

## CABINET

<b>Date of Meeting</b>	Tuesday, 14 <sup>th</sup> July 2020
<b>Report Subject</b>	21 <sup>st</sup> Century Schools - Mutual Investment Model Update
<b>Cabinet Member</b>	Leader of the Council & Cabinet Member for Education and Youth, and Cabinet Member for Corporate Management and Assets
<b>Report Author</b>	Chief Officer (Education and Youth) Chief Officer (Housing and Assets)
<b>Type of Report</b>	Operational

### EXECUTIVE SUMMARY

The report provides an update on the Welsh Government's 21st Century School Programme, Mutual Investment Model (MIM).

The report provides detail on progress to date and the next steps of the MIM process. It seeks approval to execute the Strategic Partnership Agreement (SPA) with the Welsh Education Partnership company (WEPco) when they are appointed by Welsh Government in Autumn 2020.

### RECOMMENDATIONS

1	That Cabinet underpins its previous commitment to the Ysgol Mynydd Isa 3-16 project as a Welsh Government MIM Pathfinder.
2	Approves the execution, delivery and performance of the Strategic Partnering Agreement with the Welsh Education Partnership Co in autumn 2020 to facilitate the delivery of a range of infrastructure services and the delivery of the proposed 3-16 campus at Mynydd Isa.
3	Approves the appointment of Neal Cockerton, Chief Officer (Housing and Assets) as 'Participant Representative' to sit on the national Strategic Partnering Board (SPB)

## REPORT DETAILS

1.00	BACKGROUND
1.01	<p>Mutual Investment Model (MIM) is a new form of Public Private Partnership (PPP). It enables Welsh Government to deliver infrastructure projects beyond that set by present UK Government borrowing limits. If Welsh Government do not use MIM, £500 million pounds of investment in the education estate will not be available to councils within Wales and this would have implications on the Council's proposed programme locally.</p> <p>A private sector contractor is appointed via a new Welsh Government framework and the contractor finances, constructs and provides a 25 year 'life cycled' building product. This means that responsibility for funding and constructing the building, and then repairing and maintaining the building for 25 years once built, remains with the contractor. This results in buildings funded by MIM being maintained at a consistently high level for 25 years.</p> <p>The Council pays an annual charge which is funded from revenue similar to a rental payment called the 'service payment'. Through this programme councils will receive intervention rate funding from Welsh Government for a period of 25 years, thereafter the building is handed over to the Council. The funding from Welsh Government will be received in the form of a specific grant.</p>
1.02	<p>The intervention rate from Welsh Government is higher for MIM than traditionally funded capital projects, with the intervention rate being 81% Welsh Government / 19% Local Authority (through revenue budgets of both organisations). The value for money achieved through this model is comparable with the traditional capital intervention rate.</p>
1.03	<p>In March 2020, Cabinet agreed to amend the Council's nominated MIM project to the proposed project for the Mynydd Isa area and provided a mandate to officers to engage with Welsh Government's Strategic Partner for MIM, when they become available in Autumn 2020.</p>
1.04	<p>Consequently, Welsh Government have agreed that the proposed project in Mynydd Isa is pathfinder project, having passed a Welsh Government gateway. Since the Cabinet decision in March the School Modernisation Team have been working alongside Welsh Government commissioned specialist teams to progress the project up to the next stage of the MIM process.</p>
1.05	<p>In progressing the project detailed briefing work is now underway and a number of technical surveys have been instigated on site. This work will form:</p> <ul style="list-style-type: none"><li>• A detailed briefing package for the appointed Welsh Education Partnership company</li><li>• Prepares the project for a Stage 1 submission &amp;</li></ul>

	<ul style="list-style-type: none"> <li>Assists in risk mitigation for the project at an early stage.</li> </ul> <p>Appendix 1 – highlights the WEP new projects approval process, which the Council has to follow.</p>
1.06	In terms of the Welsh Government business case process, with a MIM project there is still a requirement to follow the four business case stages. Therefore, Officers have formally submitted an amendment to Strategic Outline plan (SOP) to Welsh Government, namely the formal request to swap the Council's nominated MIM project to the proposed 3-16 campus project at Mynydd Isa.
1.07	The next stage of the process, which was submission of the Strategic Outline Case (SOC) to Welsh Government was completed in June 2020.
1.08	The business case stages that will follow as the project progresses are; the Outline Business case (OBC) and Full Business Case (FBC). An FBC can only be planned once the project has been through full design development and cost certainty has been achieved. THE FBC approval releases finances and allows a construction start.
1.09	<p><b><u>The MIM Process</u></b></p> <p>Welsh Government have been actively procuring a private sector partner to work with it on the delivery of education and community facilities in Wales, under the MIM 21st Century Schools Programme. It will be the only means of delivering revenue funded Band B projects. The Welsh Government is expected to select and appoint a preferred bidder during the summer of 2020.</p>
1.10	The successful private sector partner and a subsidiary of the Development Bank of Wales will be required to form Welsh Education Partnership company (WEPco), which will deliver infrastructure services to the Participants (I.e. The Council) in Wales.
1.11	The Council and WEPco (subject to Cabinet approval) will enter into a Strategic Partnering Agreement. Under the Strategic Partnering Agreement, WEPco will be required to provide partnering services to the Council, including (i) project development and delivery; and (ii) supply chain assembly and management.
1.12	The Council, in order to proceed, is required to sign a Strategic Partnering Arrangement (SPA) with the WEPco.
1.13	Welsh Government have appointed have appointed legal advisors, Bevan Brittan through the Crown Commercial Services (CCS) Framework to act on the Council's behalf to support, advise and guide the Council through the terms of, and entry into, the Strategic Partnering Agreement.
1.14	<p><b><u>The Strategic Partnering Agreement</u></b></p> <p>The Participants to the arrangements will be a number of Local Authorities (including Flintshire County Council) and Further Education institutions.</p>

	<p>The Participants and the WEPco will enter into a Strategic Partnering Agreement (SPA). The SPA provides for how the parties act together over the long term in a collaborative partnering, non-adversarial and open manner to support the effective planning, procurement and delivery of education and community facilities in Wales and the delivery of infrastructure services.</p>
1.15	<p>The initial term of the SPA is 10 years. This may be extended by 5 years by any one or more Participants. Under the SPA, WEPco is required to provide partnering services to the Participants. These services include (i) project development and delivery; (ii) supply chain assembly and management and (iii) other professional services necessary to fund and deliver education and community facilities.</p>
1.16	<p>If a Participant receives funding for a 21st Century Schools and Colleges Band B MIM Programme project, WEPco has the exclusive right to develop proposals for the delivery of that project (Project Development Partnering Services) within the first 10 years of the SPA.</p>
1.17	<p>The Council is able to use the WEPco for other services as defined in the SPA.</p>
1.18	<p>Bevan Brittan's (Welsh Governments appointed legal advisors) role it is to support the Council through the MIM process and provide the standardised legal agreements for MIM, a draft SPA and any other ancillary documentation required.</p>
1.19	<p>Bevan Brittan have completed a draft SPA, these will need to be tailored to individual Council/project requirements post WEPco appointment. This legal work will be undertaken with Bevan Brittan, the Welsh Education Partnership company and appropriate officers from the Council. It should be noted that entering into the SPA (at this stage) does not bind the Council in any way.</p> <p>A summary of the SPA is included as appendix 2.</p>
1.20	<p>The SPA commits the council and the Welsh Education Partnership company to nine key principles:</p> <ul style="list-style-type: none"> <li>• to develop close working relationships between WEPCo and the Participants at all levels;</li> <li>• to focus on achieving the best value for money operational performance within agreed timescales;</li> <li>• to set in place business and cultural processes to enable the Participants and WEPCo to establish and agree challenging time and performance objectives and to meet or better them;</li> <li>• to recognise each other's needs, constraints, limitations, capabilities, roles and responsibilities to achieve mutually beneficial outcomes;</li> <li>• to identify by regular monitoring, weaknesses and strengths in the relationship between and amongst the Participants and WEPCo and to work together to overcome the weaknesses and to build on the strengths;</li> <li>• to commit to the early recognition and resolution of differences, conflicts and disputes between and amongst the Participants and</li> </ul>

	<p>WEPCo in a 'no surprises' environment;</p> <ul style="list-style-type: none"> <li>• to appoint within each of the Participants and WEPCo co-ordinators at senior level who will support, defend and promote the long term strategic partnership between them and its principles of operation;</li> <li>• to develop openness and trust in a transparent information and data sharing environment; and</li> <li>• to positively promote equal opportunities and the Ethical Employment Code by combating discrimination on the grounds of race, ethnicity, religion, nationality, gender, disability, age or sexuality and promoting good relations between all sections of the community in 'everything we do' including; Delivering high quality Education Sector Services and (where relevant) Community Services for end users; and working with the local community and partners in the public, private or voluntary sectors.</li> </ul>
1.21	<p><b><u>The Strategic Partnering Board (SPB)</u></b></p> <p>The SPB will act as the primary mechanism for managing WEPCo's performance. The SPB will be the central forum in which the Participants can work together with WEPCo, Welsh Government and other stakeholder representatives to ensure that the key principles of the SPA are met. See appendix 4.</p>
1.22	<p>In summary, the SPB's role will be to approve the Strategic Delivery Plan (SDP); ensure any new project proposals are consistent with the SDP; monitor WEPCo's performance against agreed Key Performance Indicators; approve any extension to the SPA term; and approve any proposed disposal of interest in share capital resulting in a loss of control by WEPCo. More detail of the role of the SPB is noted in Appendix 3.</p>
1.23	<p>There is a requirement for the Council to have a senior representative on the SPB, with the appropriate authority to make decisions on behalf of the Council.</p>
1.24	<p>The role of the Council's representative would be to attend the SPB meetings at least every three months, together with representatives of each Participant, WEPCo, Welsh Government and other stakeholder representatives as agreed. These meetings are to review financial and operating issues and provide strategic input into the partnering arrangements including the exchange of ideas in relation to each of the Participants' accommodation and service delivery requirements.</p>
1.25	<p>The SPB must have a quorum of five (5) Participants' representatives (one of whom must be a representative from Welsh Government) and a WEPCo Representative.</p>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	<p>Decisions to commit to capital expenditure investing in assets to deliver high quality services efficiently have long term implications for future revenue budgets. Consideration must be given to schemes to ensure that they are affordable, sustainable and therefore prudent.</p>

2.02	<p>Regardless of the financial model chosen to invest in the school estate, whether it be traditional Capital or MIM, the funding of the schemes would be classed as long term debt. The debt would need to be repaid, along with associated interest costs through the Council's revenue budget over the life of the investment.</p> <p>Traditional capital is funded by prudential borrowing to fund the capital works which is managed by the Council. Interest is funded from revenue payable as soon as borrowing is incurred, and the borrowing is repaid (by the Minimum Revenue Provision) the year after the building becomes operational. The Council's MRP policy is to spread the charge over the life of the asset on an annuity basis, which results in an increasing charge over time to reflect the diminishing value of money over time.</p> <p>The capital works in MIM are managed and funded by the contractor so the Council will not borrow to fund the capital works and the associated risks are transferred to the contractor. Revenue payments will not start until the facilities have been built and available for use, and will be paid for via a monthly revenue charge over a period of 25-years (the Service Payment). The required accounting is that the asset remains on the Local Authority balance sheet matched with the total liability to pay the unitary charge over 25 years.</p>																								
2.03	<p>The initial stages of the Band B programme which has already been agreed and concentrates on projects at Connah's Quay High School (this has now completed), Queensferry campus ( Including Plas Derwen), Ysgol Croes Atti, Shotton and Brynford CP School and have been included in the Council's Medium Term Financial Strategy (MTFS).</p>																								
2.04	<p>Annual contractual payments over the lifespan of MIM based on the Council's intervention rate (19% Council/81% Welsh Government) would commence post school construction/handover.</p>																								
2.05	<p>The estimated associated debt revenue costs arising from the schemes proposed within this report are set out in the table below:</p> <table border="1" data-bbox="320 1447 1273 1585"> <thead> <tr> <th colspan="8"><b>MTFS - Total Profiled Estimated Revenue Pressures (£)</b></th> </tr> <tr> <th><b>2019/20</b></th> <th><b>2020/21</b></th> <th><b>2021/2022</b></th> <th><b>2022/23</b></th> <th><b>2023/24</b></th> <th><b>2024/25</b></th> <th><b>2025/26</b></th> <th><b>2026/27</b></th> </tr> </thead> <tbody> <tr> <td><b>0</b></td> <td><b>5,475</b></td> <td><b>7,248</b></td> <td><b>25,987</b></td> <td><b>665,902</b></td> <td><b>670,814</b></td> <td><b>675,871</b></td> <td><b>681,079</b></td> </tr> </tbody> </table>	<b>MTFS - Total Profiled Estimated Revenue Pressures (£)</b>								<b>2019/20</b>	<b>2020/21</b>	<b>2021/2022</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>0</b>	<b>5,475</b>	<b>7,248</b>	<b>25,987</b>	<b>665,902</b>	<b>670,814</b>	<b>675,871</b>	<b>681,079</b>
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<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	<p>Reports on the SOP for 21<sup>st</sup> Century school have previously been to E&amp;Y Overview and Scrutiny Committee and Cabinet.</p>
3.02	<p>Where a project or area require school organisational change, consultation will be carried out in accordance with the School Organisation code.</p>
3.03	<p>Consultation will be required through the planning application process at the appropriate stage of development.</p>

<b>4.00</b>	<b>IMPACT ASSESSMENT AND RISK MANAGEMENT</b>	
4.01	All projects are managed using a risk register. Risks are managed accordingly, and financial risks are managed through a project contingency. Any high level risk which cannot be managed with the projects/programme will be incorporated into the risk register for the Education and Youth Portfolio.	
4.02	Under the five delivery principles of the Well-being of Future Generations Act this report will have the following impacts:	
	<b>Ways of Working Principle</b>	<b>Impact</b>
	Long-term	Positive – assists in securing the future of schools in their local communities
	Prevention	Positive – appropriate capital investment provide better facilities and elongates the life of the building/s
	Integration	No Change
	Collaboration	No change- effective collaboration is already in existence
	Involvement	Positive – The proposed projects will help promote greater community integration/use/involvement.
4.03	Against the seven well-being goals of the Act, the potential impact of the report and its recommendations would be evaluated as follows:-	
	<b>Well-being Principle</b>	<b>Impact</b>
	Prosperous Wales	Positive impact - Capital investment directly benefits local supply chain/economy. A percentage of local expenditure is a requirement of the grant funding.
	Resilient Wales	Positive impact - Use of sustainable and recycled materials during construction, more energy efficient, potential reduction in carbon emissions.
	Healthier Wales	Positive Impact – Improved physical infrastructure and facilities which positively impact on the wellbeing of the school and its community.
	More Equal Wales	Neutral Impact – Equalities Impact Assessments are already

		embedded in school culture.
	Cohesive Wales	Positive Impact – Potential that the school could become a community hub through its better accommodation offer.
	Vibrant Wales	Positive Impact – Enables new facilities to improve, both curricular, extra-curricular and community use of school buildings.
	Globally Responsible Wales	Positive - Capital investment, delivers a more sustainable product, local spend and added benefits for apprenticeships, work experience in construction.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – WEP - New Projects Approval Process Appendix 2 – Strategic Partnering Agreement Summary Appendix 3 – WEP - Role of the Strategic Partnering Board

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	N/A  <b>Contact Officer:</b> Damian Hughes <b>Telephone:</b> 01352 704135 <b>Email:</b> <a href="mailto:damian.hughes@flintshire.gov.uk">damian.hughes@flintshire.gov.uk</a>

**21st Century Schools** - Is a collaboration between the Welsh Government (WELSH GOVERNMENT), the Welsh Local Government Association (WLGA) and local authorities. It is a major, long-term and strategic capital investment programme with the aim of creating a generation of 21st century schools in Wales.

**Capital Funding** - Capital funding is usually linked to acquiring or improving a long-term asset such as equipment or buildings.

**Revenue Funding** - Is linked to items that will be used within a year. 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).

**MIM – Mutual Investment Model** - MIM is a new form of Public Private Partnership (PPP). MIM is funded by revenue and is an alternative to traditional capital funding.

**WEPco** – A private Sector Partner and subsidiary of the Development Bank of Wales (known as Welsh Government co) will be required to form WEPco, which will deliver infrastructure services to Participant ( I.e. the Council) in Wales