

Financial Comparison of School Projects delivered in the last ten years

Report by Gary Fairley, Head of Finance & Integrated Service Support

1 Purpose of Report

This report provides the Performance Review and Scrutiny Committee with an analysis and comparison of the costs of school replacement/improvement in the last ten years via Public Private Partnership DBFM, hubCo South East Scotland, traditional design, procurement and finance and also via developer contributions.

2 Background

- 2.1** At the Performance, Review and Scrutiny Committee meeting on 3 September 2013, the Head of Finance and Human Resources was asked to prepare a report for the committee. The Committee asked to:-

“d) Receive in early course, an analysis; breakdown; and comparison of the costs of school replacement/improvement in the last ten years via the various finance models available to the Council during this period”

3 Report Implications

3.1 Procuring Schools: Finance Models of Delivery

There are three models of finance available that Midlothian Council have utilised to deliver primary and secondary schools in the last ten years:-

1. Revenue Funded Model – through either PPP or the hubCo DBFM model;
2. Capital Funded Model – traditional method of design, build and financing schools through Council’s Capital Programme – through combinations of Scottish Government Grant Funding, Capital Receipts, Developer Contributions and/or Borrowing;
3. Turnkey Funded Model – delivered by house building developer, possibly part-financed by Council.

Revenue Funded Model – PPP

PPP (Public Private Partnership) projects are “revenue funded” projects. This means that:-

- The projects are competitively tendered following the recognised public procurement selection process;

- The successful bidder will set up a Special Purpose Vehicle (SPV) solely to deliver the project;
- The SPV will Design, Build, Finance and Maintain (DBFM) the schools over a long-term contractual period (typically 30 years)
- The Council will pay the SPV a Unitary Charge each year for the full contractual period;
- This Unitary Charge payment covers both the Capital and Revenue Costs of the project;
- The SPV will source the funding for the Capital Costs of the project, either from their corporate group (corporately funded projects) or from the private markets (project financed projects), and recover the costs of this funding (principal and interest repayments) from the Council as part of the Unitary Charge;
- The SPV will typically provide most, or all, of the operational services for the building (e.g. cleaning, janitorial services, grounds maintenance) and also recover the costs of these as part of the Unitary Charge.

Alongside this, any grant funding available from the Scottish Government will be in the form of an annual revenue grant (rather than an upfront Capital Grant) that will effectively fund parts of the Unitary Charge that the Scottish Government elects to support, and is paid by the government annually for the duration of the project.

The Council are given the option to inject a proportion of the capital costs into the SPV as a capital contribution to the project at the outset. The injection of a capital contribution into the project has the effect of reducing the privately-funded element of the project and, since the Council typically has access to lower borrowing rates than the private sector, lowers the overall cost of the project to the Council.

Revenue Funded Model – hubCo DBFM

HubCo have competitively tendered for the right to deliver public sector projects in the South East Scotland region¹. hubCo projects can either be Revenue Funded (hubCo DBFM, see below) or Capital Funded (see Capitally Funded section).

For hubCo revenue funded (DBFM) projects, there are many similarities to PPP, as follows:-

- A private sector, Special Purpose Vehicle (SPV) is set up specifically to deliver the project;
- The SPV will Design, Build, Finance and Maintain (DBFM) the schools over a long-term contractual period (typically 25 years)
- The Council will pay the SPV a Unitary Charge each year for the full contractual period;
- This Unitary Charge payment covers both the Capital and Revenue Costs of the project;

¹ Further detail on this is included as Appendix 1.

- The SPV will source the funding for the Capital Costs of the project, either from their corporate group (corporately funded projects) or from the private markets (project financed projects), and recover the costs of this funding (principal and interest repayments) from the Council as part of the Unitary Charge;
- The grant funding from the Scottish Government is in the form of an annual revenue grant (rather than an upfront capital grant) and is paid by the government annually for the duration of the project.

However, there are a number of key differences between hubCo DBFM projects and PPP:-

- Whilst the Council are still given the option to inject a capital contribution into the project SPV, under the hubCo DBFM framework this typically represents a far greater proportion of the Capital Costs than under PPP² and therefore has the effect of securing a lower overall cost of the project to the Council than under PPP;
- Under the hubCo DBFM framework, the Council can choose to invest in the project and share in the investment returns²;
- Under PPP, the majority of operational services are typically carried out by the SPV. Under the hubCo DBFM framework, only the Hard FM and Lifecycle requirements of the building are carried out by the SPV. The remaining operational requirements, including janitorial, cleaning, utility management, grounds maintenance, are delivered by the Council. This provides greater control and flexibility of use to the public sector and should help to reduce the cost of the unitary charge. See Appendix 2.

Capital Funded Model (Traditional Financing)

For Capitally Funded projects, the Capital Costs of the project are funded directly by the Council's capital plans. This means that the Council make cash payments to the successful building contractor for the design and construction works as the works progress.

Any capital receipts and developer contributions the Council has received, plus any specific government grants for the new school, can be utilised to part-, or wholly-, fund the capital cost of the school. Any remaining capital costs that require to be financed are either met from the General Capital Grant from the Scottish Government, or from Borrowing from the Loans Fund. Any Borrowing is typically undertaken from the Public Works Loans Board.

Lasswade High School was capitally funded with Scottish Government providing a capital grant of £21.3m (equating to two thirds of the capital cost of replacing the school) and the Council the remaining one-third of the school and 100% of the community facilities. The three traditionally

² The Capital Contribution, along with the Investment is capped at 50% of the total capital costs of the project to ensure the Council and Public Sector comply with European System of Accounts 1995 Guidance (ESA 95).

financed primary schools (Bonnyrigg, Cuiken and Woodburn) did not receive any capital funding from the Scottish Government.

When the building works are completed the Council will be in direct ownership of the building and will be in full control of the operation and management of the building. The services will therefore be provided directly by the Council and funded from the Council's revenue budget.

Turnkey Funded Model

Under this model, a house building developer will be required, under the S75 planning terms and conditions, to provide the Council with a school on a 'Turnkey' basis i.e. a facility that meets the Council's detailed specification requirements, by a specific date.

The developer will be expected to arrange appropriate funding for this either from their corporate group or from the debt financing markets, and repay this funding through the net profit from residential and commercial unit sales throughout their proposed development period.

Schools Delivered in the last ten year

Over the course of the last ten years, the following new build schools have been delivered (other 'known' projects which are already in procurement and for which costings are available are also included):-

Table 1: Finance Models of Delivery Used per Schools Project

Project	Model Used	Contract Length	Date Delivered	Construction Costs £000's
Dalkeith Schools Community Campus	PPP	30	October 2003	30,700
Primary Schools Project ³	PPP	30	October 2007-April 2008	41,200
Bonnyrigg Primary School	Capital	n/a	August 2009	7,700
Cuiken Primary School	Capital	n/a	August 2009	7,200
Woodburn Primary School	Capital	n/a	August 2009	10,500
Burnbrae Primary School	Turnkey	n/a	October 2012	5,900
Lasswade Centre	Capital	n/a	July 2013	35,300
Rosewell Primary School Extension/Refurb	hubCo Capital	n/a	November 2013 (estimated)	1,000
Newbattle High School	hubCo DBFM/Revenue	25	July 2016 (Estimated)	31,300
Total				170,800

³ Gorebridge, Lawfield, Loanhead/St.Margaret's, Moorfoot, Stobhill, StrathEsk and Tynewater Primaries

3.2 Capital Costs of Schools and Funding of Capital Costs

High Schools

A breakdown of the Capital Costs, and the funding sourced for these Capital Costs, for each of the High Schools outlined in Table 1 above are shown below:-

Table 2: Capital Costs of High School Projects

Project	Dalkeith Schools Community Campus £000's	Lasswade Centre £000's	Newbattle High School £000's
Capital Costs:-			
Construction Cost	30,700	35,300	31,300
Private Sector Development Costs	2,100	0	2,700
Public Sector Development Costs (Capital)	1,900	1,800	1,600
Total Capital Costs	34,700	37,100	35,600
Funded By:-			
Private Sector Borrowing	29,900	0	17,600
Scottish Government Capital Grant Funding*	0	21,300	0
Developer Contributions	2,200	400	4,700
Prudential Borrowing	2,600	15,400	13,300
Total Funding	34,700	37,100	35,600

** Note that for the Dalkeith Schools Community Campus and the Newbattle High School projects, Scottish Government Grant funding was paid as revenue, rather than capital, support.*

Primary Schools

A breakdown of the Capital Costs, and the funding sourced for these Capital Costs, for each of the Primary Schools outlined in Table 3 above are shown below:-

Table 3: Capital Costs of Primary School Projects

Project	PPP2	Bonnyrigg Primary	Cuiken Primary	Woodburn Primary	Burnbrae Primary
	£000's	£000's	£000's	£000's	£000's
Capital Costs:-					
Construction Cost	41,200	7,800	7,200	10,500	5,900
Private Sector Development Costs	2,500	inc	Inc	Inc	600*
Public Sector Capital Development Costs	6,600	300	400	400	TBC
Total Capital Costs	50,300	8,100	7,600	10,900	6,500
Funded By:-					
Private Sector Borrowing	37,400	0	0	0	0
Scottish Government Capital Grant Funding	0	0	2,700	0	0
Turnkey Funding	0	0	0	0	4,400
Other Developer Contributions	1,100	200	0	3,000	0
Prudential Borrowing	11,800	7,900	4,900	7,900	2,100
Total Funding	50,300	8,100	7,600	10,900	6,500

* Estimate

** Note that for the PPP2 project, Scottish Government Grant funding was paid as revenue, rather than capital, support.

3.3 Capital Cost Comparisons

High Schools

Table 4: Construction Cost per m2 – High Schools

Project	Dalkeith Schools Community Campus £000's	Lasswade Centre £000's	Newbattle High School £000's
Construction Cost	30,700	35,300	31,300
Construction Cost rebased to Q2 2011	34,900	35,500	29,300
Area (m2)	25,080	18,830	15,710
Cost/m2 @ Q2 2011	£1,390/m2	£1,880/m2	£1,870/m2

As can be seen from the above, the construction cost per square metre of the Dalkeith Schools Community Campus is significantly lower than for both the Lasswade Centre and Newbattle High School.

The rates per square metre for both the Lasswade Centre and Newbattle High School are tied to the Scottish Governments Cost Metric for new school buildings, with achievability of this metric a key condition of funding. For High Schools, this has been set at £1,900/m2 at Q2 2011 prices. As can be seen, both Lasswade's tendered value

and Newbattle forecast outturn cost are within this metric (Lasswade c. 1% lower and Newbattle c. 2% lower).

Primary Schools

Table 5: Construction Cost per m2 – Primary Schools

Project	PPP2	Bonnyrigg Primary	Cuiken Primary	Woodburn Primary	Burnbrae Primary
	£000's	£000's	£000's	£000's	£000's
Construction Cost	41,200	7,800	7,200	10,500	5,900
Construction Cost rebased to Q2 2011	38,100	7,000	6,500	9,500	6,100
<i>Area (m2)</i>	<i>21,280</i>	<i>3,520</i>	<i>3,000</i>	<i>4,630</i>	<i>3,380</i>
Cost/m2 @ Q2 2011	£1,790/m2	£1,990/m2	£2,170/m2	£2,050/m2	£1,800/m2

3.4 Scottish Government Funding

Four of the Council's school replacements projects have, or are expected to, receive specific grant funding from the Scottish Government. The funding arrangements for each of these projects are as noted below:-

PPP1

100% of the Capital Costs (and 100% of financing of these capital costs⁴) and 100% of the Lifecycle Maintenance Costs. These amounts are added together, and the NPV of these amounts calculated using the Broadly Commercial Rate, which is then expressed as an annuity and paid as Annual Revenue Support equating to £3.116m per annum or £93.480m over the 30 year contract period.

PPP2

80% of the Capital Costs (and 80% of the financing of these capital costs¹) and 40% of the Lifecycle Maintenance Costs. These amounts are added together, and the NPV of these amounts calculated using the Broadly Commercial Rate, which is then expressed as an annuity and paid as Annual Revenue Support equating to £3.580m per annum or £107.400m over the 30 year contract period.

Lasswade High School

67% of the Capital Costs for replacing the existing school on a like-for-like basis, amounting to £21.3m, paid as a Capital Grant on a monthly basis throughout the construction period.

Newbattle High School

Under the 'Funding Conditions' letter from the Scottish Government, dated 16th January 2013 and attached as Appendix 3, the Council expects to receive funding for Newbattle High School on the following basis:-

- 67% of the Capital Costs for replacing the existing school on a like-for-like basis;
- 100% of Public Sector Advisory Costs (subject to a cap);
- 100% of Public Sector Development Costs (subject to a cap);
- 100% of SPV Operational Costs (subject to a cap); and
- 100% of Private Sector Development & Financial Close Costs (subject to a cap)

These in total amounting to a forecast maximum cash amount of £43.200m, paid as Annual Revenue Support over a 25 year period.

⁴ The interest rate used to compute the support for the financing costs is the Broadly Commercial Rate, of c. 8.1%.

3.5 Cost of Operational Services Provided for each Project

High Schools

Dalkeith Schools Community Campus

As the Dalkeith Schools Community Campus Project is a PPP, all of the services for the new facility (other than Non-domestic rates) are provided by the PPP contractor. The annual cost of each of these services is shown in the table below:-

Table 5: Operational Cost Split for Dalkeith Campus Project

Service	Contractor £000's	Council £000's	Total £000's
Cleaning	271	0	271
Janitorial	148	0	148
FM Management	218	0	218
Leisure/Library Staffing	260	0	260
Leisure/Library Income	-172	0	-172
Grounds Maintenance	69	0	69
Waste Management	33	0	33
Hard FM	316	0	316
Lifecycle Maintenance	260	0	260
Utilities	209	0	209
Non-domestic Rates	0	663	663
Admin/SPV Costs	221	0	221
Corporation Tax	365	0	365
Others	169	0	169
Total	2,367	663	3,030
<i>Cost/m2 per annum (2013/14 prices)</i>	<i>94</i>	<i>26</i>	<i>121</i>
30 Year Nominal Cost	78,300	21,900	100,300

Lasswade Centre

As Lasswade High School project is a Capitally Funded (Traditional) project, all of the services for the new facility are provided directly by the Council. The annual cost of each of these services is shown in the table below:-

Table 6: Operational Cost Split for Lasswade Centre Project

Service	Contractor £000's	Council £000's	Total £000's
Cleaning	0	267	267
Janitorial	0	200	200
FM Management	0	0	0
Leisure/Library Staffing	0	709	709
Leisure/Library Income	0	-553	-553
Grounds Maintenance	0	45	45
Waste Management	0	19	19
Hard FM	0	312	312
Lifecycle Maintenance	0	155	155
Utilities	0	345	345
Non-domestic Rates	0	504	504
Admin/SPV Costs	0	0	0
Corporation Tax	0	0	0
Others	0	84	84
Total	0	2,086	2,086
<i>Cost/m2 per annum (2013/14 prices)</i>	<i>0</i>	<i>111</i>	<i>111</i>
30 Year Nominal Cost	0	90,600	90,600

Newbattle Community High School

For Newbattle High School, the majority of services will be provided directly by the Council, as shown in the table below. However, as this is a revenue funded DBFM project, the Scottish Government require, as a condition of funding as outlined in their letter of 16th January 2013 (attached as Appendix 3), that the Hard FM and Lifecycle services are provided by the SPV, and will therefore form part of the Unitary Charge payment the Council will incur. In addition, the costs for the SPV's operational team, and any corporation tax payments, will also form part of the Unitary Charge.

Table 7: Operational Cost Split for Newbattle High School Project

Service	Contractor £000's	Council £000's	Total £000's
Cleaning	0	186	186
Janitorial	0	138	138
FM Management	0	0	0
Leisure/Library Staffing	0	668	668
Leisure/Library Income	0	-504	-504
Grounds Maintenance	0	72	72
Waste Management	0	18	18
Hard FM	250	0	250
Lifecycle Maintenance	217	0	217
Utilities	0	302	302
Non-domestic Rates	0	506	506
Admin/SPV Costs	83	0	83
Corporation Tax	39	0	39
Others	0	83	83
Total	589	1,470	2,059
<i>Cost/m2 per annum (2013/14 prices)</i>	<i>38</i>	<i>94</i>	<i>131</i>

30 Year Nominal Cost	26,900	67,100	94,000
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In summary therefore, the cost/m2 per annum at 2013/14 prices of the services provided at each of the 3 high school projects the Council has undertaken in the last 10 years are shown in the table below:-

Table 8: Operational Costs for High Schools: Comparison

Project	Cost per m2 per annum @ 2013/14 prices			30-Year Cost £000's
	Contractor	Council	Total	
Dalkeith Schools Community Campus	94	26	121	100,300
Lasswade Centre	0	111	111	90,600
Newbattle High School	38	94	131	94,000

Primary Schools

PPP2

As the PPP2 Project is a PPP, all of the services for the new facility (other than Non-domestic rates) are provided by the PPP contractor. The annual cost of each of these services is shown in the table below:-

Table 9: Operational Cost Split for PPP2

Service	Contractor £000's	Council £000's	Total £000's
Cleaning	233	0	233
Janitorial	317	0	317
FM Management	129	0	129
Grounds Maintenance	98	0	98
Waste Management	25	0	25
Utilities	367	0	367
Non-domestic Rates	0	624	0
Admin/SPV Costs	454	0	454
Corporation Tax	14	0	14
Others	153	0	153
Total excluding Hard FM/Lifecycle	1,789	624	2,413
<i>Cost/m2 per annum (2013/14 prices)</i>	84	29	113
30 Year Nominal Cost	65,200	22,800	88,000
Hard FM/Lifecycle	791	0	791
Total including Hard FM/Lifecycle	2,580	624	3,204
<i>Cost/m2 per annum (2013/14 prices)</i>	121	29	151
30 Year Nominal Cost	94,000	22,800	116,800

Bonnyrigg, Cuiken, Woodburn & Burnbrae

As all four of these projects are either Capital Funded (Traditional) or Turnkey projects, all of the services for the new facility are provided directly by the Council. The annual cost of each of these services is shown in the table below:-

Table 10: Operational Cost Split for Other Primary Projects

Service	Bonnyrigg Council £000's	Cuiken Council £000's	Woodburn Council £000's	Burnbrae Council £000's
Cleaning	39	35	48	39
Janitorial	27	31	32	33
FM Management	0	0	0	0
Grounds Maintenance	4	3	0	5
Waste Management	4	3	6	4
Hard FM/Lifecycle*	See note	See note	See note	See note
Utilities	49	47	55	57
Non-domestic Rates	107	87	117	91
Admin/SPV Costs	n/a	n/a	n/a	n/a
Corporation Tax	n/a	n/a	n/a	n/a
Others	2	2	3	2
Total	232	208	261	231
<i>Cost/m2 per annum (2013/14 prices)</i>	66	69	56	69
30 Year Nominal Cost	9,400	8,400	10,800	10,100

As Bonnyrigg, Cuiken, Woodburn and Burnbrae primary schools are in the early stages of their lifespan, there are no lifecycle costings available for these schools at this stage.

Table 11: Operational Costs for Primary Schools: Comparison

Project	Cost per m2 per annum @ 2013/14 prices			30-Year Cost £000's
	Contractor	Council	Total	
PPP2 (excluding Hard FM/Lifecycle)	84	29	113	88,000
Bonnyrigg Primary	0	66	66	9,400
Cuiken Primary	0	69	69	8,400
Woodburn Primary	0	56	56	10,800
Burnbrae Primary	0	69	69	10,100

* Note all costings in table above exclude Hard FM / Lifecycle.

As can be seen from the table above, the cost/m2 per annum for PP2 is significantly in excess of the cost/m2 for all 4 schools that are directly managed/operated by the Council. The following can be noted from the tables above:-

- Under the PPP2 contract, the PPP contractor has allowed £454,000 per annum for SPV and Admin costs; whereas these costs are not required for the Council's directly managed/operated facilities;
- Under the PPP2 contract, an average of £14,000 per annum in Corporation Tax is paid by the PPP contractor, as a result of the

Special Purpose Vehicle being a private company. There are no such tax implications for the Council's directly managed/operated facilities;

- Under the PPP2 contract, the PPP contractor has allowed for £129,000 in FM Management costs; whereas these costs are not required for the Council's directly managed/operated facilities.

3.6 Overall Cost to Council of each project

Utilising the information outlined in Sections:-

- 3.2 (*Capital Costs of Project*);
- 3.4 (*Scottish Government Funding*); and
- 3.5 (*Cost of providing Services*)

The overall cost to the Council of each of these projects can be calculated.

High Schools

For the Council's High School Projects, this is shown in the table below:-

Table 12: Overall Cost to Council of High School Projects

	Project	Dalkeith Schools Community Campus	Lasswade Centre	Newbattle High School
1	Contract Length	30	n/a	30*
2	Area (m2)	25,080	18,830	15,710
		£000's	£000's	£000's
	Capital Costs:-			
3	Construction Cost	30,700	35,300	31,300
4	Private Sector Development Costs	2,100	0	2,700
5	Public Sector Capital Development Costs	1,900	1,800	1,600
6	Total Capital Costs	34,700	37,100	35,600
	Unitary Charge Elements:-			
7	Private Sector Borrowing for Capital Costs	29,900	0	17,600
8	Interest Payments on Private Sector Borrowing	44,600	0	23,600
9	Private Sector Service Element	78,300	0	26,900
10	Total Unitary Charge	152,800	0	68,100
11	Scottish Government Revenue Grant Funding	-93,500	0	-43,200
12	Net Unitary Charge Payable	59,300	0	24,900
	Council Direct Costs:-			
13	Remaining Capital Costs to be funded by Council	4,800	37,100	18,000
14	Scottish Government Capital Grant Funding	0	-21,300	0
15	Developer Contributions	-2,200	-400	-4,700
16	Turnkey Funding	0	0	0
17	Net Capital Costs to be funded by Council	2,600	15,400	13,300
18	Interest Payable on Capital Costs funded by Council	2,500	13,500	10,500
19	Council Direct Service Costs	21,900	90,600	67,100
20	Public Sector Revenue Development Costs	600	0	0
21	Total Council Direct Costs	27,600	119,500	90,900
22	Total Cost of Project to Council	86,900	119,500	115,800
23	Annual Cost per m2 (2013/14 prices)	105	146	166

** Note that Newbattle's Contract Length with the SPV will be 25 years; however for comparison purposes the costings are shown covering a 30 year*

period.

Primary Schools

Table 13: Overall Cost to Council of Primary School Projects

	Project	PPP2	Bonnyrigg	Cuiken	Woodburn	Burnbrae
1	Contract Length	30	n/a*	n/a*	n/a*	n/a*
2	Area (m2)	21,280	3,520	3,000	4,630	3,380
		£000's	£000's	£000's	£000's	£000's
Capital Costs:-						
3	Construction Cost	41,200	7,800	7,200	10,500	5,900
4	Private Sector Development Costs	2,500	Inc	Inc	inc	600**
5	Public Sector Capital Development Costs	6,600	300	400	400	TBC
6	Total Capital Costs	50,300	8,100	7,600	10,900	6,500
Unitary Charge Elements:-						
7	Private Sector Borrowing for Capital Costs	37,400	0	0	0	0
8	Interest Payments on Private Sector Borrowing	50,100	0	0	0	0
9	Private Sector Service Element	94,000	0	0	0	0
10	Total Unitary Charge	181,500	0	0	0	0
11	Scottish Government Revenue Grant Funding	-107,400	0	0	0	0
12	Net Unitary Charge Payable	74,100	0	0	0	0
Council Direct Costs:-						
13	Remaining Capital Costs to be funded by Council	12,900	8,100	7,600	10,900	6,500
14	Scottish Government Capital Grant Funding	0	0	-2,700	0	0
15	Developer Contributions	-1,100	-200	0	-3,000	0
16	Turnkey Funding	0	0	0	0	-4,400
17	Net Capital Costs to be funded by Council	11,800	7,900	4,900	7,900	2,100
18	Interest Payable on Capital Costs funded by Council	11,200	7,500	4,700	7,500	2,000
19	Council Direct Service Costs	22,800	9,800	8,800	11,500	10,500
20	Public Sector Revenue Development Costs	1,100	0	0	0	0
21	Total Council Direct Costs	46,900	25,200	18,400	26,900	14,600
22	Total Cost of Project to Council	121,000	25,200	18,400	26,900	14,600
23	Annual Cost per m2 (2013/14 prices)	156	182	156	148	99

* Costings are shown over a 30 year period for comparability with the PPP2 contract

** Estimate

From the table above the following can be noted:-

- The annual cost/m2 of Bonnyrigg Primary is higher than PPP2 due to the Council funding the majority of the Capital Costs of the facility (98%) from Prudential Borrowing;
- The annual cost/m2 of Cuiken and Woodburn Primaries are similar to the annual cost/m2 of PPP2; however:-
 - The Operational Services Cost/m2 for Cuiken and Woodburn is significantly lower than for PPP2, due to the absence of any admin/SPV & corporation tax costs for Cuiken and Woodburn, and the lower Hard FM / Lifecycle provision;
 - This is almost directly offset by the annual effect of the Scottish Government Grant for PPP2, which funds the majority of the Capital Costs of PPP2 (80%) and 40% of the Lifecycle elements. There is a smaller level of grant funding & developer contributions available, and applied, to the Cuiken and Woodburn projects (35% and 27% respectively), and no grant funding available to support Hard FM and Lifecycle commitments.

3.7 Overall Cost to the Public Purse of each project

High Schools

Table 16: Overall Cost to the Public Purse of High School Projects

	Project	Dalkeith Schools Community Campus £000's	Lasswade Centre £000's	Newbattle High School £000's
Indicative Cost of each project to the Public Purse:-				
29	Total Unitary Charge Payable over the Contract Period	152,800	0	68,100
30	Scottish Government Capital Grant Funding	0	21,300	0
31	Notional Interest Payable by Scottish Government on Capital Grant Funding	0	20,300	0
32	Developer Contributions	-2,200	-400	-4,700
33	Capital Costs to be funded by Council	2,600	15,400	13,300
34	Interest payable by Council on Remaining Capital Costs	2,500	13,500	10,500
35	Council Direct Service Costs	21,900	90,600	67,100
36	Public Sector Revenue Development Costs	600	0	0
37	Net Cost to Public Purse	178,200	160,700	147,400
38	Annual Cost per m2 (2013/14 prices)	214	197	215

Primary Schools

Table 17: Overall Cost to the Public Purse of Primary School Projects

	Project	PPP2	Bonnyrigg	Cuiken	Woodburn	Burnbrae
		£000's	£000's	£000's	£000's	£000's
Indicative Cost of each project to the Public Purse:-						
29	Total Unitary Charge Payable over the Contract Period	181,500	0	0	0	0
30	Scottish Government Capital Grant Funding	0	0	2,700	0	0
31	Notional Interest Payable by Scottish Government on Capital Grant Funding	0	0	2,500	0	0
32	Developer Contributions	-1,100	-200	0	-3,000	0
33	Capital Costs to be funded by Council	11,800	7,900	4,900	7,900	2,100
34	Interest payable by Council on Remaining Capital Costs	11,200	7,500	4,700	7,500	2,000
35	Council Direct Service Costs	22,800	9,800	8,800	11,500	10,500
36	Public Sector Revenue Development Costs	1,100	0	0	0	0
37	Net Cost to Public Purse	227,300	25,000	23,600	23,900	14,600
38	Annual Cost per m2 (2013/14 prices)	292	181	199	131	69

4 Report Implications

4.1 Resource

This report provides a financial comparison of projects and as such there are no direct resource implications arising from this report.

4.2 Risk

This report provides a financial comparison of projects and as such there are no risk implications arising from this report.

4.3 Single Midlothian Plan and Business Transformation

This report provides a financial comparison of projects and as such there are no Single Midlothian Plan or Business Transformation implications arising from this report.

4.4 Impact on Performance and Outcomes

There are no performance or outcome impacts arising from this report.

4.5 Adopting a Preventative Approach

The proposals in this report do not directly impact on the adoption of a preventative approach.

4.6 Improving Communities and Stakeholders

No specific consultations were required in the preparation of this report.

4.7 Ensuring Equalities

There are no equalities issues arising from this report, and an equalities impact assessment is not required.

4.8 Supporting Sustainable Development

There are no sustainability issues arising as a consequence of this report. OR do we

4.9 IT Issues

There are no IT issues arising as part of this report.

6.0 Recommendations

The Performance and Scrutiny Committee is recommended to:-

1. Consider and note the contents of this report.

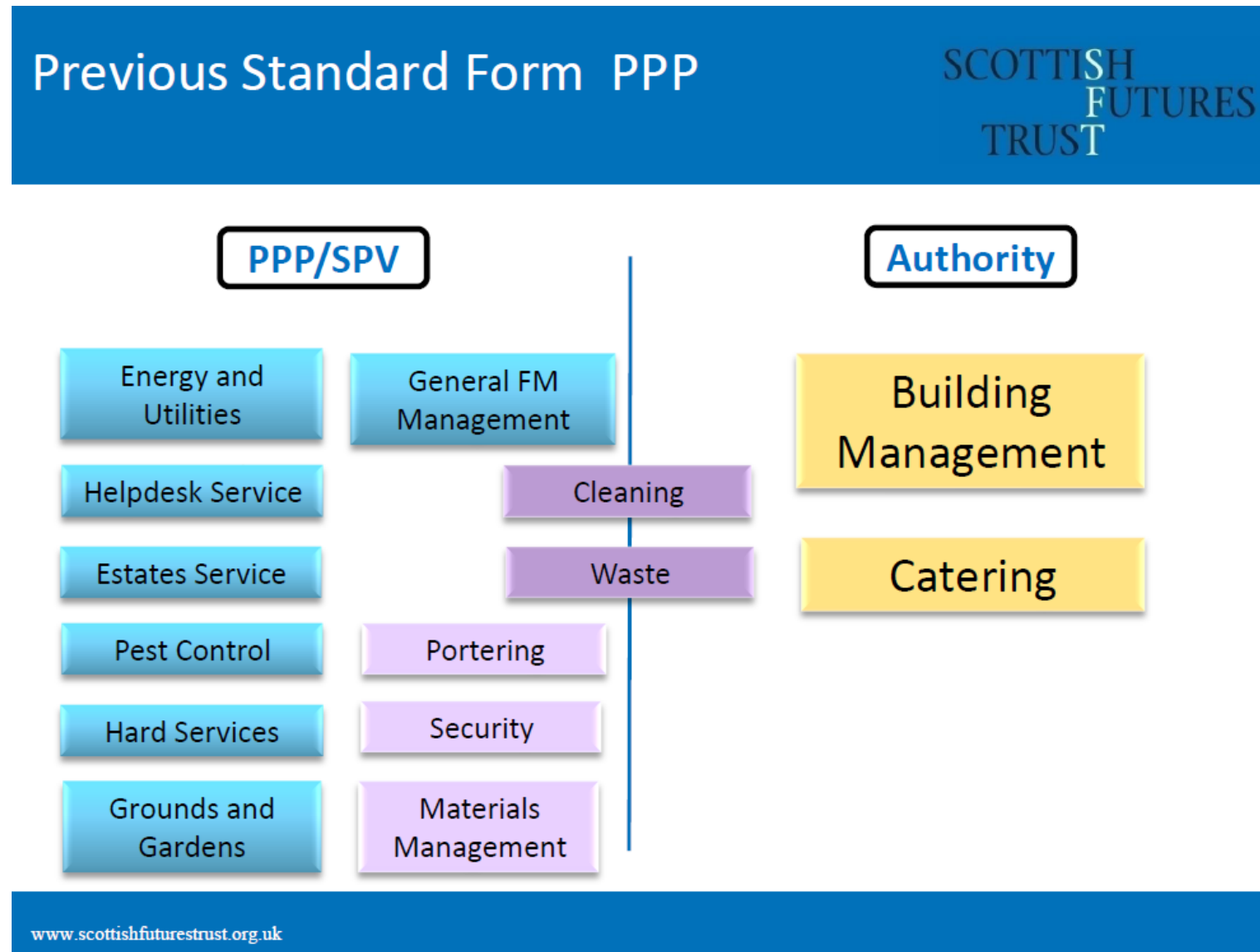
E-mail gary.thomson@midlothian.gov.uk

Appendix 1 – HubCo Tender

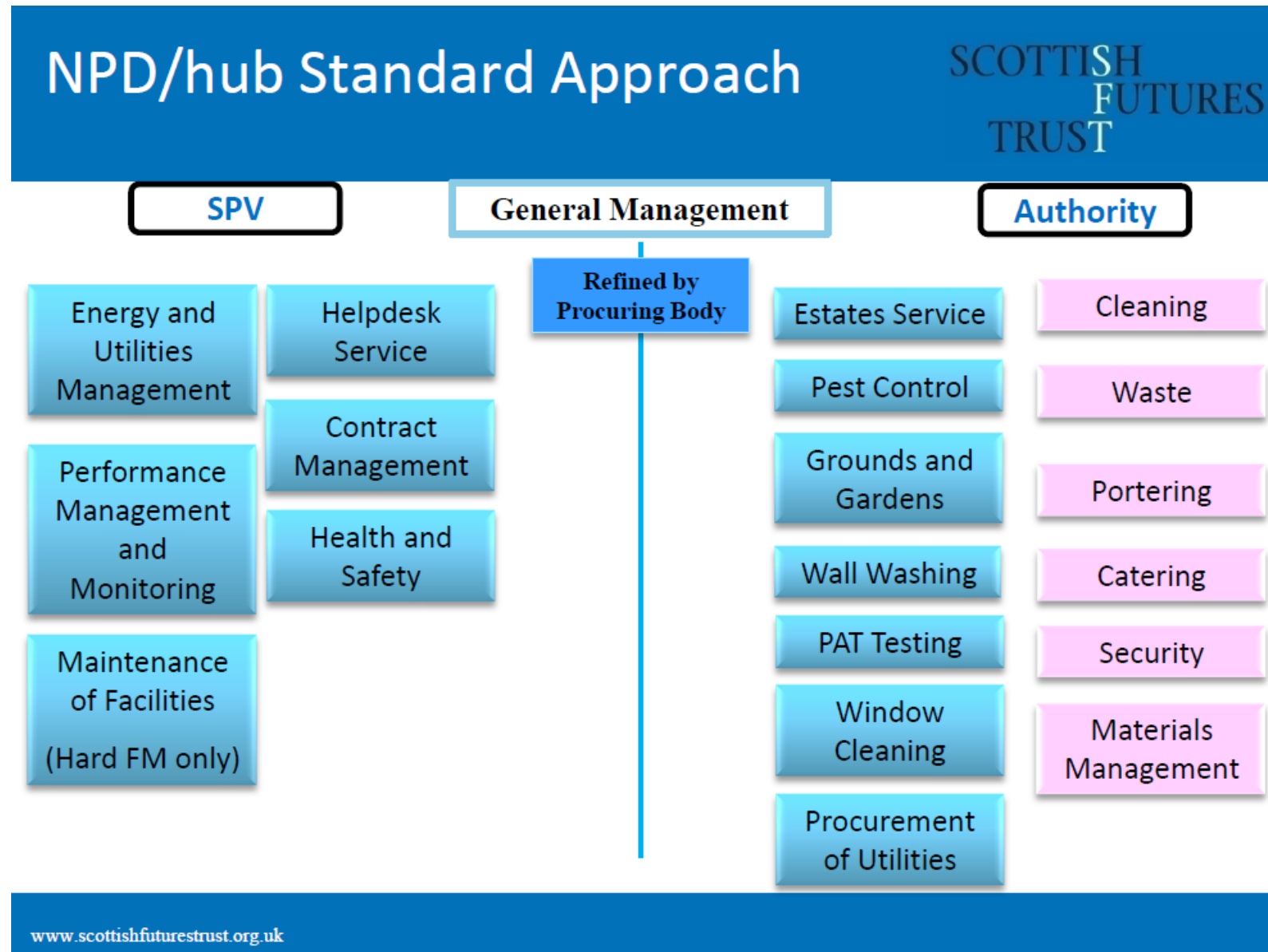
1. HubCo have competitively tendered for the right to deliver public sector projects in the South East Scotland region. The competitive tender submitted was based on a selection of projects of a similar type. The tender comparisons were based upon percentages submitted by HubCo for:-
 - a. Prelims for projects
 - b. Overheads and profits
 - c. Consortium (SPV) costs
2. The actual cost of the core work packages e.g. ground works, structural frame etc, will be competitively tendered to the sub-contract market and in turn the lowest price will be delivered. Once all of the packages have been returned the total value of all of these packages will form the prime cost.
3. The competitive percentages which HubCo submitted as part of the selection process (items listed in item 1 above) are then applied to the prime cost to determine the total value.
4. The final total value is agreed between the parties and is used as the capital value on which investment bids for funding the project are sought competitively from the open market.
5. Once competitive bids for funding have been received, the local authority will be involved with Scottish Futures Trust (SFT) and HubCo in the selection of the preferred funding partner.
6. Similar to PPP the funding of the project will require the Council to pay a unitary charge over an agreed period. This period is usually between 25 and 35 years. At the end of this period the project reverts to the ownership of the Council.
7. The Council are entitled to be involved in every key stage of the HubCo process as a 'partner' to the process.
8. Unlike PPP, local authorities can choose to invest in the project and share in the investment returns. The level of this investment is capped at 45% of the value, this is covered by European Systems of Accounts 1995 guidance.

Appendix 2 – Key Differences in FM Scope between Standard Form PPP and hub Standard Approach

PPP



hub Standard Approach



**Appendix 3 – Funding Conditions Letter from Scottish Government, 16th
January 2013**

[TO BE INSERTED]