs basis.

## **16. Information Management and Technology Strategy**

### **16.1 Authority's Strategy**

**16.1.1.** Stirling Council recognises the contribution Information and Communications Technology (ICT) has made and will make to educational methods. Accordingly it has developed a strategy in which planning for ICT in education allows it to deal effectively with change. The core of the strategy is an initial three year action plan which will guide the systematic use of ICT. It focuses on achievable goals:

- coherent planning at all levels within the system and managing change through the development of a support framework;
- placing emphasis on the importance of effective professional development for teachers, technical support staff and other support staff;
- clarity in terms of the technical support required;
- effective communications within the educational community by establishing interactive peer groups and the promotion of the concept of world citizenship;

This strategy will also support educational establishments in their own development planning and implementation of school policies.

**16.1.2.** The strategy supports the establishment of interactive learning environments to realise the full potential of ICT for pupils in the learning and teaching process. It also outlines the support required for staff in terms of staff development and resources.

### **16.2 Extent of ICT proposals.**

The heavy investment in ICT equipment already made by the Council Education Service will utilise the sophisticated networked infrastructure to be installed in the new school. Every working area in the school will be equipped with trunking carrying network cabling to allow access to local area network, whole school network, Council Intranet and Internet facilities. Voice and video networking will also be supported by the infrastructure. The installation, maintenance and replacement of the ICT infrastructure is the responsibility of the operator in accordance with the agreed procedures.

### **16.3 Infrastructure**

Jarvis FM will sub-contract the installation and operation of the ICT infrastructure to

Applied Micro Systems (UK) Ltd. They will install and maintain:

- category 5 UTP cabling based on fast Ethernet with 100 Mbytes/s connections (for voice and data);
- file servers, proxy servers, CD-ROM servers and a local web server.

In addition they will provide access to:

- on-site dedicated staff for first level support;
- remote support centre

## **17. Equipment**

### **17.1 Provision**

The operator will be responsible for the provision, control and replacement of all furniture, fittings, fixtures and equipment as specified Volume II of the Invitation to Negotiate (room data sheets). In general, this involves everything apart from ICT hardware and consumables and equipment and materials designed specifically as teaching aids. The operator will be responsible for installing, maintaining and replacing all agreed ICT infrastructure.

### **17.2 Asset Register**

Prior to full occupation of the school, the operator will provide a full asset register of the equipment purchased and an annual programme of replacement for fixtures, fittings and furniture according to the manufacturers' instructions. Each item of equipment will be asset tagged using a bar code system and entered into the asset management database contained in Planet G5. This will be used to track replacement cycles.

### **17.3 Replacement Costs**

Contained in the capital cost build-up, submitted with the operator bid, is a sum that will cover the school's equipment needs at full occupation, with provision for replacement of equipment and full maintenance of the building included within the Life Cycle/Sinking Fund.

### **17.4 Maintenance**

Jarvis FM will maintain, in good working order, all furniture and equipment for which they have responsibility. Breakdown/repairs will be dealt with by their on-site technician where possible. This will be incentivised by the payment penalty mechanism built into the contract and integrated within the FM Services Specification.

### **17.5 Other Equipment**

Stirling Council wishes to transfer some equipment from the old school, and may occasionally wish to provide the school with certain items of equipment which will be outwith the PFI contract. These items will be notified to the operator but the Council will be responsible for maintaining and replacing such equipment.

### **17.6 ICT Hardware**

Stirling Council will be responsible for the provision, maintenance and replacement of ICT hardware and peripherals

## **18. Conclusion**

### **18.1. Scottish Executive Approval**

The Council seeks approval from the Scottish Executive to progress to financial close with Jarvis Projects on the replacement of Balfroun High School under the Private Finance Initiative. This is the preferred option of the Council. The key elements to be provided under the project agreement are:

- construction of a new high school and community facilities on the site of the current school playing fields at Balfroun to be completed for the commencement of school term in August 2001;
- provision of full facilities management services to the school, including equipment replacement, for a period of 25 years from August 2001;
- provision of soft facilities management services to Balfroun Primary School, which will be on the same education campus, for the same period;
- operation of out of hours community facilities;
- transfer of ownership of the current school site to Jarvis Projects;
- transfer of ownership of the school to the Council at nil cost in August 2026.

**18.2.** The Council is of the view that the Full Business Case presented fully addresses the key issues of project affordability and value for money. In addition the accounting opinion provided, both by the external advisers and external audit indicate that the Council has managed to achieve a solution which meets the key requirement for Level Playing Field Support purposes, i.e. that the assets created under the scheme are off the Council's balance sheet.