



DERBY CITY COUNCIL

COUNCIL CABINET 15 JUNE 2004

Report of the Director of Corporate Services on behalf of the PFI
Project Board

Grouped Schools PFI – Selection of the Preferred Bid from Vinci Investments Ltd

RECOMMENDATION

- 1.1 To confirm the placing of High View School in the first phase, and Merrill College in the second phase of the schools PFI construction programme.

REASONS FOR RECOMMENDATION

- 2.1 This solution offers the most effective construction programme.

SUPPORTING INFORMATION

- 3.1 At its meeting on 27 April 2004, Council Cabinet considered a report in the private and confidential section of Part 1 of the meeting – “Derby Grouped Schools PFI – Appointment of Preferred Bidder”.
- 3.2 The concluding paragraph of section 3 of that report confirmed that ‘Vinci have the lowest cost bids, and have provided two bids which are currently affordable to the Council....’
- 3.3 In the main, the two bids reflected alternative approaches to the phasing of the payments to Vinci over the life of the contract, and different options in respect of phased construction and opening of the schools. However, as the report indicated, ‘At this stage of the process it is not proposed to advise Cabinet on a preferred option... The final phasing option will be subject to a further report to Cabinet in due course.’
- 3.4 At its meeting on Tuesday 25 May, the Project Board gave further consideration to the phased construction and opening of the schools (and some of the actual and potential financial implications of those options), and agreed that an examination of the options concerned should form the basis of this report.
- 3.5 It should be emphasised that the decision on which phased construction and opening option to adopt hinges in the main, on the position of the two secondary schools in the Project, High View and Merrill.
The overall position of the primary schools is now settled and agreed between the Council, Vinci and the schools concerned, as follows:

School	Start on site	Estimated completion
Sinfin Primary School	August 2004	May 2005
Hardwick Primary School*	August 2004	July/August 2006
Wilmorton/Southgate	August 2005	July/August 2006

*The programme for Hardwick Primary School stretches over two school years, in order to remove the need for the decanting of pupils and staff to another site.

- 3.6 Before receipt of the 'best and final offer' from Vinci, and reflecting the view of the Project Board at that time, bidders were consulted on the feasibility and implications of constructing and opening both secondary schools at the same time, for, or around, September 2005.

By way of response, Vinci submitted one bid (reflecting the above option), and another bid which set the opening times of the two secondary schools approximately a year apart.

The first bid would require an 'up-front' capital injection of £1m, or an annual revenue amount of £58k, to make it affordable, although Vinci have acknowledged that even with such an arrangement, they are not confident that it is realistic to complete both secondary schools at the same time. Such a programme would allow no room whatsoever for manoeuvre should any unforeseen problems arise, and might create uncertainty and planning difficulties within the schools.

- 3.7 A fundamental aim in the PFI project is to make a major contribution to raising standards of achievement through providing a first-class learning environment. This is particularly important for those schools in the group which are in Special Measures. For the two secondary schools in the project - Highview and Merrill, the number of pupils that can be affected by the project and the greater complexity of the building programme have raised difficult issues about timing. The governing bodies of both secondary schools have made powerful representations about completion of their projects at the earliest possible time, in order to make a significant contribution to their recovery programmes. For both schools, the completion of new premises will also bring a significant focus and benefits to the community, the involvement of which is vital to the future strength of the schools. The move into the new buildings has to be properly planned, timed appropriately in relation to the pupils' education, and must acknowledge the demands that will be made on staff.

- 3.8 Against that background, the following paragraphs examine the key issues regarding options for the construction and opening of High View and Merrill (the options assume construction starting during the school summer holidays 2004, and/or during the course of the 2004 – 2005 school year):

- High View opening first, Merrill second
- Merrill opening first, High View second
- both schools opening in January 2006

- 3.9 Each option is examined from four perspectives:

- 3.9.1 technical and logistical considerations (in conjunction with Norwest Holst, Vinci's construction partner for the Project)

- 3.9.2 any financial implications from Vinci's point of view
- 3.9.3 any impact on overall affordability, and the Unitary Charge payable by the Council
- 3.9.4 educational/school management considerations.

3.10 At present, the Council has two fully priced and evaluated construction options, i.e. those that Vinci set out in their Best and Final Offer (BAFO). Costings for each 'further option' are broadly equivalent to one or other of the existing bids, as indicated in the text for each option.

3.11 **Option:**

High View first - equivalent to Standard Bid 2 (at Appendix 1) but includes minor subsequent design development amendments

(Dates in brackets reflect the revised timing of Merrill to include the Behavioural Improvement Plan (BIP) unit)

3.11.1 Work to start at High View	August 2004
Buildings completed	November 2005
School move to new building	December 2005
External works completed	March 2006
Work to start at Merrill	June 2005 (April 2005)
Buildings completed	July 2006
School move to new building	August 2006
External works completed	September 2006

This is the preferred sequencing for Vinci. The design drawings for High View have reached 'design freeze' and significant progress has been made with detailed design and procurement arrangements for materials and labour. This contrasts with Merrill, where two sets of drawings exist; the original design, and one including the BIP unit. The BIP unit is likely to be funded from part of the capital receipt Merrill will receive from the sale of the upper school site. As a result of the uncertainty over which option will be chosen, detailed design and procurement at Merrill is less advanced than for High View.

3.11.2 The financial implications/costs of this option are as outlined for Standard Bid 2 at Appendix 1.

3.11.3 High View is a small secondary school, which is in the middle of a comprehensive package of proposals aimed at bringing about rapid improvement. Completion and occupation of the new premises by December 2005 would provide a strong motivating factor for staff, pupils and the recruitment of a new head teacher. It would very much maintain the impetus so far achieved in the work with the school over the school year.

3.12 **Option:**

Merrill first- equivalent to standard bid 2 (at Appendix 1) but includes minor subsequent design development amendments

3.12.1 Work to start at Merrill	August 2004
Buildings completed	August 2005 (November 2005)
School move to new building	September 2005 (December 2005)
External works completed	December 2005 (March 2006)

Work to start at High View	April 2005
Buildings completed	July 2006
School move to new building	August 2006
External works completed	October 2006

This is the same option as 3.11, with the exception of the order in which the schools are constructed. However, there is some uncertainty about a start in August, because of detailed design and procurement issues over the BIP unit, referred to above. Should the start be delayed, it could lead to the school being completed at an inconvenient time for the staff and pupils to move into the new buildings.

3.12.2 The financial implications of this option are broadly the same as outlined for Standard Bid 2 at Appendix 1.

3.12.3 Merrill College is a much larger school than High View, which faces the particular challenge of a split site. This is inefficient in terms of staff deployment, and stretches the leadership and management of the school. This has implications for the consistency and quality of provision for students, and the early completion of the new building would bring an early resolution to these problems, providing a real benefit to the schools recovery programme.

3.13 Option:

Both schools January 2006 – Broadly equivalent to standard bid 1 (at Appendix 1) but includes minor subsequent design development and timescale amendments

3.13.1 Work to start at High View	August 2004
Buildings completed	November 2005
School move to new building	December 2005
External works completed	March 2006

Work to start at Merrill	August 2004
Buildings completed	August 2006 (November 2005)
School move to new building	September 2005 (December 2005)
External works completed	December 2005 (March 2006)

This option is the one least favoured by Vinci, as highlighted in their BAFO submission, in which they indicated that they were not confident it was realistic to complete both secondary schools at the same time. Resourcing implications make this a very high-risk strategy, with the potential for one or possibly both schools missing the Christmas period for moving pupils.

3.13.2 Vinci believe that the strong likelihood of resource problems would lead to increased costs. Although it is difficult to quantify the actual costs, Vinci believe that taking into

consideration other major projects that are expected to start in the area during the PFI programme, Riverlights and the Eagle Centre to name but two, there will be considerable pressure on local labour market resources. Should this occur it will have implications for the construction programme and an associated impact on costs. In addition, and members will see from the table in appendix 1, Standard Bid 1 is already unaffordable.

- 3.14 The governing bodies of both secondary schools have made strong representations about completion of their projects at the earliest possible time, in order to make a significant contribution to their recovery programmes.
- 3.15 It is the view of the Schools PFI Board that constructing High View in the first phase, and Merrill College in the second phase would appear to offer the most effective and lowest risk construction programme.
- 3.16 **It should be emphasised that the need to determine which of the two Vinci bids should be selected is now of critical importance to the next stages of the Project.** There are a number of significant tasks that lay ahead if the Project is to remain on track, tasks that can only be properly completed following a decision on phased construction and opening. Any delays at this stage will almost certainly have a bearing on the timetable for the opening of the newly built schools.
- 3.17 As members will recall the report considered by Cabinet on 27 April identified twelve areas where Vinci scored highest, and four areas in which Vinci had scored lower than Jarvis in the bid evaluation process.
- 3.18 The report indicated that progress was anticipated in each of these areas through clarifications and negotiations with Vinci, with the expectation that Vinci would further improve their position by at least equalling, if not exceeding, the scores of Jarvis in these areas.
- 3.19 Although Vinci's exact scores in these areas have not been formally re-assessed (there is no requirement for this to be done following Preferred Bidder), progress continues to be made in all four areas, particularly within insurance and workforce issues, where Vinci's stated commitment to reaching positions and arrangements acceptable to the Council is now being demonstrated. There is confidence these four areas will be brought to a complete and satisfactory conclusion as the process moves towards commercial and financial close.

OTHER OPTIONS CONSIDERED

- 4.1 None. The options to be considered are set out within section 3 of this report.

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Background papers:	None
List of appendices:	Appendix 1 – Implications

IMPLICATIONS

Financial

- 1.1 The financial implications of the options under further consideration are summarised in section 3 of this report. This appendix sets out the construction phasing and financial implications for each of the bids submitted by Vinci in April 2004 at the BAFO stage.
- 1.2 In their BAFO submission, Vinci set out two options with regard to the phasing of construction of the schools. In addition they submitted a number of 'sub-variants' from each main option, which included the injection of a £1m capital sum from the Council, and the reprofiling of the Unitary Charge payments, both of which they were invited to do, in order that the Council could determine the impact on value for money (VFM), and affordability.
- 1.3 VFM is measured in Net Present Value (NPV) terms over the life of the contract, and affordability is measured against the assumed level of Council resources for each year of the project, expressed below as an 'additional' annual contribution to resources already agreed.

The following table sets out the VFM and affordability position of the various options. Any options which include one-off additional capital cash contributions have been excluded.

Option	NPV £	* Affordability gap £ per year
Standard Bid 1 – Traditional Unitary Charge profile Merrill and High View open Aug 2005	53.3m	214k
Standard Bid 1 – Alternative Unitary Charge profile	53.7m	58k
Standard Bid 2 – Traditional Unitary Charge profile High View opens Sept 2005 Merrill opens Sept 2006	52.5m	225k
Standard Bid 2 – Alternative Unitary Charge profile	52.9m	-2k

* The calculations in the table exclude any cash injection from the Council

- 1.4 The table illustrates that each of the options, except the last one, require an additional contribution from the Council, over and above the current agreed resources. This would have to be found from either the overall Education budget, or from the PFI schools.
- 1.5 The Alternative Unitary Charge profile proposed by Vinci requires higher unitary charge payments to be paid by the Council in the first three years of the project, at a time when it has extra resources available due to the nature of funding from Special Grant (based on the level of PFI Credits). This enables Vinci to draw down less bank funding, with significant savings being passed back to the Council over the life of the contract.

- 1.6 The Council's Project Team, including the Council's advisers is currently examining the implications for the Council of the alternative Unitary Charge profile and has discussed with Vinci the requirement to ensure satisfactory legal protection against the additional risk during the construction period that such a payment profile might represent. Agreement in principle has been reached on the Council's requirement to mitigate this risk. No such agreement would be entered into without proper legal protection being obtained.

Legal

- 2.1 The construction phasing option will be incorporated into the Project Agreement, and will have contractual status. The PFI Contractor is obliged broadly to follow the agreed construction programme. The Project Agreement will include remedies for the Council in the event that the PFI Contractor does not achieve the agreed construction programme (including, ultimately, a right of termination if the Contractor is more than 12 months late delivering the schools). The nature of these remedies is still being negotiated, but is not dependent on the construction phasing option adopted by the Cabinet.

Personnel

- 3.1 None arising directly from this report.

Corporate Objectives and Priorities for Change

- 4.1 The Project accords with the Council's objectives of:
- **education** – where provision responds to peoples needs, so they can develop skills and knowledge all through their lives, leading to better life choices and chances
 - **a healthy environment** – with reduced water, air and land pollution levels through encouraging people to cut waste, use public transport more and recycle more.
- 4.2 In addition, the Project reflects the following priorities for change:
- ...increase value for money from Council services
 - tackle under-achievement in schools...
 - respond to peoples needs appropriately... by investing in the Council's buildings to provide modern working environments for service delivery and employees.