

NPDO & HUB DBFM SCHOOLS ANNUAL PROGRESS REPORT

1. EXECUTIVE SUMMARY

1.1 This report summarises progress in relation to the Council's NPDO (Non Profit Distributing Organisation) & Hub DBFM (Design, Build, Finance and Maintain) projects to the end of March 2019 and, in particular, provides an update on the current financial position of both Projects.

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 & Hub DBFM projects to the end of March 2019 and, in particular, provides an update on the current financial position of both Projects.

3. RECOMMENDATION

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

4. DETAIL**NPDO and Hub DBFM**

- 4.1 All five school sites within the NPDO Project, at Lochgilphead, Oban, Dunoon, Rothesay and Helensburgh, and both sites within the Hub DBFM Project, at Oban and Campbeltown are operational.
- 4.2 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, MITIE PFI, Hub North Scotland Ltd and FES FM 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.

- 5.4 The Council has also subsequently agreed to fully fund the Hub DBFM budget on an ongoing basis. It is anticipated that, based on current assumptions, the Hub DBFM will be able to operate within the budget allocation set by the Council and will be sustainable going forward. The budgetary position of the Hub DBFM will continue to be reviewed and reported as part of the Council's budget monitoring process.

Future Pressures

- 5.5 Notwithstanding the above, there continue to be potential cost pressures which will continue for the life of both projects and affect their 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 continue to be considered, with Strategic Finance, as part of the annual budget setting process.

6 EFFICIENCIES IDENTIFIED

NPDO

- 6.1 The SPT continue to monitor ongoing availability and performance deductions. Since April 2018, ABC Schools have required to make payment to the Council of approximately £56k by way of deductions. The SPT are currently withholding a further sum of £207k by way of disputed deductions accrued and are in discussion with ABC Schools to resolve this 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 £24k accrued in respect of unbilled utilities for periods prior to the end of 2014. 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 2018/19 totalled £281k. The SPT will continue to liaise with ABC Schools to identify future efficiencies in this area where it is likely they can become available.

Hub DBFM

- 6.3 The Hub DBFM Schools at Campbeltown and Oban became operational during 2018/19. The SPT will monitor the contractual performance of Hub North Scotland (O&C) Ltd and FES FM in a similar manner to the NPDO Schools and will monitor ongoing availability and performance deductions. Since April 2018, Hub North Scotland (O&C) Ltd have required to make payment to the Council of approximately £191k by way of deductions. The SPT are currently withholding a further sum of £73k by way of disputed deductions accrued and are in discussion with Hub North Scotland (O&C) Ltd to resolve this matter. In relation to this sum, the SPT continue to dispute monthly service payment invoices, as appropriate, following the contractual provisions, to enable discussions to settle the deductions considered due to the Authority.
- 6.4 The SPT will continue to seek and apply efficiencies from within both the NPDO contract and the Hub DBFM contract to ensure the correct level of service delivery and to manage any adverse budgetary impact on either budget. The SPT will also continue to identify any efficiencies, in the first place, for the short and longer term mitigation of any cost or budget pressures.

7 REFINANCING – NPDO only

- 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 – NPDO only

- 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.

10 CONCLUSION

- 10.1 The NPDO and Hub DBFM projects deliver value for money. The SPT has delivered efficiencies in the NPDO project since its sign off. Efficiencies identified by the SPT through the NPDO contract to date have improved the affordability position. The SPT is applying the same methodology to the Hub DBFM

- 10.2 It is anticipated that, in the medium term and based on current assumptions, the NPDO & Hub DBFM will continue to operate within the scope of the budget agreed.
- 10.3 The Special Projects Team will continue to monitor the contractual performance of both projects 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.

11 IMPLICATIONS

- 11.1 Policy: None at present.
- 11.2 Financial: It is anticipated that based on current assumptions, the NPDO & Hub DBFM will continue to operate within the scope of the budget agreed.
- 11.3 Legal: The possibility of future disputes will continue to be closely monitored.
- 11.4 HR: None at present.
- 11.5 Fairer Scotland Duty: None at Present
 - 11.5.1 Equalities: None at present.
 - 11.5.2 Socio-economic: None at Present
 - 11.5.3 Islands; None at Present
- 11.6 Risk: Legal, financial and budgetary risks will continue to be closely monitored by the SPT.
- 11.7 Customer Service: None at present.

Douglas Hendry - Executive Director - Customer Services

Policy Lead – Councillor Rory Colville

For further information please contact:

David Logan - Special Projects & Quality Improvement Manager - 01546 604322