

Schools PPP2 Project –

City of Edinburgh Council

21 December 2006

1. Purpose of report

- 1 To advise the Council of the progress made on the Schools PPP2 project since the appointment of Axiom as preferred bidder on the 7th of April 2006 and of the likely future timetable for the project.

Introduction

- 2 The PPP2 project will provide eight new build schools across the city. These are Bonaly and Juniper Green Primaries and Broughton, Craigroyston, Forrester, Holy Rood R.C, St. Augustine's R.C and Tynecastle High Schools.
- 3 At the time that the Invitation to Negotiate document was issued to tenderers (December 2004) It had been hoped that the schools would become available between 2007 and 2009. Following the evaluation of tenders from three organisations it was decided to take two of them forward to a Revise and Confirm stage of the tender process. Shortly after this decision, in September 2005, there was an unfortunate occurrence which involved a senior council officer and resulted in the withdrawal of one of the remaining tenderers. After some consideration the Council decided to continue the project with the remaining tenderer, Axiom Education. This and the need to work with the remaining tenderer to improve their designs has resulted in considerable delay to the project.
- 4 This delay has involved the Council in major additional cost including the necessary use of external advisers for a prolonged period.
- 5 The Council will enter into a 30 year agreement with Axiom covering the design and construction of the new schools and the provision of a wide range of facilities management services. Payment will be made through a unitary charge throughout the 30 year period.

- 6 The Council's own S.T.O.'s were invited to bid to retain catering, cleaning and waste management services. Their bid was evaluated against those of the three main tenderers and the decision taken to keep these services as part of the main PPP contract.
- 7 Planning applications for the eight schools were submitted between May and September this year.

2. Main report

- 8 The letter of appointment of Axiom Education (Edinburgh) Limited as preferred bidder was issued on 31 March 2006 and accepted by Axiom and its principal contractors by 7 April. The consortium Axiom is a wholly owned subsidiary of ABN-AMRO Bank. Laing O'Rourke are the consortium's building contractor but have no owning interest in Axiom. Mitie are Axiom's FM contractor, Scolarest are the catering subcontractors.

Planning Approvals

- 9 The achievement of planning consent on all eight schools is fundamental to achieving Financial Close. The current status of the Planning Applications for each school is shown below

School	Current Status
Bonaly Primary School	Committee approval 6 th September
Juniper Green Primary School	Committee approval 27 th September
Broughton High School	Continued by Committee 13 th December
Craigroyston Community High School	Committee consideration 20 th December
Forrester High School / St Augustine's RC High School	Committee approval 29 th . November
Holy Rood High School	Committee approval 13 th December

Tynecastle High School	Committee consideration 20 th December
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- 10 The consents granted for Bonaly, Juniper Green and Forrester / St Augustine's have as conditions legal agreements being in place to secure necessary off-site works e.g. safer routes to school and other transport infrastructure. Planning have advised they will not be able to issue Decision Notices until the agreements have been signed by all relevant parties.
- 11 Whereas at the time of PPP1 Edinburgh Schools Partnership was responsible for necessary off site works and ESP leased the school sites from the Council, this is not the case with PPP2. The sites are not leased to Axiom therefore the question of a legal agreement with Axiom is considerably more complex.
- 12 The Council's Commercial position with Axiom is that they are not responsible for the off site works. The Council itself would therefore be responsible for undertaking and funding such works. Axiom are aware that the question of legal agreements is a difficulty which needs to be overcome. The Projects legal advisors are investigating ways through this problem which will allow Decision Notices to be issued.
- 13 The existing Council policy is that a legal agreement is required to cover the payment of a contribution towards the tram development with respect to Tynecastle High School. This is estimated to be £300,000. Funding of this contribution is not allowed for within the PPP2 project costs and this will be required from the Council's overall capital budget. Our legal advisors are considering options which do not alter the departments commercial position with Axiom.
- 14 Following discussions with Axiom and Planning it has been agreed to target 20th December as the date by which outstanding Planning applications will have been considered by the Development Quality Sub-Committee.

Project Funding

- 15 The Council's formal position, as advised to Axiom in July, is that we wish to follow a bond funding route, however we recognise that a funding route using traditional bank borrowing will be simpler and therefore quicker to achieve and would therefore have a beneficial effect on the Council's overall affordability position.
- 16 Based on the most recent information provided by Axiom, we still believe that a bond funded route will be more cost advantageous to the Council. The Council has however advised Axiom that we are prepared to follow a bank funded route provided that Axiom offer a financial deal which is affordable to the Council, financially comparable with a bond deal and can be demonstrated to represent value for money.

- 17 A financial model is due from Axiom on 14th December. This will require a considerable amount of analysis by the Finance Department and the projects external Financial Advisors before the financial position is clear. Detailed negotiation with Axiom is anticipated until shortly before Financial Close is achieved. The precise scope of the project cannot be finalised until that time including the inclusion of items not currently within the project scope e.g. Interactive white boards in all classrooms of both Primary Schools.
- 18 Project planning is now based on following a bank funding route and achieving Financial Close at the end of February 2007.

Craigroyston Community High School

- 19 Following consideration it is intended to develop the replacement for Craigroyston Community High School in two phases. Phase one will provide a school building appropriately sized; the current school roll is c.450 pupils and is projected to fall in the short term. In order to keep redesign work to a minimum and to provide facilities for community use, the Sports and Swimming pool facilities are being provided as part of phase 1 and maintained at the size they were when the school was designed for 900 pupils.
- 20 Phase 2 will increase the school capacity to 900 pupils and provide further dedicated space for Community activities. Phase 2 will be undertaken when justified by the actual and projected increase in pupil numbers and subject to Council approval and the commitment of finance at the time.
- 21 The decision to develop Craigroyston in two phases was taken for two reasons. Firstly, it had become evident that the development of housing on the Waterfront was delayed and that the number of secondary school age children likely to be generated by this development was very uncertain. The proportion of such children whose parents will opt for them to attend the Craigroyston replacement is equally uncertain.
- 22 Secondly but related, the delay to the housing development has affected the PPP2 project affordability through making uncertain the developer contribution from the Waterfront housing development.
- 23 Revised plans for Craigroyston include 200 square metres on the ground floor for community use and 230 square metres 'shell space' on the top floor will also to be allocated for community use. This 'shell space' will be made into useable rooms in time for the opening of the new school.
- 24 In addition to this 430 square metres, the reduced 'pupil capacity' will free up further extra space (approx. 4 classroom-sized areas) which will also be used by community groups. Overall this will ensure facilities are available

for the 'Early Years Centre', 'Muirhouse Youth Development Group', 'B-friends' and 'Community Learning and Development' activities.

- 25 The provision of an Early Years Centre and space for Community Groups from the date of opening the new school is regarded as very important by the School Community. This will require further internal changes to areas of the ground and top floors of the school and is not reflected in the current plans. As the school is likely to open with significantly fewer pupils than its capacity, it will have classrooms which are surplus to the requirements of pupil teaching. A number of these classrooms are to be designated for Community use. The internal works to the ground and top floors will require that the Council negotiate a change with Axiom at additional cost not currently allowed for in the financial model. Any such additional cost would require to be contained in the Children and Families Department budget resource allocation.

Project Affordability

- 26 Commercial negotiations with Axiom are continuing with a substantial number of areas still to be fully resolved. The Council is awaiting a further financial model from Axiom which reflects the reduction in the size of Craigoyston and other measures designed to ensure project affordability. As mentioned previously this model is expected on 14th December. Amongst these are the removal of Forrester Rugby Club's clubhouse from the Unitary Charge as this is not considered a financially efficient way to fund this building. The department has made a capital bid for funding for the clubhouse.

School Availability Dates

- 27 The most recently discussed School Availability Dates which were based on achieving financial close at the end of January, are shown below for information;
- Bonaly Primary – 30th June 2008
 - Juniper Green Primary – 15th December 2008
 - Broughton High School – 5th January 2009
 - Craigoyston Community High School – 30th June 2009
 - Forrester High School – 15th October 2009
 - Holyrood RC High School – 5th January 2009
 - St Augustine's RC High School – 15th October 2009
 - Tynecastle High School – 15th October 2009

It will be noted that these dates are based on end of January Financial Close and that Financial Close is not now expected until end February. It will also be noted that the department faces the prospect of moving three High Schools during the October week in 2009.

- 28 All of the above dates are subject to ongoing discussion and negotiation with Axiom. A number of the availability dates leave very little margin for Financial Close being at the end of February. In particular it is likely that the Availability Dates for Broughton and Holy Rood would slip until the Summer of 2009 as Secondary Schools cannot be moved between the Christmas / New Year holidays and the following summer holiday period. To avoid this very expensive delay the Council may have to consider entering into an Advance Works agreement with Axiom. Any such works will be subject of a future report to Council. Advance works will also be considered for Bonaly Primary if there was any danger of the school not otherwise being available in Summer 2008.

Sustainability

- 29 Commercial issues have arisen around the sustainability proposals put forward by Axiom. The original tariff for the supply of locally sourced biomass has increased very significantly and suggests that the cost is now tracking gas prices. The waste heat from the North British Distillery which it is proposed will serve Tynecastle High School will require a servitude to carry the water across the site of the current school and care must be taken to balance the sustainability/cost benefits against any adverse impact on the potential value of the whole site. Much negotiation is still required with Axiom to ensure that these important sustainability features are incorporated in the schools when constructed. Provided that these features can be incorporated the schools will achieve excellent Sustainability.

3. Financial Implications

- 30 Delays to Financial Close potentially have a very serious financial implication for the projects affordability. The cost of construction will increase through the inflation indexation which Axiom are able to apply. Additionally the delay to Availability Dates means that the Council is later in commencing the payment of the Unitary Charge which has the effect of increasing the overall cost to the council. These issues alone make it certain that there will be much commercial negotiation with Axiom before an agreed position is reached.

4. Recommendations

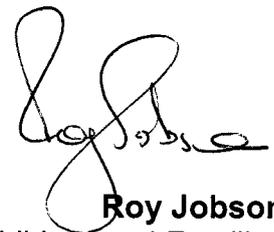
The Council is requested to note

(i) The progress made in moving towards Financial Close.

(ii) The intention to develop the replacement for Craigroyston Community High School in two phases.

(iii) The requirement to achieve planning consent for all the schools, including a resolution to the issue of legal agreements for off site works, before Financial Close.

(iv) That a further report will be made to the February Council. This will also address the development of the requirement for advance works.



Roy Jobson
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Appendix

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Wards affected City Wide

**Background
Papers**