

**CABINET**

<b>Date of Meeting</b>	Tuesday, 23 <sup>rd</sup> January 2018
<b>Report Subject</b>	Welsh Government's (WG) 21st Century Schools Programme and Education Programme Band B and Mutual Investment Model (MIM)
<b>Cabinet Member</b>	Cabinet Member for Education Cabinet Member for Corporate Management and Assets
<b>Report Author</b>	Chief Officer (Education and Youth) Chief Officer (Organisational Change)
<b>Type of Report</b>	Strategic

**EXECUTIVE SUMMARY**

The Welsh Government's (WG) 21<sup>st</sup> Century Programme Band A is due to complete at the end of March 2019. Planning for the next band of the WG programme investment programme has already started in earnest.

Welsh Ministers had previously confirmed that the Band B 21<sup>st</sup> Century Schools and Education Programme would be funded by both capital and revenue budgets.

£500 million of capital funding is available to 22 Local Authorities (LA's) and 14 Further Education (FE) Institutes for the 21st Century Schools and Education programme from 2019 to 2024.

In addition to the capital funding, there will also be a revenue budget funding model that will enable an additional investment with a maximum capital value of £500 million. This is called the Mutual Investment Model (MIM).

The Council's Strategic Outline Programme (SOP) was submitted to WG at the end of July 2017 in accordance with their timetable. This is essentially the Council's 'statement of intent' for the Band B investment programme. Welsh Ministers have recently announced the programme nationally and WG have written to confirm approval in principle of the Council's SOP and funding envelope for the programme subject to the onward business case submission.

In the Council's SOP, an interest was expressed in using MIM to help support an

ambitious Band B programme by maximising all sources of external funding.

The report outlines the projects contained within the Council's SOP submission to WG. It explains the principles used and assumptions made to deliver a programme with as minimal an impact on future revenue budgets. Additionally the report provides further detail on MIM.

## RECOMMENDATIONS

1	That Cabinet notes the content of the report and considers any observations following the Education and Youth Overview and Scrutiny Committee meeting.
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## REPORT DETAILS

1.00	BACKGROUND AND CONSIDERATIONS
1.01	<p>The intervention rates for the programme are confirmed by WG as follows:</p> <ul style="list-style-type: none"><li>• Capital – 50% WG / 50% LA</li><li>• MIM – 75% WG / 25% LA (through revenue budgets of both organisations).</li></ul>
1.02	<p>The total Band B funding envelope request by the Council as outlined in the SOP submission to WG was £85,420,000.00, including an expression of interest that one project could be suitable for MIM. Attached at Appendix 1 is the SOP which includes a summary of the projects contained within the proposed programme. Cost estimates are not included for individual projects at this stage as they are based on high level assumptions and will be refined as the programme progresses through the WG business case model.</p>
1.03	<p>The SOP was submitted to capture a share of the resource made available through this national investment programme. WG approval in principle of the Council's SOP does not underpin formal commitment at this stage.</p>
1.04	<p>The proposed programme and its priorities have been robustly challenged at Education and Youth Programme Board, Capital Asset Programme Board and by the Chief Officer Team.</p>
1.05	<p>The affordability of the proposed Band B programme is based on the same intervention rates being available for Band B as Band A, (i.e. 50/50) and has been modelled at a high level based on the following principles:</p> <ul style="list-style-type: none"><li>• The ability to strategically invest capital receipts to reduce the level of Prudential Borrowing required.</li><li>• The transfer of potential revenue savings to fund the revenue costs associated with Prudential Borrowing.</li></ul>

	<ul style="list-style-type: none"> <li>Assumptions will also be made on potential uplift of National Non-Domestic Rates (NNDR) based on previous intelligence of NNDR on Band A projects.</li> </ul>
1.06	The programme in its current form will inevitably evolve and will possibly require change as the programme and processes are carefully worked through. Additionally the programme makes assumptions on school organisation change and the potential for capital receipt generation but these may change dependant on Cabinet decisions locally. There are also a number of potential projects contained with the programme as there was limited funding headroom available through the Council's own capital programme.
1.07	Affordability of the proposed programme will be reviewed by a corporate team at key project and programme timelines or when circumstances influence potential changes. Operationally, the implementation of the programme will be overseen by the Education & Youth and Capital Asset Programme Boards.
1.08	WG requested that Band B programmes are prioritised and the priority order is shown in the summary contained in Appendix 1. However, a complex programme over a 5/6 year period does require a degree of flexibility and will need to be continually reviewed. The Council can request amendment to the SOP via WG if Cabinet determines there is a need to make changes to reflect local need/circumstances.
1.09	As set out in the Council's constitution, officers would require a mandate from Cabinet to proceed with area reviews and/or individual projects contained within the programme. These will be directed by the programme boards (referenced in para 1.07).
1.10	<p>Should area and/or school consultation be required then in it will be completed in accordance with the School Organisation Code's legal framework.</p> <p>The responses from each formal consultation process will be presented to the County Council's Cabinet, along with the impact assessment, options appraisal and officer recommendations. Cabinet will then decide on how to progress and implement for an area/individual school.</p>
1.11	In terms of MIM, whilst there is not a de Minimis figure for this model, advice from WG officials indicated that high value new builds would be the most appropriate to put forward for MIM funding. Although refurbishment and modernisation projects are also possible, they would be more complex contractually. This model is not considered suitable for projects with a series of complex issues.

1.12	A combined programme containing both MIM and capital projects supports a larger value programme based on access to more funding. However, revenue implications have to be balanced by affordability and other competing demands across the Council.
1.13	The proposed projects identified in the Councils SOP are included in Appendix 1. At strategic outline stage, the current project estimates are a mix of technical feasibility studies, cost per metre square estimates and other analysis based on costs of previous projects. Subject to appropriate approvals schemes need to be worked up in detail (detailed feasibility work and cost certainty) as the Council moves through the business case process, design development and the overall programme.
1.14	The traditional capital projects will be procured via the North Wales Construction Framework as with the Council's Band A programme. The MIM projects will be procured by WG in regional batches via a new procurement route.
1.15	Nationally, eleven Local Authorities and FE institutes have expressed an interest in MIM. Regionally, Flintshire, Conwy and Wrexham have expressed an interest and this region would form a "procurement batch."
1.16	Authorities not interested in pursuing schemes through MIM still have the option of traditional capital funding through the programme.
1.17	<p><b><u>The Mutual Investment Model</u></b></p> <p>The Mutual Investment Model is Welsh Government's new form of Public Private Partnership or Private Finance Initiative (PFI).</p> <p>A private sector contractor is appointed via a new WG framework and the contractor finances, constructs and provides a 25 year life cycled building product.</p> <p>Responsibility for funding, constructing the building, and then repairing and maintaining the building for 25 years (once built) remains with the contractor, resulting in buildings funded by MIM being maintained at a consistently high level for 25 years. Currently, the Council do not have any life cycled buildings (with the exception of HRA properties). Buildings that are newly built have to be repaired and maintained within existing budgets and are prioritised on need across the whole school portfolio. A MIM project will result in a two tier education estate in terms of quality and intensity of the maintenance regime deployed.</p>
1.18	On MIM projects the contractor will be required to provide community benefits as part of their bid proposals. There will be "core" benefits specified in the contract. These will be for the duration of the contract rather than the duration of the construction period which is usual in traditional capital projects.

1.19	<p>For its part the LA pays an annual charge which is funded from revenue similar to a rental payment called the 'service payment'. Through this programme LA's will receive an intervention rate of 75% funding from WG with 25% funded by the LA for a period of 25 years, thereafter the building is handed over to the LA. The funding from WG will be received in the form of a specific grant.</p>
1.20	<p>Revenue payments will not start until the facilities have been built and available for use. The majority of the service payment will be fixed for the 25 years, with a small proportion being uplifted in line with Retail Price Index (RPI) to reflect the increased costs of the lifecycle and maintenance costs of the building over that period. WG are working on the assumption of 75% of the charge being fixed, though this will be confirmed during contract negotiation.</p>
1.21	<p>For accounting purposes the asset remains on the LA balance sheet matched with the total liability to pay the unitary charge over 25 years. Capital construction costs will therefore require accounting for within the capital programme funded by debt and will have impacts on future technical financial reports such as limits on debt set (MRP) etc.</p> <p>It is important to note that the cash payment of construction costs will not be incurred upfront by the LA, it will be the contractor that funds the capital build and carries the associated construction risk.</p> <p>The capital costs that the LAs will incur are the pre contract costs including; detailed design development, surveys, procurement costs etc. WG have also not included ICT and fixed furniture and equipment in the contract and therefore LAs will incur these capital costs. WG have indicated that the intervention rate for these capital costs will be 50% funded by WG / 50% funded by LAs. Design development costs for MIM will be similar to a traditional capital projects. However these costs come earlier in the process due to the way MIM is procured. It is anticipated that there will be some increased costs for MIM around legal/contract documentation, this is reflected by WG setting an intervention rate of 75%.</p>
1.22	<p>The annual revenue service charge is accounted for in its component parts which includes; repayment of debt (an annual charge for the capital construction costs incurred by the contractor), interest on debt, and a charge for the services (maintenance and lifecycle costs).</p> <p>In 2016/17 the Council changed its policy on accounting for Minimum Revenue Provision (a statutory charge to the revenue account for debt funded capital expenditure). The policy is to account for the capital expenditure over the life of the asset. It is considered appropriate to assign a useful life of 50 years for an asset such as a newly built school which will be fully maintained and life cycled over the first 25 years of its life. Therefore although the cash payment of the service charge will be made over 25 years, the debt repayment element to the revenue account</p>

	<p>will be accounted for over 50 years.</p> <p>Appendix 3 of this report attempts to compare the capital and revenue costs of a traditionally funded capital scheme with MIM.</p>
1.23	<p>Authorities with PFI arrangements have encountered problems in the following areas; refurbishment projects and contract details surrounding this, facilitates management and exorbitant cost when making changes to the building. WG have considered these issues and have sought to mitigate them in the MIM model by adopting the following principals:</p> <ul style="list-style-type: none"> <li>• Stripping out items from the contract such as internal decoration, carpets and loose furniture and equipment, moving to a model which focuses on infrastructure life cycling, the notion being that this would reduce the annual Service Payment to the LA/WG.</li> <li>• The MIM contract will map out when products which form the building will be replaced (life-cycled)</li> <li>• Schools will remain responsible for their other non-educational services e.g. cleaning; catering; grounds maintenance; updating and maintaining their furniture, fittings and equipment, decoration, carpets etc.</li> <li>• The school caretaker or building manager will remain an employee of the school as they are currently.</li> <li>• There will be a number of lots contained within the MIM contract designed to cap what a contractor could charge, when the Council wishes to make changes to the building.</li> <li>• Schools will be able to instigate non infrastructure improvements under £10k locally.</li> </ul> <p>A MIM school, like traditional capital builds would have to meet WG criteria namely, BREEAM Excellent, EPC A, and BIM Level 2.</p>
1.24	<p>The following are key strategic considerations when considering MIM:</p> <ul style="list-style-type: none"> <li>• <b>Affordability</b> – Of programme, to maximise opportunities all funding models should be used, the intervention rate of 75% for MIM has been modelled to make it attractive to Authorities.</li> <li>• <b>Sustainability</b> - Projects where we are sure that there will be sustained demand for places. Detailed work in this area is currently being worked through and will be presented at a later date.</li> <li>• <b>Acceptance of a different model</b> – That projects funded through this model are fully life cycled, this will be the only example of this type of model in the County. I.e. resulting in one area school will be fully life cycled (infrastructure for a period of 25yr, whereas the rest often school estimate would be prioritised for Repair and Maintenance based on agreed capital programme.)</li> <li>• <b>Procurement</b> – A different procurement model with an upfront financial risk when compared to the current process of Design &amp;</li> </ul>

	<p>Build as employed by the Council in its current programme. WG have stated that Councils will not be worse off. Currently, design cost risk for capital is shared between WG and LA's so there is no change to this principal. The WG capital panel are currently considering four options for this, ranging from 50% to 100% intervention.</p> <ul style="list-style-type: none"> <li>• <b>Statutory Proposals</b> – These would need to be conducted earlier in the process to fit into the procurement method leading to a longer lead in from Cabinet through to statutory consultation, commissioning of contractor to design and construction.</li> <li>• <b>Resources and Skills</b> – As an untested new model, there may be potential issues in terms of how the Council could ensure that it can support a MIM process, this would involve contract monitoring over the term of the contract (25yrs). However, WG are mitigating these issues by appointing a multi discipline team to support Council's through the MIM process. Additionally, there is WG are considering whether national monitoring can be achieved alternatively there is potential scope to share services regionally to support this model namely Programme Manager and onward contract monitoring functions.</li> </ul>
1.25	WG are appointing a specialist multi-disciplined team with experience of Public Private Partnership procurements to assist Councils. They hope that this will be commissioned by early 2018.
1.26	The multi-disciplined team would work with LA teams regionally to develop contracts, look at standardised building models, design development and outline planning bringing LA's into a position to contract. This process is likely to take 2 years with the earliest possible site start for a MIM funded model would be circa July 2020.
1.27	WG announced the future programme in a press release Friday 10 <sup>th</sup> November 2017, link below:  <a href="http://gov.wales/newsroom/educationandskills/2017/bumper-2-3bn-building-fund-for-schools-and-colleges/?lang=en">http://gov.wales/newsroom/educationandskills/2017/bumper-2-3bn-building-fund-for-schools-and-colleges/?lang=en</a>
1.28	Councils were also required to cross reference in their SOP submission with the WG Reducing Infants Class Sizes and Raising Standards Grant. This was reported to Education and Youth Overview and Scrutiny in December 2017 and included two proposed projects at Ysgol Glan Aber, Bagillt and Westwood CP, Buckley. At the time of writing The Council are still awaiting confirmation of business case approval.

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	Capital and revenue implications will need regular review at key stages within the programme.

<b>3.00</b>	<b>CONSULTATION REQUIRED/CARRIED OUT</b>
3.01	The Programme reports to two operational boards, the Education and Youth Programme Board and Capital Asset Programme Board.
3.02	Some projects within the programme will require statutory proposals. These will be carried out subject to Cabinet mandate and based on WG's School Organisation Code Legal Framework. Determination on Statutory proposals are the responsibility of Cabinet.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	Programme Boards are set up to oversee the implementation business plans and manage risks in close detail. High level risks will be reported to Programme Board, operational risks will be managed by the project team in accordance with agreed tolerances.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 - list of school/areas contained within the proposed programme

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>None.</p> <p><b>Contact Officer: Damian Hughes, Senior Manager, School Planning and Provision</b>  <b>Telephone: 01352 704135</b>  <b>E-mail: <a href="mailto:Damian.hughes@flintshire.gov.uk">Damian.hughes@flintshire.gov.uk</a></b></p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
	<p><b>MIM</b> - The Mutual Investment Model is the Welsh Government's new form of Public Private Partnership or Private Finance Initiative (PFI).</p> <p><b>NNDR</b> – National Non-Domestic Rates - a tax on the occupation of non-domestic property.</p> <p><b>Capital funding</b> - Capital funding is usually linked to acquiring or improving a long-term asset such as equipment or buildings.</p> <p><b>Revenue funding</b> - Is linked to items that will be used within a year.</p>



	<p>Examples include salaries, heating, lighting, services and small items of equipment. Routine repairs are revenue expenditures and can include significant repairs that do not extend the life of the asset or do not improve the asset (the repairs merely return the asset to its previous condition).</p>
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