

Financial Comparison of School Projects delivered in the last ten years

Report by Gary Fairley, Head of Finance & Human Resources

1 Purpose of Report

This report provides the Council 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 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 years

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

Table 3 provides breakdown of the Capital Costs, and the funding of these Capital Costs, for each of the Primary Schools outlined in Table 1:-

Table 3: Capital Costs of Primary School Projects

Project	PPP2 £000's	Bonnyrigg Primary £000's	Cuiken Primary £000's	Woodburn Primary £000's	Burnbrae Primary £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

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

** Estimate

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. This can be explained in part due to the economies of scale at the Dalkeith Campus – with a total accommodation footprint of 25,080m2, this is some 33% larger than the Lasswade Centre facility and some 60% larger than the Newbattle facility.

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 £000's	Bonnyrigg Primary £000's	Cuiken Primary £000's	Woodburn Primary £000's	Burnbrae Primary £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
Area (m2)	21,280	3,520	3,000	4,630	3,380
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 Construction Costs (and 100% of financing of these construction 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 Construction Costs (and 80% of the financing of these construction 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 Construction 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 Construction Costs for replacing the existing school on a like-for-like basis (and 100% of the financing of these construction costs);
- 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

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

2 key factors have the greatest influence on the operational cost per m2 per annum of each of the above facilities:-

1. Private Sector specific costs

The operational costs per square metre per annum for the Dalkeith Schools Community Campus and the Newbattle High School project are both higher than the operational cost per square metre per annum for the Lasswade Centre primarily due to both of these projects requiring the set up of a private sector company, and the requirement for the following:-

- Admin Costs, i.e. staff and contract management;
- SPV related costs, such as bank agency fees, audit/tax/accountancy fees, legal fees, and market testing allowances and technical advisory costs;
- Corporation Tax.

For the Lasswade Centre facility, none of the above costs apply⁵.

The table below shows the effect of removing these private-sector SPV-specific costs (Admin, SPV-related and Corporation Tax) from the Dalkeith Campus and Newbattle projects:-

Table 9: Operational Costs for High Schools: Comparison excluding Private Sector Company specific costs

Project	Cost per m2 per annum @ 2013/14 prices			30-Year Cost £000's
	Contractor	Council	Total	
Dalkeith Schools Community Campus	71	26	97	80,900
Lasswade Centre	0	111	111	90,600
Newbattle High School	29	94	123	88,400

⁵ The Admin, SPV and Corporation Tax costs for the Newbattle project will be supported by the Scottish Government as part of the funding package award i.e. paid by the Scottish Government to the Council as part of the annual revenue support for the project.

2. Economies of Scale from Facility size

The Dalkeith Campus, at 25,080m² of accommodation in total, exhibits the greatest economies of scale, in comparison to both the Lasswade Centre (18,831m²) and the Newbattle facility (15,714m²). The greater economies of scale for the Dalkeith Campus help reduce the operational cost per m² per annum for this facility by a greater extent than for both the Lasswade Centre and the Newbattle facilities – see table 10 below.

Table 10: Operational Costs for High Schools: Comparison per accommodation size

Project	Accommodation Size	Operational Cost per m² per annum @ 2013/14 prices (from Table 9)
Dalkeith Schools Community Campus	25,080m ²	£97/m²
Lasswade Centre	18,831m ²	£111/m²
Newbattle High School	15,714m ²	£123/m²

Primary Schools

Primary Schools (PPP2 Project)

All of the services for the new schools under the Primary Schools Project (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 11: 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>	<i>84</i>	<i>29</i>	<i>113</i>
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>	<i>121</i>	<i>29</i>	<i>151</i>
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 12: 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

Note: 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 13: 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.

Again, similar to the comparison of High School projects, 2 key factors have the greatest influence on the operational cost per m2 per annum of each of the above facilities:-

1. Private Sector specific costs

The operational costs per square metre per annum for the PPP2 project are higher than the operational cost per square metre per annum for each of the facilities directly managed/operated by the Council (Bonnyrigg, Cuiken, Woodburn and Burnbrae), primarily due to the PPP2 project requiring the set up of a private sector company, and the requirement for the following:-

- Admin Costs, i.e. staff and contract management;
- SPV related costs, such as bank agency fees, audit/tax/accountancy fees, legal fees, and market testing allowances and technical advisory costs;
- Corporation Tax.

For the Council controlled facilities (Bonnyrigg, Cuiken, Woodburn and Burnbrae), none of the above costs apply.

In addition, the PPP2 contract has a layer of “FM Management” costs which are not borne by the Council under its traditionally procured schools.

The table below shows the effect of removing these private-sector SPV-specific costs (Admin, SPV-related, Corporation Tax and FM Management) from the PPP2 project:-

Table 14: Operational Costs for Primary Schools: Comparison excluding Private Sector Company specific costs and FM Management Costs

Project	Cost per m2 per annum @ 2013/14 prices			30-Year Cost £000's
	Contractor	Council	Total	
PPP2 (excluding Hard FM/Lifecycle)	46	29	75	66,200
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

2. Economies of Scale from Facility size

Woodburn Primary, a 3 stream school at 4,630m² of accommodation in total, exhibits the greatest economies of scale, helping to reduce the operational cost per m² per annum in comparison with the other Primary facilities – see table 15 below.

Table 15: Operational Costs for Primary Schools: Comparison per accommodation size

Project	Accommodation Size	Operational Cost per m2 per annum @ 2013/14 prices (from Table 14)
Woodburn	4,630m ²	£56/m ²
Bonnyrigg	3,524m ²	£66/m ²
Burnbrae	3,384m ²	£69/m ²
PPP2	3,041m ² *	£75/m ²
Cuiken	3,000m ²	£69/m ²

* The PPP2 contract comprises a total accommodation of 21,284m² across 7 facilities. This gives an average of 3,041m² per facility.

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

Table 16: 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 as Lasswade is a traditionally procured school, and therefore managed/operated directly by the Council, there is no contract in place for operational services. However, for comparison purposes, the costings are shown covering a 30 year period.

** 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.

To aid the interpretation of Table 16, it should be noted that:-

1. Annual cost per square metre to the Council for the Dalkeith Campus project is significantly lower than the Lasswade Centre and the Newbattle projects

- a. The construction cost per square metre for the Dalkeith Campus, £1,390/m² at 2011 prices, is significantly less than the construction cost per square metre, at 2011 prices, for the Lasswade Centre (£1,880/m²) and Newbattle (£1,870/m²) projects – see Section 3.3.;
- b. The Scottish Government funding package for the Dalkeith Campus, covering 100% of the capital costs, 100% of the interest payments on these capital costs, and 100% of the Lifecycle Maintenance Costs (see Section 3.4), is a more financially advantageous funding award to the Council than the respective awards for:-
 - the Lasswade Centre (67% of the Construction Costs of replacing the existing facility on a like-for-like basis, or 60% of the total Construction Costs of the facility), with no support for Lifecycle Costs; and
 - the Newbattle facility (67% of the Construction Costs for replacing the existing facility on a like-for-like basis, or 56% of the total forecast Construction Costs of the facility), 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); with no support for Lifecycle Costs;
- c. The greater economies of scale for a 25,080m² facility (Dalkeith Campus) compared with the Lasswade Centre (18,831m²) and the Newbattle facility (15,714m²), helping to reduce the annual operating costs per square metre and offsetting (in part) the impact of the private sector specific costs (Admin costs, SPV Operating Costs and Corporation Tax costs).

2. Annual cost per square metre to the Council for the Newbattle project is higher than the Lasswade Centre project

- a. The Scottish Government funding packages for both Lasswade & Newbattle projects are very similar (67% of the capital costs of the project, in the form of a direct capital grant for Lasswade, and equivalent annual revenue grant – supporting the SPV's capital/interest repayments – for Newbattle);
- b. The construction cost per m² for both projects is anticipated to be very similar (£1,880/m² for Lasswade, estimated £1,870/m² for Newbattle);
- c. The varying sizes of the building (18,831m² for Lasswade, 15,714m² for Newbattle) results in greater economies of scale for the operational costs of the Lasswade project (£111/m² per annum) compared with the operational costs of the Newbattle project (£123/m² per annum);
- d. The Council is required to support 44% of the construction costs of the Newbattle facility (as the Scottish Government's grant covers 56% of the total construction costs of the facility), compared with the Council being required to support a smaller proportion (40%) of the construction costs for the Lasswade project.

Primary Schools

Table 17: 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) Average area per facility (m2)	21,280 3,041	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

* Note that each of these projects are traditionally procured, or turn-key, projects and therefore managed/operated directly by the Council. As such, there is no contract in place for operational services. However, for comparison purposes with the PPP2 project, the costings are shown covering a 30 year period

** Estimate

To aid the interpretation of Table 17, it should be noted that:-

1. Annual Cost per square metre to the Council of the Bonnyrigg Primary School project is the most expensive

There is very little external funding available for the Bonnyrigg Primary School project, in comparison to the other Primary School projects:-

Table 18: External Funding as a % of Capital Costs

Project	Total Capital Costs £000's	% of Capital Costs supported by external funding*	% of Capital Costs to be supported by Council	Annual Cost to Council per m2 per annum @ 2013/14 prices (from Table 17)
Bonnyrigg	8,100	2%	98%	£182/m2
Woodburn	10,900	28%	72%	£148/m2
Cuiken	7,600	36%	64%	£156/m2
Burnbrae	6,500	68%	32%	£99/m2
PPP2	50,300	77%	23%	£156/m2

* *Scottish Government Grants, Developer Contributions, Turnkey Funding*

2. Annual cost per square metre to the Council of the Cuiken and Woodburn projects

The annual cost per square metre to the Council of the Woodburn project (£148/m2 per annum) is less than the Cuiken project (£136/m2 per annum), despite the Woodburn project requiring the Council to support a larger percentage of the capital costs (72%) than the Cuiken project (64%). The lower rate per square metre for the Woodburn project can be explained due to the economies of scale arising from the larger accommodation footprint at Woodburn (4,630m2 compared to 3,000m2 at Cuiken), generating a lower operational cost per square metre for Woodburn (£56/m2 per annum) compared to Cuiken (£69/m2 per annum).

3. Annual Cost per square metre of the PPP2 project

Despite the Council only being required to support 23% of the Capital Costs of the PPP2 project (the lowest % of all the Primary School projects outlined in this paper), the Cost to the Council per square metre per annum of this project, at £156/m2 per annum, is comparable to the Cuiken project (also costing the Council £156/m2 per annum) where the Council is required to support 64% of the Capital Costs.

However, the Cuiken project is directly operated/managed by the Council, with no specific SPV set up to run the facility. The PPP2 project, on the other hand, had a specific private sector SPV set up to operate/manage the project, and thus bears the necessary SPV, Admin and Corporation Tax elements of these types of projects. As can be seen from Table 13, the gross operational costs of the Cuiken project are £69/m2 per annum, compared to £113/m2 per annum for the PPP2 project (64% higher). This higher operational cost per square metre for the PPP2 project directly offsets the lower % of capital costs that the Council support for this project, bringing the overall cost to the Council for the PPP2 project to a comparable level with the Cuiken project.

3.7 Overall Cost to the Public Purse of each project

High Schools

Table 19: 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:-				
24	Total Cost of Project to Council (row 22 from Table 16)	86,900	119,500	115,800
25	Add back: Scottish Government Revenue Grant Funding (row 11 from Table 16)	93,500	0	43,200
26	Add Back: Scottish Government Capital Grant Funding (row 14 from Table 16)	0	21,300	0
27	Add: Notional Interest Payable by Scottish Government on Capital Grant Funding	0	20,300	0
28	Net Cost to Public Purse	180,400	161,100	159,000
29	Annual Cost to <i>Public Purse</i> per m2 (2013/14 prices)	218	197	228
30	Annual Cost to <i>Council</i> per m2 (2013/14 prices) (from Table 16)	105	146	166
31	Movement from Row 30 to Row 29	+113	+51	+62

To aid the interpretation of Table 19, it should be noted that:-

- 1. The inclusion of Private Sector borrowing instruments into High School Projects increases the cost of each project to the Public Purse, but not necessarily the cost of each project to the Council**

The SPV's for both the Dalkeith Campus and Newbattle High School projects will initially fund all of their capital needs by sourcing private sector finance from the debt and equity markets (with the exact % of private sector finance dependent upon the level of Council Contribution injected into the SPV⁶). On the flipside, the Lasswade Centre is financed solely from public capital: partly from the Scottish Government's Capital Grant allocation (assumed to be financed by Gilt issuance from HM Treasury) and partly from the Council's direct borrowing powers (from PWLB). See Appendix 4 for more detail.

Since the UK Government and the Council can borrow at more favourable rates (from the Gilt markets and from PWLB respectively) than a private sector SPV can from the debt and equity markets, the inclusion of private sector finance in the Dalkeith Campus and Newbattle projects results in an increased burden on the cost of finance for these projects, compared

⁶ The Council can choose, at Services Commencement, to inject a cash contribution into the SPV (for the Dalkeith Campus Project £2.9m and for the Newbattle Project an estimated £16.4m), which in turn allows the private sector SPV to make a bullet repayment of some of its debt.

to the Lasswade Centre where 100% of the funding was ultimately sourced from PWLB/Gilt Markets.

However, in table 16 (the cost **to the Council** of each of the High School projects), the borrowing costs incurred by the private sector (rows 7 and 8) for the Dalkeith Campus and Newbattle projects **are fully funded by Scottish Government Revenue Grant Funding** (row 11), and therefore the cost of private sector borrowing **does not play a factor in the overall cost to the Council of each project**.

As a result, **the Dalkeith Campus** project, despite being financed by a significant proportion of Private Sector Debt, **is the least expensive High School project for the Council** (measured on a cost per square metre per annum), given the Scottish Government's Revenue Support Grant fully funds the cost of private sector debt.

However, when considering the cost of each High School project **to the public purse**, the cost of financing private sector debt needs to be included (as this is effectively funded by the Scottish Government's Revenue Support Grant contributions). Therefore in Table 19, the Scottish Government's Revenue Support Grant has been added back (row 25) to the closing totals for the Dalkeith Campus and Newbattle projects from Table 16.

It can then clearly be seen that the **annual cost to the public purse is more expensive for those projects that incorporate private sector debt** (i.e. Dalkeith Campus and Newbattle, at £218/m² per annum and £228/m² per annum respectively – see line 29 of Table 19), **compared to those projects that do not incorporate private sector debt** (i.e. Lasswade Centre, at £197/m² per annum – see Line 29 of Table 19).

2. The Newbattle project is the most expensive to both the Council and the Public Purse (measured per annum per m²)

The following can be noted:-

- a. There are diseconomies of scale in the Newbattle facility (15,714m²), compared with both the Lasswade Centre (18,831m²) and the Dalkeith Campus (25,080m²);
- b. The Newbattle project has a significant use of private finance (49% of the capital costs), compared with no private finance for the Lasswade Centre;
- c. The funding package from Scottish Government for the Newbattle project supports only 67% of like-for-like construction costs (similar to the Lasswade project), compared with 100% support for all construction costs for the Dalkeith Campus project.

Primary Schools

Table 20: 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:-						
24	Total Cost of Project to Council (row 22 from Table 17)	121,000	25,200	18,400	26,900	14,600
25	Add back: Scottish Government Revenue Support Grant Funding (row 11 from Table 17)	107,400	0	0	0	0
26	Add Back: Scottish Government Capital Grant Funding (row 14 of Table 17)	0	0	2,700	0	0
27	Add: Notional Interest Payable by Scottish Government on Capital Grant Funding	0	0	2,500	0	0
28	Net Cost to Public Purse	228,400	25,200	23,600	26,900	14,600
29	Annual Cost to Public Purse per m2 (2013/14 prices)	293	182	199	148	99
30	Annual Cost to Council per m2 (2013/14 prices) (from Table 17)	156	182	156	148	99
31	Movement from Row 30 to Row 29	+137	0	+43	0	0

To aid the interpretation of Table 20, it should be noted that:-

1. The inclusion of Private Sector borrowing instruments into Primary School Projects **increases the cost of each project to the Public Purse, but not necessarily the cost of each project to the Council**

The SPV for the PPP2 project initially funded all of its capital needs by sourcing private sector finance from the debt and equity markets (with the exact % of private sector finance dependent upon the level of Council Contribution injected into the SPV⁷). On the flipside, the Bonnyrigg, Cuiken and Woodburn project are financed solely from public capital, direct from the Council's own capital plan (ultimately borrowing from PWLB), or from the Scottish Government's block Capital Grant (assumed to be financed by Gilt issuance from HM Treasury). Burnbrae was part-funded by private sector finance; however as this was a Turn-Key school provided by the developer as part of their S75 obligations, the cost of private sector finance for this facility was not passed on to the Council. See Appendix 4 for more detail.

Since the UK Government and the Council can borrow at more favourable rates (from the Gilt markets and from PWLB respectively) than a private sector SPV can from the debt and equity markets, the inclusion of private sector finance in the PPP2 project results in an increased burden on the cost of finance for these projects, compared to the 100% traditionally

⁷ The Council can choose, at Services Commencement, to inject a cash contribution into the SPV (for the PPP2 project, £6.3m), which in turn allows the private sector SPV to make a bullet repayment of some of its debt.

funded projects (Bonnyrigg, Cuiken and Woodburn), and the Council's share of the Burnbrae project.

However, in table 17 (the Cost **to the Council** of each of the Primary School projects), the borrowing costs incurred by the private sector (rows 7 and 8) for the PPP2 project **are fully funded by the Scottish Government Revenue Grant Funding** (row 11), and therefore the cost of private sector borrowing **does not play a factor in the overall cost to the Council of this project.**

As a result, **the cost of the PPP2 project to the Council (at £156/m2 per annum)**, despite incorporating a significant proportion of Private Sector Debt **is comparable with other traditionally procured facilities that do not include private sector debt**, given the Scottish Government's Revenue Support Grant fully funds the cost of private sector debt.

However, when considering the cost of each Primary School project **to the public purse**, the cost of financing private sector debt needs to be included (as this is effectively funded indirectly by the Scottish Government's Revenue Support Grant contributions). In Table 20 therefore, the Scottish Government Revenue Support Grant has been added back (row 25) to the closing total for the PPP2 project from Table 17.

It can then clearly be seen that **the annual cost to the public purse is more expensive for those projects that incorporate private sector debt** (i.e. the PPP2 project, at £293/m2 per annum – see line 29 of Table 20), **compared to those projects that do not incorporate private sector debt** (i.e. Bonnyrigg, Cuiken and Woodburn, at £182/m2, £199/m2 and £148/m2 per annum respectively – see Line 29 of Table 20).

3.8 Annual Cost to the Council of PPP Projects

The tables below outlines the annual cost to the Council of both the Dalkeith Campus and PPP2 projects for this and the preceding 2 financial years.

Table 21: Annual Cost to Council of PPP Projects

Financial Year	2011/12	2012/13	2013/14
	£000's	£000's	£000's
Dalkeith Campus			
Unitary Charge	4,736	4,794	4,847
Revenue Support Grant	-3,116	-3,116	-3,116
Net Annual Cost of Dalkeith Campus Project to Council	1,620	1,678	1,731
Primary Schools (PPP2 Project)			
Unitary Charge	5,068	5,150	5,223
Revenue Support Grant	-3,689	-3,689	-3,689
Net Annual Cost of Primary Schools Project to Council	1,379	1,461	1,534
PPP Projects (Total)			
Unitary Charge	9,804	9,944	10,070
Revenue Support Grant	-6,805	-6,805	-6,805
Net Annual Cost of PPP Projects to Council	2,999	3,139	3,265

3.9 Capital Receipts Paid into Capital Fund

The following capital receipts from the disposal of the old school sites associated with these projects have, or are expected to be, paid into the Capital Fund:-

Dalkeith Campus:- £5.15m for the sale of the Saltersgate Site was received in 2005/06 (of which £1.8m was paid into the Capital Fund), and £9.86m for the sale of the St. David's site was received in 2006/07 (of which £6.6m was paid into Capital Fund).

Lasswade Centre:- The sale of both the Bonnyrigg Town Hall and Poltonhall Community Centre are currently under offer, with a net receipt of £0.3m in total expected to be received in this financial year should both sales conclude.

Primary Schools PPP2 Project:- £1.4m for the sale of the former Langlaw Primary School site was received in 2007/08, £0.3m for the sale of the former Cranston Primary School site was received in 2008/09 and £0.13 million for the sale of the former Temple primary school site was received in 2011/12 (of which £0.040 was paid into Capital Fund).

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.

5.0 Recommendations

The Council is recommended to:-

1. Consider and note the contents of this report.

23 January 2014

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