

ANGUS COUNCIL

CHILDREN AND LEARNING COMMITTEE – 19 SEPTEMBER 2017

LADYLOAN AND MUIRFIELD PRIMARY SCHOOL PROJECT UPDATE AND CONTRACT AWARD

REPORT BY MARK ARMSTRONG, STRATEGIC DIRECTOR – PEOPLE

ABSTRACT

This report provides an update about the replacement of Ladyloan and Muirfield Primary Schools. It seeks approval to enter into the construction contract with Hubco and authorise the investment opportunity available through this type of contract.

1. RECOMMENDATIONS

It is recommended that the Children and Learning Committee:

- (i) authorise the Head of Legal & Democratic Services, in consultation with the Chief Executive, Strategic Director – People, and the Head of Corporate Finance:
 - To execute, deliver and perform the necessary contract documents (the Funders Direct Agreement, the Collateral Agreements, the Independent Tester Contract, the Insurance Proceeds Account Agreement, the Project Agreement and any other necessary documentation) in respect of the project on behalf of Angus Council; and
 - To enter into an enabling works agreement to carry out drainage alterations at Muirfield Primary Schools.
- (ii) remit the Head of Corporate Finance to enter into the subordinated debt investment opportunity created by the project (as with other permitted investments).

2. ALIGNMENT TO THE ANGUS COMMUNITY PLAN/SINGLE OUTCOME AGREEMENT/CORPORATE PLAN

2.1 This report contributes to the following local outcomes contained within the Angus Community Plan and Single Outcome Agreement 2013-2016:

- Our children and young people are confident individuals, effective contributors, successful learners and responsible citizens
- We have improved the health and wellbeing of our people and inequalities are reduced
- Individuals are supported in their own communities with good quality services

3. BACKGROUND

3.1 Reference is made to Report 207/16, recommendation (ii), approved by the Children and Learning Committee at its meeting of 17 May 2016, which authorised the procurement of the replacement Ladyloan and Muirfield Primary Schools. These schools are to be procured using the Design, Build, Finance & Maintain (DBFM) model.

3.2 Reference is made to Report 346/16 approved by the Children and Learning Committee at its meeting of 20 September 2016 which confirmed the Scottish Government funding contribution of £14.6 million.

3.3 Reference is made to Report 74/17, recommendation (i), approved by the Children and Learning Committee at its meeting of 21 February 2017, which authorised the procurement of external advisors. These external advisors are required for a DBFM contract.

3.4 Reference is also made to report 72/14, approved at Policy and Resources Committee on 4 February 2014. This report approved the potential investment opportunities and risks in relation to investing in the subordinated debt generated as part of hubco projects.

4. CURRENT POSITION

4.1 External Advisors - The opportunity to submit a quote for External Advisory Services was advertised on Public Contracts Scotland. Following an assessment the following advisors were appointed:-

Technical Advisor – Currie and Brown UK Limited

Legal Advisor – DWF LLP

Financial Advisor – Caledonian Economics Ltd

These advisors have been working with the Council's Project Team, assessing the hubco information as required. These appointments continue until financial close, when all of the necessary project documentation is completed.

4.2 Design Development – The development of both Ladyloan and Muirfield Primary Schools have been developed in consultation with both school communities.

4.3 Consultation – Consultation has been ongoing throughout the design period. Consultation events have been held with children; staff groups; Arbroath Community Council; and open public 'drop in' events. In addition there has been consultation meetings with specialists relating to: - Catering; Early Years; Additional Support Needs (ASN); and Physical Education.

4.4 Planning Applications – The application for Muirfield PS was approved at committee on 29 August 2017. The application for Ladyloan PS has received no objections and will be determined outwith of committee.

4.5 hubco Proposals and Pricing – Projects procured through hubco require to go through various stage reviews. hubco have been developing detailed proposals to allow a 'Stage 2' submission. The Stage 2 submission includes the following information: - detailed drawings; specifications; contractor's construction costs; and construction programme.

4.6 Muirfield PS Existing Services – As part of the design development and site investigation works it has been identified an existing live sewer pipe runs below the development area. To allow the new building to be constructed a sewer diversion requires to be carried out.

4.7 Edinburgh School Inquiry – an Independent Inquiry into the Construction of the Edinburgh Schools was carried out by Professor John Cole CBE. A total of 40 recommendations were made under 10 headings. The six relevant headings in relation to this project and a short explanation of actions are listed below:-

Procurement – Relates to the Council ensuring it has the correct expertise and resources within the project team, ensuring compliance with specifications and setting out project parameters from the outset. This has been addressed by the project team having relevant experience in previous projects of a similar nature, supplemented by external advisors for this type of project.

Independent Certifier – Relates to the Role of an Independent Tester / Certifier, together with having a suitable on-site inspection regime. hubco are reviewing the Independent Testers appointment to address recommendations. In addition the Council will ensure the Clerk of Works service available from Technical and Property Services is used to carry out on-site inspections.

Client's Relationship with the Design Team – The recommendations of the report were not in place when the original design team was appointed. However, the Council has had a direct communication link with the design team.

Information Sharing – This recommendation relates to the sharing of information at various stages throughout the project. The recommendations of the report have been highlighted to

hubco, the contractor and the design team. Some elements of this require to be addressed towards the completion of the construction contract.

Construction – These recommendations relate to construction defects identified in the Edinburgh Schools Project, specifically around masonry construction and fire-stopping. Hubco, the contractor and the consultants are aware of these recommendations. The site inspections will have an additional focus on these elements.

Building Standards – This recommendation highlighted there was a previous misconception that Building Standards had a responsibility to inspect the quality of ongoing works. Since 2011/12 there is a requirement for Building Standards to produce a Construction Compliance Notification Plan. This highlights the requirements, including site inspections and documentation, to achieve a completion certificate.

5. PROPOSALS

5.1 The current project timetable for both Ladyloan and Muirfield PS is as follows:-

Stage 2 submission and review to allow progress to financial close: September 2017
Finalisation of Project Agreement and achieve financial close: November 2017
Construction Phase 1: November 2017 – December 2018
Decant to New School: December 2018 – January 2019
Construction Phase 2 (Demolition of Existing building): January 2019 – April 2019

The Project Agreement is being drafted to ensure if there is a delay to one building during construction it will not affect the completion of the other building.

- 5.2 When we receive hubco's Stage 2 submission the information will be reviewed by the Project Team and the Council's External Advisors. This will include reviews of:- drawings; specifications; construction proposals; pricing report; and programme to ensure it meets the original project requirements.
- 5.3 As part of the Stage 2 process the Scottish Futures Trust (SFT) and Scottish Government's School Team require to carry out a stage review with the Council before moving to financial close. This review requires the Council to demonstrate its commitment to achieving the 'Scotland's School for the Future' programme goals. It is currently planned to hold this review in mid-September.
- 5.4 As identified in 4.5 above a sewer diversion is required at Muirfield PS to construct the new building. It is proposed to enter into a separate enabling works contract with hubco to carry out these works. This will allow the diversion to take place before the main works start on site, avoiding a delay to the Phase 1 completion noted in 5.1 above. These works would take place from October to allow the site to be established in the school holidays. The works would be completed before starting on site in November 2017. The value for these works is included within 6.6 below.
- 5.5 Next Steps – The next steps in the project are focussed on the Stage 2 review and approval by the Project Board, followed by financial close. The completion of these stages allows the project to progress on site.
- 5.6 As the project is a DBFM contract delivered through hubco an opportunity is available to the Council, through a subordinated debt investment. These investment opportunities are only generated where the project is delivered through DBFM agreement. The risks and rewards of such investments were considered in Report 72/14. This report recommended that subordinated debt investments be added to the Council's portfolio of permitted investments and, within certain constraints, investment decisions be delegated to the Head of Corporate Finance. The terms and conditions of the subordinated investment opportunity have been reviewed by the Head of Corporate Finance and determined as acceptable and the investment opportunity will therefore be accepted

6. FINANCIAL IMPLICATIONS

- 6.1 The Scottish Government (SG) is providing a 50% contribution to this phase of the Arbroath Primary Schools Project, totalling £14.6 million. This phase includes the replacement of Hayshead Primary School, in addition to Ladyloan and Muirfield Primary Schools. The SG contribution is in the form of a revenue contribution to support a Design, Build, Finance and Maintain (DBFM) contract.
- 6.2 To maximise value for money for the Council and minimise ongoing revenue costs the DBFM contract value will be kept as close to the SG contribution of £14.6 million. This will include the Council paying for all costs capable of being paid directly including: - Design Team fees; site investigation costs; and application fees. The Councils Financial Advisor, Caledonian Economics, is aware of this requirement and is providing advice to maximise value for money. Any DBFM contract costs above the £14.6million contribution from SG will result in an additional annual revenue cost for the period of the operational contract, 25 years, but a reduction in the project's capital contribution.
- 6.3 SG revenue funding will result in an annual Unitary Charge payment being made by the Council for provision of the relevant building and related services when it is handed over by hubco. Annual government grant will support a significant element of the Unitary Charge over the 25-year period of the contract. The Council will require to make up any shortfall of the 50% project contribution as noted in 6.2 above.
- 6.4 In addition to the construction costs related to this SG revenue funded element, the Council will be required to meet life cycle maintenance and facilities management costs as part of the overall annual unitary charges. These costs are anticipated to be in the region of £200,000 per annum for both schools, and will require to be included in future budget setting processes for the Council. These costs are index linked, reviewed annually.
- 6.5 The final project costs for Ladyloan and Muirfield Primary Schools will only be available at Financial Close when the DBFM financial model is completed. This model will identify the final Unitary Charge Costs, taking account of interest rates at the time of Financial Close. This will be reviewed by Scottish Futures Trust to confirm the SG revenue contribution.

- 6.6 The overall project financial breakdown, including an allowance for Hayshead PS, is as follows:-

Ladyloan	£8.8m
Muirfield	£8.6m
Hayshead	£11.8m
TOTAL	£29.2m

The above costs include construction costs; fees; decant costs; new furniture and equipment; and a contingency / risk allowance.

- 6.7 The proposed funding package for the projects is as follows:-

SFT funding	£14.6m
Angus Council Capital Plan	£14.6m
TOTAL	£29.2m

This is allowed for in the Councils Financial Plan and reflects the match funding required to achieve the SFT funding.

- 6.8 Revenue costs associated with national non-domestic rates are also likely to increase significantly for Ladyloan and Muirfield primary schools. These additional costs, estimated to be in the region of £120,000 for both buildings per annum, will also require to be factored into the future year's budget setting process for the People directorate. The final non-domestic rates increase will only be known following completion of the project and assessment by the Valuation Board.

6.9 The investment opportunity in subordinated debt with hubco created by this project and to be entered into by the Head of Corporate Finance would achieve a rate of return on investment of 10.0% per annum for 25 years. This compares with the maximum 1 year investment return currently of 0.8% to those counterparties compliant with the investment strategy. The maximum that can be invested in subordinated debt is £145,500 and this will generate annual interest of £14,500 per annum compared with £1,000 at the market rate. This does, however, reflect the relative risk of the investments.

7. OTHER IMPLICATIONS

7.1 Risks

7.1.1 The final costs will not be fully established until Financial Close and there remains a risk that costs will exceed the budget.

7.1.2 Until the project achieves Financial Close there are risks to the start on site and overall projected completion.

7.1.2 The enabling works package at Muirfield Primary School will render an area of the site unusable by the school before the start of the main construction works. If Financial Close is delayed significantly or the project did not progress, this area of the site would not return to the school without additional capital investment.

7.1.3 The risks associated with the subordinated debt investment are detailed in committee report 72/14 which also highlights the actions that could be taken by the Council to mitigate the extent of the risk.

NOTE: The background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) which were relied on to any material extent in preparing the above report are:

- Report 207-16, Children and Learning Committee, 17 May 2016
- Report 346/16, Children and Learning Committee, 20 September 2016
- Report 74/17, Children and Learning Committee, 21 February 2017
- Report 72/14, Policy and Resources Committee, 4 February 2014
- Report of the Independent Inquiry into the Construction of Edinburgh Schools, February 2017

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