

NPDO SCHOOLS AFFORDABILITY REPORT

1. EXECUTIVE SUMMARY

1.1 This report summarises progress in relation to the Council's NPDO project to end of March 2017 and, in particular, provides an update on the current financial position of the Project.

1.2 RECOMMENDATIONS

1.3 The Council is asked to note the contents of this report.

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2. INTRODUCTION

- 2.1 This report summarises progress in relation to the Council's NPDO project to end of March 2017 and, in particular, provides an update on the current financial position of the Project.

3. RECOMMENDATION

- 3.1 The Council is asked to note the contents of this report.

4. DETAIL

- 3.1 All five School sites within the NPDO Project, at Lochgilphead, Oban, Dunoon, Rothesay and Helensburgh, are operational.
- 3.2 The Special Projects Team (SPT) operates a monitoring framework and continues to utilise the system of liaison meetings and inspections along with assistance from Facility Services to assist in identifying issues in relation to service provision and building fabric within the facilities. Within that the SPT continues to attend the regular Board meetings of ABC Schools Ltd and meets regularly with the Schools and representatives from the Council's partners, ABC Schools Ltd and MITIE PFI, to monitor progress.

5 BUDGET POSITION

- 5.1 At the Executive meeting in August 2008, the SPT was requested to provide, the Council with an annual report on the ongoing financial status of the NPDO project based on the assumptions prevalent at the time of reporting.
- 5.2 In April 2013 it was reported that, based on assumptions prevalent at the time, the project was affordable in each contract year.
- 5.3 As part of the 2012/13 budget setting process the Council agreed to remove the NPDO smoothing fund and apply the sums earmarked therein for other purposes. The Council also agreed to fully fund the NPDO budget on an ongoing basis. It is anticipated that, based on current assumptions, the NPDO will be able to operate within the budget allocation set by the Council and will be sustainable going forward. The budgetary

position of the NPDO will continue to be reviewed and reported as part of the Council's budget monitoring process.

Future Pressures

- 5.4 Notwithstanding the above, there continue to be potential cost pressures on the NPDO which will continue for the life of the project and affect its long term budgetary position. These will include fluctuations in the general Retail Price Index (RPI), utility tariff rates and Non Domestic Rates (NDR) where the Council takes the risk on changes to these. The current forecast assumes that these factors will increase in line with overall Council estimates but the actual annual impact of these pressures will be considered, with Strategic Finance, as part of the annual budget setting process.

6 EFFICIENCIES IDENTIFIED

- 6.1 The SPT are continuing to monitor ongoing availability and performance deductions. Since April 2016, ABC Schools have required to make payment to the Council of approximately £52k by way of deductions. The SPT are currently withholding a further sum of £230k by way of disputed deductions accrued and are in discussion with ABC Schools to resolve that matter. In relation to this sum, the SPT continue to dispute unitary charge invoices, as appropriate, following the contractual provisions, to enable discussions to settle the deductions considered due to the Authority. The SPT have also been able to release the sum of £16k accrued in respect of unbilled utilities for periods prior to the end of 2012. These sums now fall outwith the 5 year negative prescription period and are no longer lawfully recoverable.
- 6.2 The SPT have applied the provisions contained in the NPDO contract which enable the Council to share in the savings made by ABC Schools in the procurement of insurance for the project facilities. The saving achieved by the SPT and paid by ABC Schools during 2016/17 totalled £205k. The SPT will continue to liaise with ABC Schools to identify future efficiencies in this area where it is likely they can become available. The SPT will continue to seek and apply efficiencies from within the NPDO contract to ensure the correct level of service delivery and to manage any adverse budgetary impact on the NPDO budget. The SPT will continue to identify any efficiencies, in the first place, for the short and longer term mitigation of any cost or budget pressures.

7 REFINANCING

- 7.1 The NPDO contract includes provisions whereby the costs of financing the project can be 're-financed' so that ABC Schools can obtain more favourable bank terms and interest rates than those achieved when the contract was signed. Where such a refinancing occurs, the Council is entitled to 50% of any gain generated, with the outgoing lender receiving the remainder.

- 7.2 As reported to Members on 25th June 2015 the junior lender in the project proposed a sum payable to the Council of £1.75M in full and final settlement of the matter of refinancing the junior debt only. The sum of £1.65M was received in 2015/16 with the final balance of £100k being received in June 2016.

8 CHARITABLE SURPLUS

- 8.1 The financial model for the project does not envisage surpluses being available until very late in the life of the project. To date no charitable surpluses have become available. The Council is continuing to monitor the position with ABC Schools and will report should this profile change.

9 CONCLUSION

- 9.1 The project that was signed in July 2006 was affordable and achieved Value for Money. Changes to the general economic environment since that date, particularly in regard to utilities, higher than modelled RPI and higher than anticipated NDR have previously had an adverse effect on the affordability position. Efficiencies identified by the SPT through the NPDO contract to date have improved the affordability position. It is anticipated that, in the medium term and based on current assumptions, the NPDO will be able to operate within the scope of the budget agreed.
- 9.2 The Special Projects Team will continue to monitor the contractual performance of ABC Schools Ltd and MITIE PFI to identify efficiencies where appropriate, ensure that Schools receive a value for money service and work with all partners and stakeholders to address any budgetary and contract issues as they arise.

10 IMPLICATIONS

- 10.1 Policy: None at present.
- 10.2 Financial: It is anticipated that based on current assumptions, the NPDO will be able to operate within the scope of the budget agreed.
- 10.3 Legal: The possibility of future disputes will continue to be closely monitored.
- 10.4 HR: None at present.
- 10.5 Equalities: None at present.

10.6 Risk: Legal, financial and budgetary risks will continue to be closely monitored by the SPT.

10.7 Customer Service: None at present.

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