

Scottish Government – Funding of Schools for the Future Projects
Proposed new School Facilities for Dunoon and Campbeltown
Governance and other matters

1. SUMMARY

1.1 This report advises the Executive on:

- The Scottish Government requirement for revenue funded projects, such as the proposed new school facilities for Campbeltown Grammar and Dunoon Area Primary Shared Campus to be procured through the hub and in consultation with the Scottish Futures Trust;
- Recommended governance arrangements to progress the business case process to procurement of such improved school facilities;

2. RECOMMENDATION

2.1 The Executive is asked to note this report and;

2.1.1 Agree the Governance arrangements as contained in paragraph 4.2 and Appendix 1 of this report;

2.1.2 Agree the New Project Request (NPR) as requested in paragraph 5.1 hereof and contained in Appendix 2 of this report and instruct the Executive Director – Customer Services to lodge this with SFT and hubco;

2.1.3 Note the affordability position as outlined in paragraph 6.3 and detailed at Appendix 3 hereof;

2.1.4 Agree to the earmarking of the funds and for the purpose as contained in paragraph 6.2 hereof;

2.1.5 Note the position in regard to the consideration of shared working at paragraph 7.1 hereof.

3. BACKGROUND

3.1 Argyll and Bute Council is an authority with a clear focus on education as a key priority. Providing a high quality environment conducive to learning and teaching is a key goal for the Council that needs to be achieved in a financial environment that demonstrates Best Value, Continuous Improvement and Value For Money, with projects that are affordable to the Council. This fully supports the Council's overall vision for the Education Service. The Council has previously approved outline

business cases for the establishment of a new Campbeltown Grammar and Dunoon Area Primary Shared Campus (to replace the existing buildings housing each of St Mun's Primary, Kirn Primary and Dunoon Primary schools).

3.2 Revenue Funded Project

The Scottish Government has advised the Council that funding awarded from the "Scotland's Schools for the Future" project (SSF) for the proposed new school facilities at Campbeltown Grammar and Dunoon Area Primary Shared Campus is to be provided on a revenue basis. The Scottish Government have set out the key conditions and guidance for procuring bodies receiving revenue finance and the conditions and guidance have been accepted by the Council .

The Council has agreed, as part of its 2012/13 budget, to make funding available for a project to build new education facilities in Dunoon and Campbeltown. The proposed capital plan will support the corporate outcome of our young people having the skills, attitudes and achievements to succeed throughout their lives by improving the quality of the school estate and raising the condition of school buildings.

The Council has further agreed that this project will be delivered in accordance with the Scottish Government's requirements through the *Scotland's Schools for the Future* programme. As described above, the Scottish Government requires that the Council should have in place a Project Team with the relevant skills in order to deliver a revenue funded project of this nature.

The Council has met with the Scottish Futures Trust (SFT) who have confirmed that the projects for the proposed improved school facilities will be procured through the hub Design, Build, Finance and Maintain (DBFM) model. The SFT are managing the Scotland's Schools for the Future Programme on behalf of the Government and are intended to provide a centre of expertise and advice on the development, funding, structuring, procurement and management of these projects.

The Council will continue to work closely with SFT throughout the ongoing development of the project. SFT's approval will be required at specific points in order for the project to proceed to delivery. The final decision on the provision and level of unitary charge support for the project will be made by Scottish Ministers, subject to confirmation from both the procuring body and the Scottish Government that the project concerned is affordable and offers value for money.

3.3 The Hub Model

There are five hub territories across Scotland. The operation of each Territory is governed by a 'Territory Partnering Board' (TPB). The TPB comprises representatives from each of the public sector participants who have signed up to engage with the initiative.

The Council has signed up as a participant in hub North which covers all of the local authorities, NHS boards, fire and police services across Grampian, the Highlands and Islands and Argyll and Bute.

Hub projects will be delivered through a joint venture company (hubco) formed between the public sector bodies and a private sector development partner, which in the North Territory will be Alba Community Partnerships. The hub initiative brings Scotland's public sector bodies together to deliver a wide range of joint services to achieve better value for money and continuous improvement.

Alba Community Partnerships (comprising of Cyril Sweett Investments Ltd and Miller Corporate Holdings, part of The Miller Group) has been selected as the preferred bidder for the hub North Territory.

The Council is engaged with hubco and the SFT to determine the process of procuring the contract to design, build, finance and maintain the improved school facilities. The engagement with hub will help to determine how the Council can develop its current project plan to the key requirements and guidance from the Scottish Government, the availability and timing of revenue funding and the capacity of hub to deliver the procurement of the contract within a defined timescale.

Future Management of Projects

- 3.4 The Council is now being encouraged by the Scottish Futures trust to consider the two schools (Dunoon Area and Campbeltown) as one project and the Council is following this preferred approach.
- 3.5 The arrangements, proposed in this paper, to take forward the business case meet the requirements of the SFT. It should however be stressed that both potential projects are at a relatively early stage in the project life cycle and both have considerable approval and consultation stages still to be met before either progress to site. In relation to the shared campus in the Dunoon area, following the completion of the PAC process, an outline planning application will be submitted and a full business case will be developed for approval. A design brief for the facility is being developed with the involvement of stakeholders and initial design work will commence shortly. A full planning application will then be submitted, by hubco, which in turn would require a formal planning consultation. Additionally the proposal would be the subject of separate and parallel statutory consultation under the Schools (Consultation) (Scotland) Act 2010 or successor legislation.

A similar process will be undertaken for the replacement of Campbeltown Grammar School although this proposal is even earlier in the process.

4 Governance

4.1 Key Requirements and Guidance – Governance

The Council is currently progressing through a business case process for the proposed Dunoon Area Primary Shared campus and new Campbeltown Grammar. This process will be carried out in accordance with the key principles and guidance for revenue funded projects issued by the Scottish Government.

There requires to be identified capacity and governance structures in place in order to deliver the project effectively. The Scottish Government requirements are that;

- The procuring body is required to have in place a dedicated, qualified and sufficiently resourced project team to lead delivery of the project;
- The procuring body is required to have in place an SRO and also Project Director with recognised experience in project management and delivering revenue financed projects;
- The procuring body is required to put in place a project governance structure, clearly linked to the governance arrangements of the organisation, which will ensure effective oversight and scrutiny – at a senior level – of the work of the project team and the development of the project;

- The project will be required to go through Key Stage Review and Post Project Evaluation, as directed by the Scottish Government, through the development phase until Financial Close is reached. The review process should be undertaken in full from the earliest applicable milestone. Successful completion of each Key Stage Review is required in order for the project to proceed to the next stage of delivery.

All the above requirements are addressed in this report.

4.2 Proposals for Governance Structure

To meet the key governance arrangements outlined in the key requirements and guidance it is proposed that the Council constitute a special committee with membership, delegated powers and remit as detailed in Appendix 1 hereof.

The Special Committee would receive reports and recommendations from a Project Board with the membership and remit as detailed in Appendix 1 hereof. This would replace the existing governance arrangements for the procurement of the two schools projects.

In turn the Project Board would receive reports and recommendations from the Project team with membership and remit as detailed in Appendix 1 hereof.

This is a similar governance structure to that utilised in the Council's NPDO Project, a revenue funded project, and has been utilised in other Council Projects and is compliant with the key requirements and guidance.

5 New Project Request

- 5.1 In order to initiate a formal project commencement with hubco, the SFT and hubco require the Council to lodge a New Project Request (NPR). The NPR proposed for submission to the SFT is contained in Appendix 2 hereof.

This details the project scope, confirms certain technical matters and confirms "the maximum unitary charge that can be committed". This "affordability cap" as it is termed by the SFT is a requirement of the SFT and is more fully explained at Appendix 3 hereto. It is requested that the Executive approve the general content of the NPR for submission to SFT and hubco. It should be noted that the content of the NPR may alter prior to its submission depending on circumstances. The submission of the NPR to the SFT and hubco will not commit the Council to procure the new schools through this route. As set out in Appendix 1, a Final Business Case for the project will be brought to the Executive for its approval to commit to a procurement of the new schools through the hub DBFM route.

6. Funding

6.1 Project Financing

Revenue support will be provided to the Council from the Scottish Government up to a set level based on the project scope which has been agreed to be funded through Scotland's Schools for the Future Programme (SSF).

The Scottish Government has provided an indication of funding levels by way of a contribution calculated on a sum per square metre. This may be subject to market conditions and in particular benchmarking costs carried out by the SFT and costings

submitted by hub. Once determined, this funding level is expected to be provided to the Council by way of an annual revenue payment received over the life of the project. The life of this project is likely to be approximately 25 years.

The funding level will be crystallised during the course of the procurement process through hub. This will allow the Council to determine its required level of contribution and assess the long term affordability of the project.

The SFT has confirmed that the intention of the funding through the SSF is to put Council's in no better or worse a financial position than if the project were a traditional capital procurement.

6.2 Financing of the Council's Project Team

The terms and conditions set out in the Scottish Government letter require the Council to fund, in conjunction with the Scottish Government, the preparatory and development costs of the project including the procurement of legal, financial, technical and insurance advice where necessary.

It is considered that much of the expertise and advice required can be met from existing resources. However, it is intended that a sum of £750,000 should be earmarked from the Council's general fund reserve at 31 March 2012, on a one off basis, for the development of this project to be spent over the next three financial years. The sum would be used to fund various aspects of project development including additional internal staffing costs, public consultation, procurement of external specialist advisers and obtaining specialist reports. This would enable the Council to ensure that it has sufficient internal, and external, capacity and expertise to deliver a complex project of this type to the standards and timescales expected by the Scottish Government. Appendix 4 sets out further detail in respect of the proposed earmarking of the general fund for the purposes set out above.

The utilisation of these funds would be monitored and managed through the Project Team and reported to the Project Board on a regular basis. Any requirement to procure external advisory services would take advantage of the *SFT Frameworks for the Provision of Advisory Services* in order to demonstrate value for money from the procurement of such services.

While the Scottish Government have made provision in their funding arrangements to meet part of the Council's project development costs, as represented by the £750,000 identified above, this is in regard to the appointment of advisors only and up to a capped level of currently £200k in total. This sum would not be paid to the Council up front but on an annual instalment basis over the life of the project.

It is anticipated that the earmarked sum would be utilised over the next three financial years as required by the project plan and in furtherance of the project team remit set out in Appendix 1 of this paper. The Project Team will monitor and report on budget requirements as the project progresses.

6.3 Project Affordability

The Council requires to report on two aspects of the affordability of the project. Firstly, the SFT requires that the Council estimate its proposed project 'Affordability Cap' in the New Project Request which is included at Appendix 2. The Affordability Cap is an estimate of the maximum cost that the Council can afford for its contribution to the construction, maintenance and lifecycle costs of the new facilities.

Further detail of how this has been calculated is shown at Appendix 3.

Secondly, the Council will need to consider the impact of the Affordability Cap, and other costs resulting from the project, on its annual budgets. This 'affordability' analysis will compare the estimated cost of the project to the Council's existing school property budgets in order to identify if there is sufficient funding available to meet these costs over a period of time. The detail of how the current estimate of project affordability has been calculated is shown at Appendix 3. The estimated gap at this stage is some £700,000 per annum from 2015/16 and this would be likely to increase on an annual basis due to inflation being applied to the maintenance and lifecycle elements of the Unitary Charge over the contract term. This is largely due to the fact that presently the Council spends less on the maintenance of its buildings than the industry standards would suggest. The Council has around two years in order to identify the sums required in order to address this gap and the Project Team will liaise with Strategic Finance in order to ascertain how these sums may be identified with regular reporting to the Project Board.

7. Consideration of Shared Working

- 7.1 The CHP is currently developing a project for construction of a new mental health hospital in Lochgilphead. Both projects being undertaken by each of the Council and the CHP are currently being procured through the hub North and in liaison with the Scottish Futures Trust (SFT).

SFT have discussed the project management resourcing requirements with CHP. It appears that CHP are of the opinion that they have minimal or no internal capacity or capability to manage the project for a DBFM contract for the provision of a new Mental Health hospital in Lochgilphead. SFT contacted the Council and asked officers to meet with the CHP to consider ways in which they could collaborate and share cost and arrangements of project management of the mental health hospital with the arrangements the Council is putting in place in respect to the Schools project.

The Council's current view is that it has the capability and capacity to resource the project management of its schools project from within existing staff and resources. The SFT appears content with the Council's capability and capacity to do so.

Officers met with the CHP to explore areas of shared working. It is important to consider shared working with other public Authorities wherever possible and practicable and there is advice from the SFT that such arrangements should be considered. The current consideration of shared project management arrangements with the CHP is not one that appears to instantly lend itself to joint working arrangements.

The situation is one where the CHP wish to undertake a project to construct an asset in which the Council will have no interest. Separately, the Council is undertaking a project to construct 2 assets in different geographical locations in which the CHP will have no interest.

Consequently, this is clearly not a situation where there are "shared services" being undertaken but rather separate and distinct time limited construction projects where the parties have separate and distinct interests and obligations.

It is not clear what benefit would accrue to the Council in batching the projects together or joining in procurement of project management with CHP. The SFT and hubco have advised that they would broadly concur with this view based on their experience of other hubNorth projects.

Having regard to that officers will continue to engage with the CHP to:

- Consider whether joint procurement of legal, financial and technical advisers would achieve improved value for both bodies compared to individual procurement;
- Engage with the CHP on an informal, but regular basis, to discuss ongoing experience of the procurement of the respective projects; and

Liaise with the CHP on a regular basis to assess the timescale of each party in reaching financial close to assess whether bundling of the projects is feasible and would derive any financial benefit.

The development of opportunities for successful shared working between public sector partners is considered most likely to be successful where all those involved are community resources to a shared working project.

8. Next Steps

8.1 The Council is now in a position to progress with the procurement process in regard to the proposed improved school facilities at Campbeltown Grammar and Dunoon Area Primary Shared Campus through Hub. It now requires to take steps to ensure that it has governance arrangements that meet the key requirements and guidance from the Scottish Government for procuring bodies receiving revenue finance from the Scottish Government's "Scotland's Schools for the Future" project. The acceptance of the governance arrangements recommended herein will achieve that and will provide assurance to the Council that the procurement process will be progressed on a business case basis demonstrating clear affordability of the project or otherwise with clarity on responsibilities in relation to delegated authority and reporting obligations.

8.2 It should also be noted that the two new school developments will fall within the scope of the Schools Consultation (Scotland) Act 2010. Proposals for discharging the Council's duties under the act will be brought forward as the project progresses.

8.3 It is likely that the Scottish Government will shortly give consideration to releasing additional funds to the Council for further school construction and the governance structure above would be able to accommodate such additional development if required.

9. CONCLUSION

9.1 Subject to approval of the Governance arrangements, NPR and funding matters referred to herein, the Council is now in a position to progress the procurement process in regard to the proposed improved school facilities at Campbeltown Grammar and Dunoon Area Primary Shared Campus through SFT and hubco.

10. IMPLICATIONS

Policy:

Meets the aspirations for the Council for renewing and improving the education estate provision in Dunoon and Campbeltown in compliance with the Council's School Estate Asset Management

Plan (SEAMP).

Finance: The projects may achieve affordable options for renewing and improving the education estate provision in Dunoon and Campbeltown and take advantage of significant Scottish Government revenue based grant assistance.

Legal: The governance arrangements contained herein comply with the Scottish Government's Key requirements and Guidance.

Equal Opportunities None at present

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Cleland Sneddon – Executive Director – Community Services
For Further information contact - 01546 604112

APPENDIX 1

Project Sponsor – Senior Reporting Officer (SRO)

Executive Director – Community Services.

A - SPECIAL COMMITTEE

DELEGATED AUTHORITY AND REMIT

The Special Committee is authorised to progress the project to make recommendation to the Council's Executive on procurement of improved school facilities in respect of Campbeltown Grammar and a new Dunoon Area Primary Shared Campus (incorporating Kirn, Dunoon and St Mun's primary Schools and Clyde Cottage Nursery). The recommendation is to be based on a final business case to address, amongst others the following matters;

- Educational Benefit of the proposed improved School facilities;
- Demonstration of value for money and long term affordability;
- Feasibility and deliverability of the project;
- Educational and technical brief and the evaluation thereof;

In carrying out the remit in terms of this delegated Authority, the Special Committee will report to the Council's Executive at key stages of the project, as it considers appropriate, and with its final recommendation on procurement of the project to enable the Executive to make the final decision thereon.

MEMBERSHIP¹

Council Leader	Chair
Spokesperson for Education and Lifelong Learning	Vice Chair
	Councillor

B – PROJECT BOARD

REMIT

The Project Board is authorised to progress the project to make recommendation to the Council's Special Committee on procurement of improved school facilities in respect of Campbeltown Grammar and a new Dunoon Area Primary Shared Campus (incorporating Kirn, Dunoon and St Mun's primary Schools and Clyde Cottage Nursery). The recommendation is to be based on a final business case to address, amongst others the following matters;

- Educational Benefit of the proposed improved School facilities;
- Demonstration of value for money and long term affordability;

¹ Number of Councillors to be agreed. Ratio of administration to opposition members likely to be 3:2.

- Feasibility and deliverability of the project;
- Educational and technical brief and the evaluation thereof;

In carrying out the remit in terms of this delegated authority, the Project Board will; Report to the Special Committee at key stages of the project and against the approved Project plan, as it considers appropriate, and with its final recommendation on procurement of the project to enable the Special Committee to make recommendation to the Executive to make the final decision thereon;

Task the Project Team to develop a project plan to progress assessment of the procurement of the project on a final business case basis. This will address;

- The key objectives of the project;
- The proposed timescale to produce a final business case with the key requirements and reporting stages within that process;
- The matters that require to be addressed in the final business case.

MEMBERSHIP²

Council Leader	Chair
Spokesperson for Education and Lifelong Learning	Vice Chair
	Councillor
Executive Director of Customer Services	Douglas Hendry
Executive Director of Community Services	Cleland Sneddon
Head of Strategic Finance	Bruce West
Head of Education	Carol Evans
Head Children and Families	Louise Long
Head of Facility Services	Malcolm MacFadyen
	LNCT Union Representative
	EJCC Union Representative
Roman Catholic Representative	Maureen Arthur
Church of Scotland Representative	William Crossan
Scottish Episcopal Representative	David McEwan
Advisers to the Project Board	
Education Representative	Head Teacher, St Muns PS
Education Representative	Head Teacher, Dunoon PS
Education Representative	Head Teacher, Kirn PS
Education Representative	Head Teacher, Campbeltown Grammar School

² Number of Councillors to be agreed. Ratio of administration to opposition members likely to be 3:2.

C – PROJECT TEAM

REMIT

The Project Team is authorised to progress the project to make recommendation to the Council's Project Board on procurement of improved school facilities in respect of Campbeltown Grammar and a new Dunoon Area Primary Shared Campus (incorporating Kirn, Dunoon and St Mun's primary Schools). The recommendation is to be based on a final business case to address, amongst others the following matters;

- Educational Benefit of the proposed improved School facilities;
- Demonstration of value for money and long term affordability;
- Feasibility and deliverability of the project;
- Educational and technical brief and the evaluation thereof;

In carrying out the remit the Project Team will;

Report to the Project Board at key stages of the project, in accordance with the project plan approved by the Project Board and as it considers appropriate, and with its final recommendation on procurement of the project to enable the Project Board to make recommendation to the Special Committee to make the final decision on procurement of the Project.

The Project Team are tasked to develop a project plan, for approval of the Project Board to progress assessment of the procurement of the project on a final business case basis. This will address;

The key objectives of the project;

The proposed timescale to produce a final business case with the key requirements and reporting stages within that process;

The matters that require to be addressed in the final business case.

The Project Team are tasked to work to the approved plan and report to the Project Board against this plan as required by the Project Board from time to time.

MEMBERSHIP

	Project Director
	Education Project Manager
	Children and Families
	Special Projects Team
	Facility Services
	Facility Services
	Facility Services
	Governance and Law
	Strategic Finance
	Planning

APPENDIX 2

NEW PROJECT REQUEST – Campbeltown Grammar and Dunoon Area Primary Shared Campus DRAFT for discussion

This New Project Request is issued under the terms of the Territory Partnering Agreement (TPA) entered into by hub North Scotland Ltd and the Relevant Participant dated 28 January, 3, 4, 8, 9, 10, 11, 15, 22, 24 February and 17 March 2011.

Section	Requirement
1. Relevant Participant:	Argyll and Bute Council
2. Project name:	Campbeltown Grammar School and Dunoon Area Primary Shared Campus
3. The maximum Unitary Charge which can be committed to the New Project (the ‘Affordability Cap’):	<p>SFT have advised that the Council will be liable for the project costs relating to its contribution to the construction cost of the facilities and their ongoing lifecycle and maintenance. All other project costs, included in the Unitary Charge, will be met by the Scottish Government.</p> <p>The Council has based its affordability cap on the costs for which it is expected to be liable and as set out below:</p> <ul style="list-style-type: none"> • Council construction contribution – The Council have based this upon the calculation of construction cost as provided by the SFT (see breakdown attached). The total construction cost is currently estimated at £22.2m with the Council contribution being £9.4m. • Lifecycle Costs and Facilities Management – A benchmark has been provided for a current hubNorth project covering both lifecycle and maintenance. This totals £40 m2/per annum for combined lifecycle and FM. <p>At this stage the Council intends to base its affordability calculations on the above figures as they are based on commonly accepted benchmarks and calculation methodologies. It is acknowledged that these figures are likely to change over the course of the procurement process and the submission of the NPR does not commit the Council to funding the costs as set out above.</p>
4. A project brief is provided	<p>The Council originally considered the proposed renewal of these schools on a capital funded basis with support from the Scottish Government. The Scottish Government has recently advised the Council that revenue support funding is likely to be made available to support the Council in the provision of these new schools through the Scotland’s Schools for the Future project (SSF).</p> <p>This Council’s current proposal envisages a new Shared primary campus school in Dunoon incorporating pre 5s provision, of a size appropriate to projected rolls, to be built on the site of the existing Kirn Primary with additional adjacent council owned</p>

	<p>land being utilised as required. An educational and technical brief (Project Brief) for the project has been prepared and the Pre Application Consultation (PAC) process is now complete.</p> <p>The project for Campbeltown is intended to be a replacement of the existing Grammar to a size and specification appropriate for projected rolls and modern teaching requirements. This project is at an earlier stage of development than Dunoon with a requirement to select a site for the new school along with the development of an educational and technical design brief (Project Brief). The Project Brief, including site option appraisal, is being drawn up and it is intended that this will be considered with hubco during the Stage 1 process.</p> <p>FM Service Specification: It is envisaged at this stage that hubco will provide the services detailed in the Standard Form Services Specification.</p> <p>All other services for the facility are expected to be provided by the Council.</p> <p>This project forms part of the Scottish Government's Scotland's Schools for the Future programme. Hubco is to comply with requirements of the Scottish Government in respect of this programme. The requirements are set out in the Scottish Futures Trust letter to the Council dated 22 March 2011, a copy of which will be attached to the NPR. It should be noted that the SFT correspondence advises that the financial support to be offered may be adjusted during procurement based on market conditions at that time.</p>
5. Programme or other requirements comprise:	<p>The council has developed a draft outline timescale for the procurement and build process which is based on the timings envisaged by the SFT as part of its Key Stage Review process. All stages of this process will be subject to approval by the Council's internal governance procedures. This will be developed and clarified over the course of the procurement.</p> <p>April / May 2012: Submit NPR October / November 2012: Stage 1 submission and approval April / May 2013: Stage 2 submission and approval August / September 2013: Financial Close July 2015: Service Availability</p>
6. Preparatory work already undertaken comprises:	See section 4 above.

	<p>Detailed investigations to date are available should hubco wish to view them.</p> <p>Site information, including flood risk, is being obtained for the potential sites for the new Campbelltown Grammar. This information is expected to be available by May 2012.</p>
7. Details of any designers/advisors currently retained:	The Council do not currently retain any designers or advisors.
8. Are any current designers/advisors able to be novated to hubco:	There are no current designers / advisors to be novated to hubco from the Council.
A Stage 1 Submission shall be prepared and include in respect of Clause 4.2 of Schedule Part 5 of the TPA the following:	
9. A detailed option appraisal (4.2.1)	Site selection and Initial Business Case completed for Dunoon Area Campus (will be provided). Campbelltown site option appraisal process ongoing.
10. A value for money assessment (4.2.2)	A Value for Money Assessment is required in accordance with the requirements of the TPA (4.2.2) and supporting Method Statements. Will be completed in accordance with SFT guidance issued in December 2011.
11. A description and outline design to RIBA stage C (4.2.3)	Not anticipated to be complete until the end of Stage 1 in accordance with SFT guidance.
12. A desktop geotechnical/environmental study and where applicable (4.2.4):	
a. Topographical survey	It is anticipated that Hubco shall review the available site investigation work previously undertaken by the Council (as per 5 above) as part of stage 1. It is anticipated that this information will not be warranted by the Council to Hubco and Hubco will undertake any further investigations that they deem necessary as part of their Stage 1 design development.
b. Site investigation Studies	See a. above.
c. Geotechnical report	See a. above.
d. Asbestos report	See a. above.
e. Condition report	See a. above.
f. Traffic study	See a. above.
g. Environmental impact report	See a. above.
13. The transfer of properties by Participant(s) to Hubco or to Project Service Providers (details required) (4.2.5)	It is not anticipated, at this stage, that any property will be required to be transferred to Hubco as a result of this process.
14. a schedule of material amendments/benefits required to the standard terms of the relevant Template Project Agreement (4.2.6)	Based on the process and timescales envisaged by the SFT in its KSR guidance, any changes or derogations

	to the standard Project Agreement would be agreed over the course of the process to Financial Close.
15. Names of the Participant(s) and/or other parties who will become Project Agreement Counterparties. Also tenants (4.2.7)	Not required
16. How the New Project fits into the service delivery strategy as set out in the TDP and evidence of how the New Project meets the Relevant Participant(s)' requirements including the Specific Requirements (4.2.8)	The design brief sets out the Council's Education vision, and aims, and describes how it is expected these will be met from the new schools.
17. The effect on any employees of the Relevant Participant(s) or relevant third party service providers, including any potential transfer of any such employees (TUPE) (4.2.9)	Not required.
18. An equipment strategy and risk transfer assumptions (4.2.10)	Risk transfer envisaged at this stage to be in line with the Standard Form Services Specification. This will be reviewed over the course of the procurement process along with the development of a related equipment strategy.
19. What land (including Participant land) is required and where appropriate, an indicative value of that land (4.2.11)	It is anticipated no land procurement will be required as part of this project but will be subject to the results of the Campbeltown site options appraisal.
20. The appropriate contractual route to deliver the New Project (4.2.12)	DBFM It is anticipated that the project will be revenue funded adopting the Standard Form DBFM Project Agreement issued by Scottish Futures Trust in June 2011 and as amended. The Council intends to provide funding for its share of the capital cost of the project in line with the Scottish Government requirements.
21. Evidence of planning permission in principle (outline) including a report on any conditions attached setting out Hubco's recommended strategy (4.2.13)	PAC process complete for Dunoon Campus. The Council is in the process of drawing up an outline planning application for this facility within the next two months. The timescale for completion of this planning process will be dependent on a related planning application for additional pitch provision in the area which will compensate for a pitch which will be removed as part of the campus development. The planning process for Campbeltown has not yet commenced. It is intended that the full planning process for Campbeltown would be undertaken by Hubco and the Council during the Stage 1 process.
22. A maximum time period for submission of a Stage 2 Submission on the assumption that the New Project achieves Stage 1 Approval (and indicating alternative time periods to accommodate market testing if required) (4.2.14)	The target date for the Stage 2 approval is as per the programme above (ie. April / May 2013) and is based upon timescales included in the SFT Key Stage Review guidance previously issued.

23. The proposed Project Development Fee referred to in paragraph 1.2 of schedule Part 4 (Partnering Services Costs) (4.2.15)	This will be a matter for discussion with Hubco, Hub Territory and SFT as it is understood this will be met by Scottish Government.
24. A Site Waste Management Plan (incorporating design stage waste reduction actions). (4.2.16)	Anticipated this will be developed as part of the Stage 1 and 2 design process.
25. Most recent Hubco Performance Report and confirmation whether or not the Track Record Test has been passed at the date of submission of the Stage 1 submission. (Not referenced)	Anticipated this will be covered as part of the Stage 1 process.

Dunoon and Campbeltown Schools – Affordability

1. Introduction

1.1 The new schools project will be delivered through a special purpose vehicle, hubco, under the Scotland’s Schools for the Future programme. The project will be revenue funded through a Design, Build, Finance and Maintenance (DBFM) contract with support being provided from both the Scottish Government and Council resources. The capacity of the Council to meet the costs of the project from its budgets, and additional Scottish Government support, will determine the ‘affordability’ of the project.

1.2 There are four cost streams that the Council will require to meet when determining the affordability of the project:

Unitary Charge	The Council will pay an annual fee to hubco (the ‘Unitary Charge’) once the buildings have become operational and this fee will cover the costs of design, construction, financing and the ongoing maintenance and lifecycle renewal of the buildings for the 25 year contract life. The Scottish Government will meet some of the cost elements of the Unitary Charge (UC) while the Council will meet others.
Up front capital contribution	The Council will be required to make an up front payment to hubco to contribute to the capital costs of constructing the new facilities. This will amount to 33% of the cost of Campbeltown Grammar and 50% of the cost of the new Dunoon Area Campus.
Wider Costs / Receipts of Project	The Council will be required to fund any abnormal costs associated with the builds or any further works required as a consequence of the construction.
School Property Costs	The UC will only include the ongoing maintenance and lifecycle of the new facilities. The school property costs (including cleaning, janitorial services, security, utilities, Non Domestic Rates, etc) will remain the responsibility of the Council and budget will require to be identified for such sums.

1.3 The New Project Request (NPR) form issued by hub requires that the Council confirm how much it can afford to spend on the up front payment for construction of the facilities and the maintenance and lifecycle elements of the UC. This is known as the project ‘Affordability Cap’ and the Council’s partnership agreement with the hub requires that hubco should aim to deliver the project within this cap.

1.4 However, for the Council to determine how affordable the project is, it will require to consider both the costs of the project itself (the Affordability Cap) and the additional costs to the Council resulting from implementation of the project. It should also be noted that the Affordability Cap is based on an early estimate of construction, maintenance and lifecycle costs and it is entirely possible that, as the project develops, these costs will increase and the original Cap may be exceeded by hubco. The Council will require to continue to monitor the affordability during the procurement process and consider the implications of any increase in the project costs.

2. Summary Affordability Position

2.1 The sections below set out the detail of the current view on the Affordability Cap and the current estimate of the affordability of the project on an annual basis. The main costs to the Council of the project are the payment of the Council's upfront capital contribution and meeting hubco's costs of long term lifecycle and maintenance expenditure. At this stage there is a range of benchmarked costs relating to lifecycle and maintenance. The affordability position of the project is therefore shown as a range with an explanation of each element shown in the body of the Appendix.

2.2 Each of the headings is described in detail in section 3 below and comment on the status of the 'affordability gap' is included in section 4 below.

<u>Project Costs</u>	Report Section	Annual Affordability Low Benchmark £000	Annual Affordability High Benchmark £000
<i>hubco Costs</i>			
Lifecycle / Maintenance (Council Funded)		474	699
Up front Council investment (Council Funded)		9,397	9,397
<i>Affordability Cap</i>		9,872	10,096
Remaining Unitary Charge (SG Funded)		1,453	1,453
<i>Total hubco Costs</i>		11,325	11,549
Wider Costs / Receipts of Project		Note 1	Note 1
School Property Costs		913	913
Total Project Costs (A)		12,238	12,462
<u>Budgets Available</u>			
Existing School Property Budgets		846	846
Contribution from Council CRA maintenance			
Scottish Government Support		1,461	1,461
Council Up Front Capital Contribution		9,397	9,397
Total Budgets Available (B)		11,705	11,705
Affordability Gap (B-A)		-533	-757

Note 1 – The wider costs / receipts from the project represent one-off sums that are likely to be incurred by the Council as a consequence of implementing the project. The current estimate of this figure is a net cost of around £100,000. As such sums are unlikely to be incurred on an annual, recurring basis and have not been included in the figures above but a full description of what is likely to be included is shown in section 3.9.

2.2 The table above shows that, based on current assumptions, there is likely to be an affordability gap of between about £533k to £757k per annum from the project. This is largely due to the fact that presently the Council has budget for the maintenance of its buildings that is lower than the industry standards would recommend. The maintenance figures are based on benchmarks provided by hubco and the Scottish Futures Trust and the detail is set out in section 3.6 below.

3. Project Affordability

Affordability Cap

3.1 As described above the Council will require to ascertain the maximum contribution it can make to the elements of hubco's costs that will not be met by the Scottish Government. The Affordability Cap will be made up of two parts:

Capital contribution

3.2 This is the upfront payment to be made by the Council towards the construction costs of the new schools. By paying these sums up front it reduces the amount of funding that hubco will require to borrow in order to fund the construction of the schools and, as a result, reduces the UC cost to the Council.

3.3 The capital contribution paid by the Council will be a proportion of the total capital cost of the construction of the new facilities. The Scottish Government have provided a formula which sets out how they will estimate the cost of constructing a new secondary school or primary school. At this early stage of the project, and in the absence of a detailed design, the potential capital cost of the new facilities has been based upon the Scottish Government formula. This approach has been reviewed by the SFT and hubco and is considered appropriate for this stage of the project.

The calculation of the capital costs at this stage is as follows and uses inputs provided by the SFT:

	Dunoon Area Campus (inc pre 5 unit)	Campbeltown Grammar	Combined
Forecast Capacity (Note 1)	785	448	
Gross area per pupil (m2)	6.5	12	
Gross Internal Floor Area (GIFA, m2)	5,103	5,376	
Benchmarked construction cost per m2	£2,350	£1,900	
Estimated Capital Cost of School	£11,992,050	£10,214,400	£22,206,450
% for Council capital contribution	50%	33.3%	
Estimated Council Capital Contribution	£5,996,025	£3,401,395	£9,397,420

Note 1 – This figure is based upon the likely future rolls of the schools, as projected by Education, plus an uplift of 15% to these figures, to allow for flexibility in the delivery of the curriculum, in order to arrive at the design capacity for the school.

3.4 It is intended at this stage that the sum above should be used as the Affordability Cap in respect of the NPR as it is based on the Scottish Government's funding formula. However, it is likely that this sum will vary significantly from the current estimate as the school designs are developed. The eventual capital cost will be the sum agreed between hubco's building contractor, hubco and the Council and will be benchmarked against market rates. As part of its

2012/13 budget setting process the Council has set aside £12.5m to meet the Council's required up front contribution and this position will continue to be monitored.

Unitary Charge

3.5 This is the annual payment for the delivery of services delivered by hubco including design, build, financing and the maintenance and lifecycle of the properties. The annual UC will cover all of the costs that will be incurred by hubco and will 'smooth' them out into a single cash flow, which will inflate each year.

3.6 The SFT have advised the Council that, of the total UC, the Council will be expected to meet the ongoing costs of maintenance and lifecycle. All other components of the UC will be funded by the Scottish Government. At this early stage of the project, and for the calculation of the Affordability Cap to be included in the NPR, it is intended that the maintenance and lifecycle figures will be used for each school based upon benchmarks provided by hubco. The figures included in the summary cost table above are based on the following calculation:

	Low Benchmark		High Benchmark		Dunoon and Campbeltown Combined	
	Dunoon	Campbeltown	Dunoon	Campbeltown	Low Benchmark	High Benchmark
Cost per m2 / per annum	£40.00	£40.00	£35.88	£80.81		
GIFA (m2)	5,103	5,376	5,160	5,376		
Likely Annual Cost	£204,120	£215,040	£185,141	£434,435	£410,520	£649,475
Inflated to 2016 at 2.5% pa (first year of operations)					£464,298	£699,000

¹The lifecycle element of the benchmarked expenditure is likely to be incurred on an irregular basis over the course of the contract period. To obtain the annual cost above the total figure across the contract period has been converted to equal annual sums in order to reflect the likely calculation methodology that will be used by the SFT.

3.7 It is intended at this stage that the lower of the sums above should be used as the Affordability Cap in respect of maintenance and lifecycle costs shown in the NPR as they are based on the most up to date benchmarks for similar projects. This approach is supported by the SFT and hubco for this early stage of the project. However, it is likely that this sum may vary significantly from the current estimate as the school designs are developed. The eventual maintenance and lifecycle costs will be the sum agreed between hubco's facilities management sub contractor, hubco and the Council and will be benchmarked against market rates.

3.8 The Council's spend on revenue maintenance works for the four schools included in this project averaged around £100,000 per annum for the last three years with only a small capital provision made for these schools in the Council's capital plan. This sum is clearly considerably lower than the annual sum which is likely to be required as part of the project and this difference forms the majority of the affordability gap between the likely project cost and existing budgets. Section 4 below sets out the status of the affordability gap and how this may be monitored going forward.

Wider Costs / Receipts of the Project

3.9 As well as the core costs of constructing and maintaining the new facilities the project is likely to result in additional costs, and possibly, receipts that will require to be addressed by the Council. At this early stage of the project it is not possible to anticipate all such costs and receipts that may be incurred. However, at present the following likely costs and receipts have

been identified along with a current estimate of the value. These figures will be likely to change as the design and development of the project progresses:

a) *Dunoon Area Campus*

Heading	Estimated cost / (Receipt)
Compensatory pitch works for lost rugby pitch adjacent to the site of the existing Kirn Primary School	c. £300,000
Potential capital receipt for existing St Mun's Primary School building	c. (£200,000)

Depending on the design solution and the build programme it is possible that there will be other costs related to temporary decant of pupils during the construction of the new Campus. Such costs will continue to be monitored as the project progresses.

b) *Campbeltown Grammar School*

At present a site has yet to be chosen for the location of the new Grammar School and no value can be placed on any wider costs associated with this part of the project. It is possible that, depending on the site selected, there will be site abnormal costs (eg. Ground remediation, flood prevention, etc) that may not be funded by the Scottish Government. It is also possible that a capital receipt could be generated from the sale of the existing school site if another location is chosen. These, and other matters, will be monitored closely in the light of the results of the site selection process.

School Property Costs

3.10 It is likely that the majority of property costs associated with the new project facilities, apart from maintenance and lifecycle, will continue to be met by the Council. Each of the schools currently has a budget in place to meet the costs that are incurred at present and it is assumed that these budgets will be available to fund the same property costs in the new facilities.

3.11 It is likely, however, that the new schools will have a different cost profile than the existing buildings. Relevant Council services have been consulted to obtain their early views as to how the current budgets may alter as a result of moving to the new facilities and the following table sets out the results of that review:

	2012/13 Budget inflated to first full year of operations at 2.5% (£000)	2012/13 Budget inflated to first full year of operations at 2.5% (£000)	Rationale
Non Domestic Rates (NDR)	182	248	Increase due to lost reliefs for age and underuse of existing buildings
Utilities	240	240	No change anticipated at present. Possible decrease due to combined facility may be offset by increased community use.
Janitorial	117	117	Possible saving due to combined facility. Will be reviewed in light of design.
Cleaning	223	223	Possible saving due to combined facility. Will be reviewed in light of design.
Grounds Maintenance	47	47	Will be based on the size of actual external areas. Will be reviewed in light of design.

	2012/13 Budget inflated to first full year of operations at 2.5% (£000)	2012/13 Budget inflated to first full year of operations at 2.5% (£000)	Rationale
Refuse Collection	15	15	Estimate received from Waste team was materially unchanged from current budget.
Insurance	23	23	Will require to be reviewed in light of contractual requirements.
Total	846	913	

3.12 It is currently estimated that the NDR associated with the new schools will be greater than the current budgets and this will increase the affordability gap of the project as a whole. It is intended that the impact of the design of the new schools on the ongoing school property costs will continue to be monitored as the project develops and reported appropriately.

4. Managing the Affordability Gap

4.1 Based upon the estimates of the figures above there is likely to be a significant affordability gap between the costs of the project and the current Council budgets. The most significant cause of the gap is likely to be the difference between the Council's current expenditure on building maintenance and the sum that will be required to be devoted to such maintenance in the contract.

4.2 The Council will not commence paying Unitary Charge until the buildings become operational. Based on the current timetable this would be likely to be during the 2015/16 financial year although this may change as the project develops. The estimated gap at this stage is between £533,000 to £757,000 per annum from 2015/16 and this would be likely to increase due to inflation being applied to the maintenance and lifecycle elements of the UC over the contract term.

4.3 The Council has around two years in order to identify the sums required in order to address this gap and the Project Team will liaise with Strategic Finance in order to ascertain how these sums may be identified with regular reporting to the Project Board. Any suggested changes to existing budgetary arrangements in order to fund the project would be brought to the Project Board and Executive at key stages of the project. The Council can only progress to financial close for the project by clarifying that the project delivers value for money and is affordable. The Council will, therefore, if it is to approve the final business case confirm that it has identified revenue budget to meet the total and ongoing cost of the project at financial close.

4.4 It should be noted that the NPR document requires that the Council set out a figure that hubco should work to in respect of the construction, maintenance and lifecycle costs as they develop the project. However, the NPR does not commit the Council at this stage to funding the project and also does not guarantee the cost of the project. The final project cost, and impact on affordability, will be developed as the design process moves forward and will be reported to the Project Board and Executive at key stages. The final decision to proceed with the project would be taken when the Final Business Case is drawn up just prior to signing the contracts with hubco.

**DUNOON AND CAMPBELTOWN SCHOOLS PROJECT - PROPOSAL TO EARMARK
FUNDS FROM GENERAL FUND RESERVE**

1. INTRODUCTION

- 1.1 The purpose of this report is to request support in earmarking unspent budget for a specific purpose, in line with the Policy on End of Year Flexibility. In particular, it is intended to earmark unspent budget from the 2011/12 financial year in support of the delivery of the new Dunoon Area Pre 5 and Primary Joint Campus and the new Campbeltown Grammar School through the Scottish Government's *Scotland's Schools for the Future* programme.

2. RECOMMENDATIONS

- 2.1 That the SMT to agree to submit to the Executive a recommendation in support of the proposed earmarking, and expected expenditure profile, set out in paragraphs 3.1 to 3.3 below.

3. DETAIL

3.1 Initiative/Proposal

- 3.1.1 At its meeting on 2 June 2011 the Council agreed to develop proposals for the Design, Build, Maintenance and Financing (DBFM) of a new Dunoon Area Pre 5 and Primary Joint Campus and a replacement of the existing Campbeltown Grammar School in accordance with the grant terms and conditions set out in the letter from the Scottish Government of 22 March 2011. The Council also agreed, as part of its 2012/13 capital budget, to set aside funds to support the implementation of this project.
- 3.1.2 The terms and conditions set out in the Scottish Government letter require that procuring authorities have in place a Project Director and Project Team with the knowledge and experience of revenue financed procurement to be able to provide a challenge function to advisers and the private sector partner. The Council is also expected to fund, in conjunction with the Scottish Government, preparatory and development costs of the project including the procurement of legal, financial, technical and insurance advice where necessary.
- 3.1.3 It is considered that much of the expertise and advice required can be met from existing resources. However, it is intended that a sum of £750,000 should be earmarked from the Council's general fund reserve as at 31 March 2012, on a one off basis, for the development of this project to be spent over the next three financial

years (see para 3.3 below). The sum would be used to fund various aspects of project development including additional internal staffing costs, public consultation, procurement of external specialist advisers and obtaining specialist reports. The Scottish Government will provide a contribution to the Council's project development costs up to the value of £200,000. However, the Council will be expected to meet such costs up front with the Scottish Government support being paid to the Council over the 25 year life of the project.

3.2 Business Case

- 3.2.1 The Council has agreed, as part of its 2012/13 budget, to make funding available for a project to build new education facilities in Dunoon and Campbeltown. The proposed capital plan will support the corporate outcome of our young people having the skills, attitudes and achievements to succeed throughout their lives by improving the quality of the school estate and raising the condition of school buildings.
- 3.2.2 The Council has further agreed that this project will be delivered in accordance with the Scottish Government's requirements through the *Scotland's Schools for the Future* programme. As described above, the Scottish Government requires that the Council should have in place a Project Team with the relevant skills in order to deliver a revenue funded project of this nature.
- 3.2.3 It is intended that reports will be brought to the Executive Committee in April 2012 that will set out the proposed governance structure for the project, including the suggested composition of the Project Team. The earmarking of the sum of £750,000 described above, to be spent over the next three financial years, would enable the Council to ensure that it has sufficient internal, and external, capacity and expertise to deliver a complex project of this type to the standards and timescales expected by the Scottish Government.
- 3.2.4 The utilisation of these funds would be monitored and managed through the Project Team and reported to the Project Board on a regular basis. Any requirement to procure external advisory services would take advantage of the *SFT Frameworks for the Provision of Advisory Services* in order to demonstrate value for money from the procurement of such services.

3.3 Expenditure Profile

- 3.3.1 The Council will require to submit a 'New Project Request' (NPR) to its potential private sector partner (hubNorth) setting out the proposed scope and timescale for the project and this document will be considered by the Executive at its meeting in April. At present the draft NPR envisages a procurement period of around two years covering part of three financial years 2012/13, 2013/14 and 2014/15 and it is anticipated that the earmarked sum would be expended over this period.

Cleland Sneddon
Executive Director of Community Services
Douglas Hendry
Executive Director of Customer Services