

Finance Committee

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Extract from the PFI Full Business Case December 1999

Foreword

Education has been at the forefront of County Council activity in Ceredigion for over a century and the present Council has education at the top of its agenda. The County has always placed considerable importance on affording the best opportunity possible for the young people of Ceredigion to make their way in the world by giving them the keys to advancement and success through its schools and education system. The same attitude is true today and is proved by the outstanding educational achievements in the County's schools. The development of a new school for Penweddig is a continuation of this long tradition.

The project forms a major part of the County Council's plans for investment in the future and it is fitting that in the new County the first initiative in the Private Finance Initiative route is a new secondary school. The Council was delighted that the project was chosen, after a competitive process, by the Secretary of State for Wales as a Pathfinder Project. It is intended to be an example for others to follow. The provision of high quality bilingual education is at the forefront of modern educational provision in Wales and is fully supported by the Welsh Office, the local education authority, by the School Governors and by the local community.

A new bilingual secondary school for the year 2000 provides a wonderful opportunity of showing the commitment of the Council to the millennium and presents a challenge to the Council, the School and to a potential partner. The Council looks forward to sharing its vision. The project is exciting in its concept, its means of achievement and in what it can bring to the community.

A great deal of effort and assistance has been provided in the development of the project to this final stage. The Council acknowledges the considerable input of the Headteacher, Officers of the various departments of the Council and the financial and legal advisers.

Chief Executive

1. Executive Summary

1.1 Introduction

This Full Business Case has been prepared in support of the project to develop a new Bilingual Secondary School to meet the future needs of Ysgol Penweddig School, Aberystwyth.

2. Local Perspective

The Council has consistently placed a high priority upon education. The Council takes considerable pride in the achievements of its pupils and schools, acknowledging the high standards attained and the outstanding results of pupils in external examinations and in Tests. The Welsh language forms an integral part of pupils' education in Ceredigion schools.

The Council whilst largely endorsing the vision of the Government seeks to promote its own vision by further developing the close working relationship which exists with schools, parents and the wider community in the interests primarily of pupils. Developments in education in Ceredigion are focused around the theme of continual improvement, increasing and emphasising agreed targets.

Ceredigion, although a small rural authority (in terms of finance and geography), can boast achievements of the highest order borne of an awareness of the importance of education as a lifelong force and the sustained high quality of teaching.

The proposals to replace totally inadequate facilities and an inappropriate learning environment for the pupils of Ysgol Penweddig are in harmony with the aims and objectives of the Council.

3. Strategic Context

Fundamental changes have occurred in Education over the last 20 years - the demands of the National Curriculum and testing, Local Management of Schools and school inspections to indicate a few. These have been accompanied by the delegation of greater responsibility to Governing Bodies and an increased voice for parents.

The challenge for the Council and the schools is to translate the Government's vision and targets contained in the Building Excellent Schools Together (BEST) programme into reality. Schools are required to offer a curriculum that is broad, balanced, relevant and differentiated - that is, organised to cater for the different needs and abilities of the pupils. This curriculum must now include the 11 subjects of the National Curriculum and religious education.

The range and quality of resources needed to implement the new curriculum are substantial. The resources must be high quality and available in sufficient numbers to provide for the uninterrupted education of pupils. Modern technology provides an ever widening range of opportunities for schools. The Government's plans for the National Grid for Learning show how Information Communication Technology can be used to encourage communication between teachers.

Local Education Authorities are charged with devolving a significant proportion of their budgets to the management by School Governing Bodies and Headteachers. The significance given to the role of Governors is further enhanced by the statutory implementation of "Fair Funding" in April 2000 when additional responsibilities will be delegated and respective accountabilities pertain.

4. Ysgol Gyfun Penweddig

As a designated bilingual school, Penweddig has developed a particular ethos, where Welsh is the main medium in the life and work of the school, and sustains a curriculum where provision is made for subjects to be taught through both Welsh and English. The school also serves a wide community both in terms of geography and adverse interests. The school exists as a dynamic organisation with its specific and individual identity and a dynamic relationship with the community it serves.

Ysgol Penweddig currently has 626 pupils with 111 sixth form pupils. There has been a pattern of steady growth in pupil numbers and this is anticipated to continue.

The school has an excellent academic record at all levels and provides pupils with a wide range of opportunities to participate in cultural and sporting activities and to experience many educational visits and exchanges. Throughout the school's work a strong emphasis is placed on the standard of care for individuals and respect for all who live and work in the Aberystwyth area. There are good relationships with external agencies and support teams as well as with many local clubs and associations. The school has developed into a warm, lively and successful community which can be proud of its record over the years since its establishment in 1973.

5. The Case for Change

The school currently provides education for 626 pupils in buildings and site which are inadequate to meet the needs of a modern school to create a conducive total learning environment. The main concerns are:

the difficult sloping restricted site

pupil safety

no adjacent playing fields

the poor standard of the buildings

Future demand for school places at Penweddig is expected to reach 750 by the year 2006. Given the anticipated increase in pupil numbers, an enlarged school facility will inevitably be required in the near future. The current school capacity is already far exceeded with existing pupil numbers and the condition of the buildings and the surrounding area is well below acceptable standards. The Council must, therefore, review the needs of the school and consider how best to find a solution to satisfy those needs.

The Council is fully committed to the development of a new Penweddig School through the PFI procurement process. The additional financial contribution required to make such a scheme affordable has been allocated in recognition of the significantly improved facilities, the additional size of the school and a full maintenance regime inherent in PFI projects.

6. Option Appraisal

It is predicted that a new school environment and improved facilities will draw additional pupils over and above the anticipated demand of 750 pupils by 2006. A conservative allowance of 5% would imply a school pupil size of 780 and the analysis of investment objectives is based upon this assumption. The aim, therefore, is to provide a bilingual mixed comprehensive school for 780 (including a 6th form of 130 to 140 pupils) of aged 11 to 18 years.

The school will need to meet the requirements of the National Curriculum (11 to 16), 16 to 19 provision and vocational education, in addition to cultural and sporting experiences.

There are increased demands to ensure that schools are at the forefront of technological development in the future. Facilities will be established to integrate Information Technology across the curriculum and administration and with links to other schools and establishments both within and outside the County including links with the LEA.

Considerable thought has been given to the functional requirements of the school. The Penweddig curriculum in practice is different from that indicated by DfEE guidelines because Penweddig is an example of a designated bilingual school in Wales serving the needs of the bilingual population of north Ceredigion not a monolingual school in England. The school invests heavily in ensuring that the diversity of the intake's linguistic needs, both in English and Welsh, is properly addressed in curriculum provision.

The Council aims to establish a school where appropriate shared facilities will enable the school to provide for the needs of the wider local community. The objective is to plan, design, build and operate a replacement school with minimum disruption.

7. Case Studies

The following Case Studies have been examined in depth:

1. Do minimum on the existing site.
2. Complete refurbishment or rebuild on existing school site.

3. Relocate and build on a new site.

It was concluded that the only feasible option to the Council in meeting its legal responsibilities is to relocate to a new site and that the Llangawsai / Llanbadarn site is probably the only feasible location not allocated for other uses.

8. The PFI Procurement Process

The Council with Pathfinder Status assigned to the Project, attracted Welsh Office funding towards the cost of employing financial and legal advisers. Control over the project was delegated to a Project Board which also established a Project Team to undertake the range of tasks associated with a scheme of this complexity.

A negotiated tender procedure was followed and the main milestones were as follows:

Pathfinder Status June 1997

Business Case Established March 1998

OJEC Advertisement March 1998

Invitation to Tender (ITN) July 1998

Selection of Preferred Bidder April 1999

Full Business Case August 1999

On the strength of three of the four tender responses it was decided to proceed directly to Invitation to Tender Stage. Originally, an Invitation to Submit Outline Proposals was programmed but this stage was circumvented in order to concentrate on the ITN Output Specification.

The three submissions in response to the ITN were evaluated against pre agreed criteria in October 1998. Two of the bidders were requested to submit Best and Final Offers which were again evaluated in April 1999. It was resolved by the Project Board to select **NewSchools** as Preferred Bidder in April 1999. Negotiations have proceeded satisfactorily covering legal documentation, affordability and value for money, detailed design, payment mechanisms and land assembly.

9. Contractual Arrangements

A number of contractual arrangements and documents are required to be entered into by the Council to procure the PFI project.

PFI Project Agreement

The parties to the principal PFI agreement will be the Council and a Special Purpose Vehicle (SPV) called NewSchools (Penweddig) Limited. The SPV will be owned by a consortium of W S Atkins Plc, Wates Construction and Innisfree. NewSchools will be given a licence by the Council to enter upon the site to carry out the construction works and operate the school. The contract period is 30 years from commencement of services. At the end of the concession period the asset will revert to the Council at NIL cost.

Governors Agreement

This is an agreement made between the Council and the School Governors to regulate payments to be made by the School and the Council.

Direct Agreement with the Building Contractor and Facilities Management Provider

This will allow the Council to step in to the arrangements in order to procure continued service or construction following default of the PFI company.

Direct Agreement with the Main Funder

This will regulate what will happen if the PFI agreement is about to be terminated by the Council.

10. The Preferred PFI Scheme

A review of the NewSchools (Penweddig) Ltd consortium's funding proposals has been undertaken by the Council's financial advisers against two key criteria:

a view of the proposal as set out and the inherent risks associated with delivering a fundable project by reference to the assumptions implicit with the proposal; and

the degree of comfort provided by the funding institution in relation to the funding proposals.

The concession period is for 31 years and 3 months commencing at financial close which is programmed for mid August 1999. Construction is planned to take 15 months and availability of the school at the end of November 2000.

The capital cost of construction is £10,038,000 but the Total Construction Cash Flows amount to £12,027,000 including costs, loan fees

etc. The financing structure is as follows:

-	£000
Equity	1
Subordinated Debt	1,502
TOTAL RISK CAPITAL	1,503
Senior Bank Loan	10,524
Total Base Funding Facility	12,027

The Risk Capital of £1,503,000 will be provided by the principal consortium members as follows:

-	%
W S Atkins	42.5
Innisfree	42.5
Wates Group	15
-	100

An on-going programme of life cycle maintenance covering property and fixtures / equipment will be carried out. This programme is to be financed through the establishment of a sinking fund which will attract interest.

The consortium will receive regular payments based on a unitary charge relating to the fully serviced building. The payment of the unitary charge will commence from the start of operations. Elements of the unitary charge will be indexed to reflect inflation and amount in total over the concession period to some £55m.

11. Surplus Land

When the new school becomes available the existing Penweddig School site will be surplus to requirements. The Council has decided to retain the site for sale at a future date following vacation by the school. The estimated proceeds have been assumed to be available to the Council to supplement the required annual provision to assist affordability of the project.

12. Value for Money and Affordability

Assessment of the relative affordability of the NewSchools proposal is one of the central elements in the bid evaluation process. The NewSchools bid has been compared against the Public Sector Comparator (PSC) and has been measured against:

the Value for Money Test

the Notional Credit Approval (NCA) Affordability Test

The value for money test has been undertaken by comparing the Net Present Values of the private sector option versus its public sector equivalent which is adjusted to reflect the allocation and valuation of risks. The analysis indicates that the NewSchool proposals represent a value for money solution for the Council when compared with the PSC.

The task of the business case is the ability of the Council to afford the scheme. The financial elements identified within this analysis are:

Notional Credit Approval from the National Assembly generating Revenue Support towards the capital elements of the unitary charge.

Total revenue resources available from the delegated schools budget and other Council budgets.

The additional provision to be set aside by the Council to finance the cumulative deficit over the life of the Contract.

The original Business Case indicated an additional provision of £67,000 from Council resources. The latest affordability analysis produces a figure of £88,000 which is within the Council's affordability envelope which has been increased to account for changes in the scheme, prices and methods of calculating Revenue Support.

13. Accounting Treatment

Based on the guidance received to date the Council deems the contract to be a Private Finance Transaction in accordance with the Capital Finance Regulations. The Project Agreement has been structured to ensure that the requirement of the Contract Structure Test detailed in Regulation 40 are met. This will confirm that credit cover for the unitary charge payments will be provided and will enable the National Assembly to issue Notional Credit approval.

The treatment of the asset in the accounts of the Council will be a matter for clarification when the new guidelines and regulations are available for interpretation.

14. Summary

The NewSchools (Penweddig) Ltd solution delivers a new school which:

is consistent with the local and strategic requirements of a mixed bilingual secondary school

provides substantially improved facilities, increased size of the school and full maintenance regime

demonstrates an affordable and value for money option for the Council and the School.

Project management and implementation plans are well developed. A continuation of the full support by the Council, School Governors, teaching staff and the community will ensure the successful completion of the project. The National Assembly support will be a crucial factor and the co-operation of NewSchools (Penweddig) Ltd is acknowledged.