



LEEDS
CITY COUNCIL

Education Secondary Group Scheme
Lawnswood and Roundhay High Schools

Project Assessment Submission

(Outline Business Case)

May 1998



LEER
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14th May 1998

Dear Cameron,

Leeds LEA - PFI Project Assessment Submissions

Here are the PFI Project Submissions for Leeds, in accordance with the timescale requirements for consideration by the Project Review Group at their May 1998 meeting.

There are 3 submissions in all, but as you know the Cardinal Heenan V.A. High School Pathfinder Scheme is being submitted to you directly from the offices of the Project Manager (Povall, Flood and Wilson in Manchester), with the support of the Authority. Your colleague John Kirkpatrick is also aware this will be the case, but I should be grateful if you would confirm that to him upon receipt of this letter.

Enclosed therefore are 4 copies (3 bound and 1 unbound) of the 2 LEA projects as follows:

Secondary Group Scheme - Refurbish/rebuild Lawnswood and Roundhay High Schools
Primary Group Scheme - Replacement and new build of the 5 schools named in the document

I trust these submissions fully meet with your requirements and we can anticipate your support in the conclusions by the PRG in May. If you have any queries please do not hesitate to contact me on the above numbers.

Copies of these submissions have been sent to Martin Lipson at the 4P's.

Kind regards

Yours sincerely

Derek Howell
(Principal Finance Officer (PFI))
on behalf of the Directors of Finance and Education.



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14th May 1998

Dear Martin,

Leeds LEA - PFI Project Assessment Submissions

Enclosed are copies of the LEA's Project Assessment Submissions sent to the DfEE ready for submission to the Treasury PRG in May.

The submissions consist of the 2 group schemes:

Secondary Group Scheme - Refurbish/rebuild Lawnswood and Roundhay High Schools
Primary Group Scheme - Replacement and new build of 5 Primary schools

The Cardinal Heenan Pathfinder project re-submission has been sent to the DfEE direct from the Project Manager with the Authority's and DfEE's approval. I will let you have final details of it when I have them.

If you have any queries please do not hesitate to contact me.

Kind regards,

Yours sincerely

Derek Howell
(Principal Finance Officer (PFI))
on behalf of the Directors of Finance and Education.



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c.c.
Cllr T Murray (Chair of Education)
P Smith (Chief Officer)
G Dalton (Exec Director Community services)
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J Kitchen (Exec Director Resources)
P Cook (Exec Director Development)
D Page (Director of Finance)
J Potter (Acting Director of Education)
P Brook (Act. Snr Asst Director Development)
J Dent (Snr Asst. Director LDA)
Headteachers and Chairs of Governors of
Lawnswood, Roundhay, Hill Top, Upper
Wortley, Oakwood, Springbank and
Churwell schools.

Derek Howell tel
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15th May 1998

Proposed Education PFI Schemes - Project Assessment Re-submissions

Enclosed, for information, are the Project Assessment re-submissions for the 2 Education Group PFI schemes, which follow the decisions of Strategic Policy Committee (11 November 1997), Appointed members of Education Committee (15th December 1997) and Community Service Committee (17th February 1998).

The re-submissions are designed to meet the requirements of the 'New Framework for Local Authority PFI Projects' document issued by the Government and have been submitted to achieve the 15th May 1998 deadline set for the schemes to be considered by H.M. Treasury's Task Force, Project Review Group (PRG) at its May meeting.

The process from this point is that the PRG will determine from the submissions whether it considers the projects are commercially viable and that they meet the priorities set out by the responsible government department (DfEE) If that is so determined, the projects will appear on a list', the significance of which is that the project has H.M. Treasury backing and the Authority may proceed through the PFI procurement process which involves advertising in the Official Journal of the European Community (OJEC). The Treasury support also signifies that the projects will receive appropriate financial support, provided that, once the PH process has been followed through to its final stage, the projects still show value for money.

Derek Howell
(Principal Finance Officer)

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PROJECT OBJECTIVES AND SCOPE

Aims:

- To begin to address the most urgent building needs in the Secondary Sector in Leeds;
- To adopt a PFI solution;
- To deliver a first class learning environment where high quality education is delivered and the highest standards achieved.

Project Scope:

- To totally refurbish and/or replace 2 Secondary schools on their existing sites

The LEA, with the approval of the Council's Strategic Policy, Education and Community Services committees, and the support of the Governing Bodies, intends to group these two schools into one potential scheme to be delivered through a Design, Build, Finance and Operate (DBFO) solution using the Private Finance Initiative (PFI). The selected Private Sector partner will take on associated risks and responsibilities inherent in this process and will operate a range of ancillary services allowing the teaching staff to concentrate fully on the delivery of the highest standard of education.

The objective of the LEA, in offering this scheme, is to enable the Governing Body at each of the schools to have access to a quality teaching and learning environment, fit for purpose at all times and suitable for the wider use of the surrounding communities as appropriate.

The LEA recognises that the environment in which young people are educated and teachers teach has a significant effect on the educational standards obtained. As an authority, Leeds has a number of initiatives specifically designed to raise standards and it would include the upgrading of school premises as an additional initiative in achieving that goal.

The two schools included in this scheme are contemporaries of each other. Most of the buildings date from the immediate period after the first world war, although one also contains a 19th century manor house, which is currently used by its sixth form. Other more temporary buildings have also been added to the sites over the years. They represent the oldest Secondary school buildings in Leeds and as such their condition has been a cause of concern for a number of years.

The buildings struggle to allow the demands of the national curriculum to be met, especially in such areas as science, and this is of major concern to the LEA and the Governors.

Each has a long term rolling programme of remedial and improvement work, but the LEA considers that the opportunity to totally refurbish or rebuild both these schools will prove the best value for money and should be taken. Consequently a PFI solution based on this is now being sought.

The refurbishment option must be considered due to the architectural significance of some of the building facades, which although not listed, stand as a fine example of the period. Indeed, application to remove the buildings may well lead to the listing process.

Potential private sector partners may find early contact with the City Architect of interest on this issue.

Further details of both schools are as follows:

Round hay School:

Roundhay school is a co-educational comprehensive with over 1280 pupils on roll, covering the full secondary age range of 11 to 18. Over 180 of these pupils make up the sixth form.

It has a long tradition of educational excellence, for which it is justly proud. Its recent OFSTED report confirmed this fact. One of the consequences of this is that the school remains very popular with parents and is consistently oversubscribed.

The school is situated on Gledhow Lane, approximately 3 miles North East of the City Centre, adjacent to the famous Roundhay Park. It serves a community which represents a fair cross section of the make up of the city.

The school currently operates out of 4 main building blocks, briefly described above, which are set in 24 acres of attractive parkland.

The school's stated overall aim is to help our pupils to take their place in society as responsible, independent and considerate adults who have respect for one another and the wider multi-cultural community' Its philosophy is to create a happy and caring community', it has enshrined this in its logo as 'Courtesy, Co-operation, Commitment'.

A fuller statement of the School's aims is included in Appendix C.

The school offers a full curriculum including some 22 subjects at A level as well as GNVQ courses. There is a wide range of extra curricular activities some taking place during lunchtime with others outside normal school hours. The school operates an extensive sports programme and one of the strengths of this programme is the close links with several local sports clubs.

Lawnswood School:

Lawnswood is a co-educational comprehensive school with over 1540 pupils on roll covering the full secondary age range of 11 to 18. Over 280 of these pupils make up the sixth form.

"Pupils show good attitudes towards their learning, there are no major shortcomings in the quality of education provided, and the school provides sound value for money" is a quotation from the school's OFSTED report which emphasises why it is so popular with parents. As a result the school is consistently oversubscribed.

The school is situated on the Leeds ring road at its junction with the A660, Otley Road, some 4 miles North of the city centre. It serves a community with many home cultures and languages from which it believes it obtains great benefit due to

the rich wealth of cultural life this brings into the school. The school is committed to equal opportunities for all its pupils, supported by an emphasis on pastoral care. The school currently operates out of two 'twin' two storey buildings (with some basement usage also), which were originally 2 separate schools. These are now joined together by a large temporary block, making the overall school very elongated. Its internal fixtures and flooring are largely original.

The school has strong community links which involve regular speakers and experts coming into the school and placing its older pupils, through its Community Action Programme, in areas of social care such as elderly person's homes, clinics and day centres. Again OFSTED stated "links with parents, other schools and the community are well-developed and enhance pupils' learning". A statement of the school's aims is included in Appendix C.

The school offers a broad and balanced curriculum, including 28 subjects at A and AS level. GNVQ courses are also included in the curriculum. There is a wide range of extra curricular and sporting activities and a number of clubs meet daily or weekly at lunchtimes or after hours. The school is particularly proud of its musical excellence, having a number of different musical combinations, and of its quality art and drama work, which includes a video production unit which has achieved both local and national commissions for work.

Both schools organise themselves similarly using a mixed ability tutor group system, Roundhay having 8 and Lawnswood ID per year . These groups, under the direction of a form tutor, gather daily for registration and pastoral matters.

Curriculum organisation and management is based around a departmental structure, more detail of which will be given in the Invitation to Negotiate (ITN).

Size and Management:

The LEA is determined to use the PFI process effectively and successfully. It is conscious of the need to have a scheme which proves manageable as well as one which will stimulate the interest of the Private Sector, through size, potential and to some degree by its novelty. The Authority's experience on a previous Pathfinder PFI secondary school project in Leeds, has shown that a scheme involving the rebuilding or refurbishment of a single school is sufficient to attract substantial and quality interest from the Private Sector. However, following the recommendations of the Bates Review and after some preliminary discussions with the external advisers involved with the Authority on that Pathfinder project, the LEA has determined to group two large Secondary schools into this one scheme, which will have an estimated traditional capital value in the region of .£28 million (NPV). The LEA believes this may be the first scheme to link 2 such schools in one scheme and believes the novelty of this idea coupled with the challenge of these particular sites will make a significant contribution to the development of PFI in the schools sector. All our preliminary evidence points to this forming a very attractive scheme for would be private sector partners.

The delivery of the PFI solution in refurbishing or rebuilding these 2 schools is required as soon as possible, but the LEA would be prepared to accept a phased programme of completion (see timetable later in this submission).

Dependent upon project lead in time, the LEA and school governors would anticipate completion by Easter 2001 with the possibility of some earlier phased delivery.

Project Priority and Brief Option Appraisal

Leeds has 43 High Schools, including those in the Voluntary Aided Sector, each having a wide range of need as regards providing an acceptable environment in which to deliver the national curriculum and ensuring the highest educational standards are achieved and maintained by pupils.

The LEA has recent condition surveys of all its high schools which are continually updated and will eventually be translated into its Asset Management Plan. At present, it is from these surveys and the ongoing work and experience of its Building Surveyors and other experts that the LEA determines its Capital spending requirements, demonstrated annually by its Capital Programme.

This process has long identified Roundhay and Lawnswood schools as the highest priorities as regards the upgrade of buildings. These are the oldest high school buildings in the city and facilities, not only for the direct delivery of the curriculum, but also as regards essential support, toilets, changing rooms etc. are recognised as totally inadequate and unacceptable by the LEA.

The schools are large, popular and form a major part of the LEA's strategic plan for Education in the inner northern area of the city in the future. In recognition the LEA has agreed long term remedial and improvement work in both schools to be delivered through the capital programme, initially over the next 10 years, but it is anticipated that at a level of £400,000 per year this may need to extend to something in excess of 20 years. If the possibility of a PFI solution did not exist, an annual bid under the New Deal for Schools would have ensued also.

The LEA recognises the benefits which will arise from this level of expenditure will only be delivered gradually and that there will be continual disruption in the school which will make for added difficulties for pupils and staff in the achievement of educational standards. However, this methodology has been forced on the LEA through financial constraints and is very much second best to the full refurbishment of these schools.

The City Architect's work on possible refurbishment and phasing, based on Lawnswood school, can also be applied to Roundhay with some modifications. It shows the benefit of this work being done by upgrading to the required standards within the existing facades, coupled with some new build in the approximate materials and style of the existing.

The governing bodies of both schools consider this type of refurbishment to be of particular interest although the option of a complete rebuild has not been dismissed. To rebuild or refurbish would involve the LEA in capital outlay in the region of £28m (NPV). Current capital allocations would not permit either option to be considered by traditional routes.

Despite this non availability of a traditional solution, full refurbishment with some new build remains the preferred option of the LEA and governors. The PFI route to achieving this initially shows that value for money will be achieved if it could be

pursued and the LEA and governors are certain this will ensure the delivery of service at the required standards. As a consequence, the LEA is pursuing this route for its top priority major high school needs.

Value for Money, Affordability, Bankability

The full refurbishment of the 2 schools has been tested for value for money against a public sector comparator reference project, based on the traditional procurement of this scheme, to the same output specification as would be required of a private sector partner under PFI. An assessment of the cost of appropriate risk transfer has also been made and included in the comparator. (This is enclosed at Appendix A).

The projected PFI unitary charge payment has been estimated using the template recommended by financial advisers on an earlier Pathfinder scheme.

A '**do minimum**' PSC has also been included largely based on known expenditure factors. It is extremely difficult to estimate the required level of expenditure on these buildings after year 10, however this has been approximated.

The spreadsheet shows the capital expenditure (initially shown as £200,000 p.a. per school) on major repairs and upkeep increasing towards the end of the life cycle, as there will be an increasing need to repeat work done earlier as well as to attempt new remedial aspects.

Despite this anticipated level of expenditure, which may be considerably underestimated due to the uncertainty of the situation, the school buildings will then be 100 years old and due to the piecemeal nature of the work done over those years will be in differing states of repair.

The LEA does not consider this to be an acceptable option to pursue, bearing in mind the condition and age of these schools. In real terms the LEA considers its true 'do minimum' is the complete refurbishment option.

The **Value for money** of pursuing a full refurbishment option, with some new build, through the **PFI**, over 25 years, is shown in Appendix A. A comparison to the same outputs delivered through a traditional funding route indicates that PFI will prove excellent VFM.

A brief tabular summary of the PSC's follows:

1. Total Refurbishment - 'Traditional procurement'

(figures taken from Appendix A, page 28 (ii))

| | £ (000) NPV |
|---------------------------------------|-------------|
| Capital costs (incl. risk adjustment) | 28271 |
| Operating Costs (incl. risk adj.) | 12418 |
| Scheme total | 40689 |
| Annual Payment | 4075 |

Notes:

Capital Costs: the costs of design, demolition, build and refurbishment together with decanting costs and the refitting of the school with appropriate loose furniture derive from the best available information held by the Buildings Division of the Department of Education who have considerable and ongoing experience of all these costs in Leeds. This has been supplemented where necessary by the expertise of others professionals in specific areas, e.g. decanting needs.

The design and build figures take full account of DfEE Building Bulletin (BB) 82.

Fees equivalent to 15% of design and refurbishment costs are included in the figures. The Authority's experience is that fees can fall within a band of between 12 and 20%, so the use of 15% is considered reasonable for a contract of this size.

Capital maintenance: the assessment of the need to have major work done to the boilers and electrics through the life of the contract comes from the experience of the Education Buildings Division in maintaining Leeds schools.

In addition expenditure deemed lifetime Replacement Costs' reflects the costs of maintaining the refurbished building at the high standard of the output specification. Advice from external consultants employed on a Voluntary Aided pathfinder PFI scheme in Leeds, using data based on Housing Association analysis, is that 2% of capital costs needs to be allowed for this purpose. This is the figure used.

Risk Adjustment - Capital: based on advice from a number of sources, including external consultants, DfEE, 4P's, Pathfinder schemes and the LEA's own experience, the risk of cost overruns on such a project is high and can be considered within a band of 15 to 20% of Capital costs. Traditionally these overruns, as with all risks, would be carried by the Authority, but here are costed at 15% and factored into the lifecycle costs.

The evidence upon which the Capital Maintenance figure was included (stated above) also suggests that as a building ages the probability that the 2% of capital costs required for this purpose may prove insufficient and that this may rise as high as 5%. To reflect the risk of this a calculation based on the following has been included:

40% probability of the level being 3%

20% probability of the level being 4%

10% probability of the level being 5%

e.g. Capital Cost = £21,152,000

3% = £634,560

Less 2% = £423,040 already included

difference = £211,520 (i.e. 1%)

Probability of 3% = 40%

40% of £211,520 = £84,608

When the outcome of this calculation is added to similar calculations for 4 and 5% the total is £232,672. The assumption made is that the probability of this being required in the first 5 years after refurbishment is nil and as a consequence of this 5 year 'holiday', the risk adjustment commences from the 6th year after refurbishment. The £232,672 is therefore indexed to that point as £261,874.

Operating Costs: these reflect the delegated LMS budgets of the schools which are identified through the LEA's formula as covering the areas of operation which would be taken over by the private sector partner.

In addition to the delegated budget, amounts are included for Building Insurance, representing the proportion of premium appropriate to the schools currently contained within the LEA's overall buildings policy, and Catering. The amount included reflects the cost of free school meals and the subsidy on paid meals actually taken on 'Form 7 day' at the two schools, evaluated in accordance with the values used in the AMG calculations for GM schools.

Risk Adjustment on these operating costs is 15% to reflect the overruns which may occur in achieving the availability and operating performance outputs in the specification.

Indexation and Discounting:

In accordance with current Treasury guidance for Local Authority capital, indexation to represent inflation has been included at 3%, the Discount rate used to arrive at a net present value (NPV) is 8.8%.

2. Total Refurbishment - PFI Pro Forma' figures from Appendix A page 28(vi)

This is the Authority's assessment of the cost of delivering this project through PFI, applying reasonable market assumptions. Advice from external financial consultants has been of assistance regarding the latter:

Capital Costs £21,527,10
Debt Funding £19,374,390
Equity Funding £2,152,710

Costs over the Life of the contract:

| | |
|----------------------------------|---------------------|
| SPV set up costs | 600,000 |
| Interest roll up | £ 1,932,595 |
| Capital maintenance sinking fund | £13,107,397 |
| Operating costs | £32,482,441 |
| SPV Management Costs | £ 72,185 |
| Debt Servicing | £51,322,465 |
| Return on Equity | 8,325,574 |
| Less Additional Income Streams | 364,593 |
| | |
| Scheme total | £108,135,065 |
| | |
| NPV | £ 36,553,185 |
| | |
| PFI Credits at 70% of NPV | 25,587,229 |
| | |
| Unitary Charge | £ 3,661,212 |

As with the traditional PSC indexation has been at 3% and a discount rate of 8.8% has been applied to calculate NPV.

Notes:

Based on a capital cost of £21,527,100. This is the capital cost of the traditional PSC, less a saving, through competition and other private sector efficiencies, of 10%. The Authority is informed, by external financial advisers, that savings in the region of 15% should be anticipated, so the use of 10% allows a margin.

This to be funded by 90% debt, at a rate of 9.5%, having a monthly draw down through the period of construction, expressed in an interest 'roll up' amount. The length of the loan is set at 25 years, the full life of the contract, reflecting the current willingness of bankers to extend from the previous average of 17 years on these transactions. It is expressed as debt servicing.

The return on the 10% equity funding is 15% over the full life of the contract expressed as a fixed amount each year.

SPY set up and management costs are drawn from previous experience in this area_

Capital maintenance the figure representing the lifetime replacement costs, as detailed above under the traditional PSC, has been included, subject to a saving of 10%, in line with the assumptions made related to capital cost. The total figure estimated as required over the life of the contract has then been set aside by means of a sinking fund, which equalises the provision required each year. This has been set to commence from the year after construction.

Operating Costs are those shown on the traditional PSC as at y/e 31/3/2002, being the first year of Facilities Management by the private sector..

Additional income is assumed at a moderate level, in reality there is significant scope for this to be improved.

Secondary Schools are important community resources. These two schools already have substantial Community Use programmes, but the LEA would be looking for innovative ideas from any private sector partner in the wider use of the new facilities. Drawing the local community into the building would receive the Council's particular support as that assists in the achieving of World Class Leeds' and the Vision for Leeds' targets.

In return it would anticipate the affordability will benefit further by income streams developing from this area.

The LEA is aware that true VFM can not be ascertained until after bids have been received and assessed, but considers the comparators to contain reasonable, full and justifiable assumptions sufficient at this stage to show that pursuing a PFI route will succeed in delivering a sound VFM solution to this service need.

Affordability

The affordability of the project over its lifetime is assured subject to the Council receiving the necessary PFI Credits and the additional revenue support linked to them.

The authority will continue to provide revenue funding through LMS or successor legislation and will require both schools to assign 10% of their LMS budget, after removing statements and rates allocations, to meet the transferred operating costs within the Unitary charge.

Non delegated funding for catering subsidy and a proportionate allocation for items deemed discretionary exceptions under LMS, i.e. building insurance premiums and 'landlord' repairs and maintenance will also be contributed by the LEA.

There is no provision in this scheme for capital receipts to be brought into the affordability equation, as there is no sale of land involved.

Based on the above the Authority assesses the project's affordability in year 1 as follows:

| | | |
|-----------------------------------|---------------|---|
| PFI Unitary Charge | | £3,661,212 |
| To be met from: | | |
| PFI Credits NCA | £3,300,753 | |
| LMS funding | | 601,387 (10% SBS less statements & rates) |
| LEA Catering subsidy | £ 137,742 | |
| Building Insurance | 63,243 | |
| <u>Landlord Repair & Mtce</u> | <u>77,348</u> | |
| Total funding | | 14,180,472 |

(The above figures taken from Appendix E, page 33 (ii) line 'year 1')

Appendix E further shows the summarised affordability analysis over the life of this project and beyond.

The Authority has considered the long term affordability of the project, as highlighted by Appendix E, which shows the so called 'gap' which arises between the outgoing payments to the private sector partner (Unitary Charge) and the receipt of revenue support through the SSA process together with existing revenue provision.

Receipts will exceed necessary outlay in the first 5 years of the contract period, the cumulative effect of which is to place the authority in an 'advantageous' funding position until year 10 when the circumstances reverse until the end of the contract period. From that point the difference will continue to be reduced as NCA's continue to be received. The Authority will return to a 'net' beneficial position from year 48.

The Authority does not intend to make any specific allowance to 'smooth' this in its accounting approach and will bear the years of funding 'disadvantage' as a Corporate Revenue Cost.

The Authority is currently taking the view that the discounted ramifications of Appendix E, when the length of the above periods is considered, are not over significant to an Authority the size of Leeds, which is the second largest Metropolitan Authority in England.

However, as we stated in our response to the consultation paper on Capital Finance Regulation changes, the Authority considers additional revenue support should be given by way of a PFI grant throughout the life of a contract, as the method of delivering 'Revenue Support' through notional credit approvals neither fits the methodology of PFI nor the Government's will to encourage Local Authorities to enter into PH partnerships with the Private Sector.

Although not a disincentive to Leeds on its present schemes, this 'hidden' cost will be a considerable disincentive when identified by smaller Authorities. Even an Authority the size of Leeds will have to take a view on the number of PFI partnerships it can afford to promote in the medium to long term, where the consequential effect will be the same as that stated here. Otherwise there will be a danger of shackling too tightly the hands of those who will have the future management of the Authority.

Bankability:

The LEA's current experience in PFI in schools, gleaned from its involvement in the Cardinal Heenan Voluntary Aided PFI Pathfinder, dictates that a scheme of this critical mass, coupled with the opportunities for innovation which a project of this nature and in these locations may bring, will lead to significant commercial interest in the project. This has been confirmed to the LEA by unofficial discussions with the private sector, in the area of construction, facilities management and banking. The Authority has had a number of approaches from companies and banks, both local and from further afield, e.g. Ferguson, Bucknall Austin (FBA (FM)) Ltd, Jarvis, Bayerische Vereinsbank, Banque Paribas, to which the outline of this project has been related. As a result, the Authority is aware that these companies and several others are eagerly awaiting the OJEC advertisement to officially express their interest.

The District Auditor has also been kept informed of the Authority's intentions and is supportive of the methods adopted and the quality of the scheme.

At the initial stage of planning, the External Advisers on the above Pathfinder scheme were also approached and they have no doubt that this project will produce considerable market interest either standing alone or if later offered with the Authority's Primary school group scheme, which has been submitted separately.

All the above convinces the Authority that this will be an attractive scheme which will attract the highest quality companies and consortia, and the Authority looks forward to the process of bidding and evaluation with interest and expectation, assured it will ultimately be dealing with a company or consortia of the highest calibre.

The Authority has decided not to place a Prior Information Notice in OJEC prior to receiving PRG 'sign off' but is at this moment ready to place OJEC notices as soon as that approval is given. However, the informal contacts and soft market testing referred to above already ensure an interested constituency awaits.

The timetable detailed later in this document highlights this intention as well as the follow up through Open days and beyond.

Output Specification and Risk Allocation

Buildings:

The LEA requires its private sector partner to provide the following as regards the buildings:

- Planning, design and refurbishment/construction
- Financing for the project
- Provision of all fixtures and fittings, including fixed furniture and equipment
- Arrangements for providing any necessary temporary accommodation to ensure the continuing education of pupils / decanting pupils during the refurbishment/construction process
- Removal to new premises
- Initial new 'loose' furniture and fittings a

Building insurance

In its output specifications, which will be fully detailed in the Invitation to Negotiate (ITN), the LEA will take into account the DfEE's 'Area guidelines for schools' (BB 82). Bidders will be expected to also take these into account and also appropriate cost and performance information.

Outputs in brief:

The design of a school building has a crucially important bearing on the timetabling, teaching and assessment of the curriculum provided to pupils. Design can also have an effect on behaviour, on the feeling of community, the pastoral care and the way a school seeks to realise its aims and philosophies through its mission statement and development plan.

The design should take into account the present organisation and management of the schools but be able to help further these aspects of the individual school's life. The LEA and Governors, while looking for innovation, particularly in the use of space, seek solutions which will address these issues and will enable both the schools, to develop further their respective communities and aspirations. Any design must be sufficiently flexible to accommodate the rapid changes which will inevitably take place in education over the coming years.

The following outputs will need to be addressed:

- Inter-relationship of space between departments and specialist areas as determined by the individual schools
- Departmental areas: based on the inter-relationship of space principles, which reflects the individual school's organisation and management, these areas should allow the storage and management of departmental resources and allow departmental displays. Departmental administration should be able to be performed by the Heads of Department in these areas and appropriate space, able to be enclosed, should be defined for this staff use.
- pupil social areas with seating

- community area/social area/meeting room (e.g. Governing Body meeting)
- a large space area capable of meeting the requirements of the whole school gathering, concerts/dramatic performances, examinations, consultation evenings for parents and other social events. This space should incorporate drama facilities and fixtures. As usage of this space will include examinations it must be able to be enclosed and sufficiently sound-proofed for this important function in a secondary school.
- a large area capable of use for P.E. and/or indoor sports or similar activities
- an area capable of providing the catering and dining needs of the school
- an administrative area
- a reception area
- staff area, of adequate size, which can be excluded from pupils, this may include a specific area for the deputy Headteacher(s) and other senior staff.
- Headteacher area (with secretarial (PA) support) which can be made private and confidential
- safe storage for cleaning equipment and substances, science substances. P.E. and other large equipment as well as outdoor equipment
- toilet facilities, appropriately situated for pupils and staff
- a medical area
- the disabled should be able to access all parts of the curriculum
- robust, attractive but low maintenance fixtures and fittings within an overall 'low maintenance' solution
- noise levels
- a workable climate and energy efficiency throughout the year
- hard play areas, with demarcation as required by each school
- general storage and storage for staff and pupil's coats and belongings
- initial loose furniture
- circulation areas which permit large numbers of pupils to be able to move about efficiently, quietly and safely. Staircases and any balconies should adequately take into account Health and Safety issues as well as the effects of possible misuse.

- Ⓜ parking for staff and some pupils/visitors should be provided on site in such a way as to ensure the safety of all site users. At present, school buses are not used to ferry pupils to the sites, consequently there is a substantial amount of car traffic at the arrival and departure times which must be taken into account_
- The above will be addressed much more fully in the Invitation to Negotiate (ITN) where individual site or school requirements will also be included.

Use of Facilities:

Although individual local variations may apply, it should be anticipated that each of the sites will be required as follows:

| Function | Time Requirement | Facility |
|--|---|---|
| Arrival, teaching departure of pupils | 08.00 - 16.00. 190 term time days/year | Whole site |
| Staff access | as pupils plus 5 training days/year | Whole school |
| | 195 term time days/year 07.00 - 08.00 16.00 - 18.00 | Whole school |
| | school holidays 08.00 - 16.00 | some class areas administration areas Headteacheristaff areas |
| Extra curricular | up to 190 term time days/year | areas by negotiation |
| Sports | 09.00 - 12.00 term time Saturdays | fields and changing by negotiation |
| Concerts, parent evenings, open evenings, Governing Body meetings, PTA meetings etc. | times to be informed | details to be negotiated |

Services:

The LEA and Governors require a range of services to be carried out by the private sector partner, fuller details will be set out in the Invitation to Negotiate (ITN), but will include:

- Ongoing building maintenance and necessary repairs and replacements
- Grounds maintenance
- Energy supply, heating, lighting and all utilities
- Caretaking and cleaning
- Provision of I.T. infrastructure
- Security

The following may also be included:

- Catering

Specific Notes:

Teaching and curriculum delivery and the associated Financial Management are excluded from the list of services, remaining the responsibility of the school and LEA.

Building performance standards should fall within the range of Department for Education and Employment (DfEE) recommended guidelines.

The security of staff and pupils and their property is of particular importance to the LEA and its Governing Bodies. The safety of pupils, parents and staff at the start and end of the school day is of particular concern. Attention should be paid to the movement of vehicular traffic at these and other times, at the design stage.

I.T. Provision: The refurbished or replacement school buildings should incorporate an infrastructure which will allow I.T. equipment, licences and software to be used in all teaching, administrative and staff areas. This infrastructure may include two separate networks, one to service the curriculum and one for administrative use. The building design would need to be sufficiently flexible to allow developments or future alternatives to be installed.

Curriculum: it is anticipated that each departmental teaching area, Library and resources area, Hall and Sports Hall will require a number of links to this network. The precise number will depend on the type of subject area and will be specified in detail in the Invitation to Negotiate (ITN). Staff and Headteacher areas may also require a link.

Administrative: administrative, Headteacher and staff areas will require access to this network. Any file server being situated in the administrative area.

Headteacher, staff and teaching and library areas will require modem access to the Internet.

Catering - the LEA is willing to allow the provision of catering to be devolved for inclusion in the PFI contract, provided that better value for money can be

demonstrated than the present delivery mechanism (the City Council's DSO 'Crown Point Foods') and that all the requirement of Section 22 of the Education Act 1980 continue to be met by the new provider.

In accordance with those requirements the LEA will require the provider to:

- provide a free school meal, as defined by the LEA, to pupils whose parents are in receipt of the appropriate social security benefit(s);
- satisfy the LEA that the organisation to provide that free meal provision is adequate;
- carry out the LEA's policy to provide a paid school meal to those pupils who require one;
- apply the LEA's equal pricing policy
- ensure the LEA's nutritional standards are met in all meals provided (this would include ensuring banned products are not served);
- permit total monitoring rights to the LEA.

Employment Issues:- TUPE rules will of course apply for any staff requiring to be transferred to the new service provider. This could affect caretaking, cleaning and catering staff at any or all of the schools. In addition, for those staff in this category who are in the Local Government Pension Scheme, it should be guaranteed that any transfer of pensions should guarantee them at least the same benefits as with their present arrangements. The LEA will consider the satisfying of these requirements as of the highest importance and would wish to see a statement addressing this in any submission from prospective partners.

Risk Allocation

The LEA recognises that the final allocation of risks will be subject to negotiations with the preferred bidder and would welcome a proposed risk transfer matrix being submitted by potential partners in their submissions

The LEA envisages that at the end of the contract period the facilities will continue to be required as schools.

The allocation of risk currently envisaged by the LEA is shown on the risk allocation matrix overleaf:

Risk Allocation Matrix

The LEA currently envisages the following allocation of risks and responsibilities:

| RISK | ALLOCATION | | | COMMENT |
|------------------------------------|----------------|--------------------|--------|-------------------------------|
| | LEA/ School | Private Partner | Shared | |
| Site: | | | | |
| Ground conditions | | yes | | |
| Outline Planning | yes | | | |
| Detailed Planning | | yes | | |
| Design and Construction | | | | |
| Design | | yes | | |
| Construction | | yes | | |
| Availability | | yes | | |
| Performance | | yes | | |
| Finance | | yes | | |
| Legislative changes | | | yes | |
| Regulatory/policy | | | yes | |
| Educational | | | | |
| Demand (pupils) | yes | | | |
| Teaching | yes | | | |
| Curriculum delivery | yes | | | includes financial management |
| Achievement of standards | yes | | | |
| I.T. infrastructure (networks) | | yes | | |
| Operational | | | | |
| Buildings and fittings | | yes | | |
| Repair & maintenance | | yes | | |
| Energy availability and efficiency | | yes | | |
| Grounds & equipment | | yes | | |
| Caretaking & Cleaning | | yes | | |
| Catering | | yes | | |
| Health & Safety | | | yes | |
| Initial loose furniture | | yes | | |
| Security & Insurance | | yes | | |
| Removal to new premises | | yes | | |
| Decanting during construction | | yes | | |
| Additional Third party use | | yes | | |
| Other | | | | |
| Change of school status | yes | | | |
| | | | | |
| | | | | |

Terms and Conditions

Payment Mechanism

The LEA is fully aware that in order to meet the requirements of a **PFI** scheme within the current Capital Finance Regulations the **Contract Structure Test** must be met, whereby 20% of payments to the contractor have to be variable, based on performance.

The payment mechanism is designed to ensure this will be the case, its detail will be included in the Invitation to Negotiate (ITN) but in outline it will be as follows:

The LEA is procuring the provision of services in accordance with the statement of requirements which will be fully contained in the Invitation to Negotiate (ITN). The Private Sector Partner (from hereon referred to as the Special Purpose Company (SPC)), will be paid for providing the services by means of a Unitary Payment paid on a monthly basis from the acceptance of the Facility (or part in accordance with agreed phasing arrangements) as fit and ready for use. This will continue until the end of the agreement.

As the demand risk is being retained by the LEA the Unitary Payment will consist of 2 elements:

an element linked to the availability of accommodation (the availability element)

an element linked to the performance of the individual support services (the performance element)

Payments will combine these elements and be made monthly in arrears. As stated above, this payment mechanism is designed to act as a means of transferring risk, but is also intended to incentivise the SPC to provide the services fully in accordance with the statement of requirements in the ITN.

- Availability Element:

For the purposes of this element the school accommodation will be broadly defined as:

- Teaching areas
- Non teaching areas
- Support areas
- Ancillary areas

These different categories will be given a weighting, reflecting their critical status to the school's functioning. The weighting will be subject to negotiation with the SPC.

The SPC must ensure that facilities are available and fit for purpose throughout the terms of the agreement. In the event of part of the facilities being unavailable, an amount of the availability element, of the total monthly payment, will not be paid to the SPC.

The LEA's maximum liability under this element will be quantified and fixed at the start of the agreement, consequently this element can only fluctuate downwards.

Defining Availability: the test of availability will be that the facilities are fit for purpose and available as the individual schools require. For an area to be 'available' it will be tested against the pre determined criteria to be given in the ITN. Space will therefore be deemed 'unavailable' if any of these criteria are not met.

The basis of deduction will be along the following lines:

There will be a total Weighted availability figure for the facility calculated as:

Identified Space (sq. mtrs) X weightings = maximum weighted availability Any

unavailability will be calculated along the lines:

Unavailable space (Sq. mtrs) X weighting X time X rate (*)

(Rate could be calculated by taking 20% of the availability payment and dividing it by the maximum weighted space available).

The SPC will be permitted rectification time before any deductions are in fact made. These times should reflect the categorisation of the areas unavailable, so the more critical the area the shorter the allowed remedy period. Again these remedy periods will be subject to negotiation between the LEA and the SPC.

If the unavailability is caused by the application of an agreed maintenance plan, agreed in advance between the SPC and the individual school, no deduction shall apply. Any such plan must keep disruption in the school to a minimum.

- Performance Element:

The LEA would expect that the objective of the SPC will be to achieve maximum performance of all standards.

For each of the services, key performance indicators will define the standards required.

Performance to these required standards will be weighted in accordance with the critical nature of the that service. These indicators and weightings will be the subject of negotiation and agreement between the LEA and the SPC.

It will then be possible, by adding the total performance weightings within each service area, to arrive at the maximum available performance score for that area and by extension for the whole facility.

Each month this will be compared against the number of deducted weighted performance points for the non achievement of any of the required standards in each performance area.

A banded scoring process can then take place whereby if x% of service score is not achieved this will result in y% reduction in the monthly performance element of the total charge, down to a failure of 80% or more when the fee reduction would be 20%.

- Additional Income Streams:

The SPC will be able to secure additional income through the out of hours use of the facilities. The usage must fall within the City Council's policy on the acceptable usage of school premises and must at no time interfere with the required usage by the schools, within the terms of the agreement.

Non availability or non achievement of performance as a result of out of hours use will not be exempted from the above outlined payment mechanisms.

Contract Heads of Terms

The contract for this scheme will be between Leeds City Council and the SPC and will be an agreement relating to the detailed design, financing, construction, fitting out, commissioning and the operation of certain facilities and the provision of certain services at the named schools in the Metropolitan District of Leeds.

The agreement will be one composite document into which the SPC will enter. The document will be drafted to contain a range of matters in schedules and annexes. It is anticipated that considerable negotiation will be devoted to the provisions in these.

The detailed document will be drafted and if possible circulated to selected bidders along with the ITN for initial comment which will commence the negotiation process.

The Overview of the Heads of Terms includes:

1. Definitions and Interpretations
2. Conditions Precedent and term
3. Concession and any licence to occupy
4. Full details of parties
5. Obligations of each party
6. Monthly charge
7. Organisation and co-operation
8. Management and financial information requirements of each party
9. No fettering of the LEA or school's discretion and responsibilities
10. Transitional matters
11. Employee matters
12. Review procedures for facilities, services and payment
13. Granting of Commercial operating rights
14. Force majeure
15. Default circumstances
16. Rights and consequences of termination
- 17 Funder step-in rights
18. Dispute resolution
19. Indemnity, guarantor, notices
20. Governing law

Project Timetable and Management

Provisional Timetable:

Proceeding from the acceptance and inclusion of this scheme on the project Review Group's May 1998 list the outline timetable envisaged is as follows:

- | | |
|--|--|
| 1. OJEC notice | June 1998 |
| 2. Finalise Project Team | June 1998 (commenced in Feb 1998) |
| 3. Expressions of interest and pre-qualification questionnaire | to early Oct 1998 (incorporate open day(s) in this period) |
| 4. Preparing ITN | June to end Sept 1998 |
| 5. Review responses and shortlist | November 1998 |
| 6. Interview shortlist | before end of December 1998 |
| 7. Invite selected bidders send ITN | January 1999 |
| 8. Prepare evaluation criteria | January 1999 |
| 9. Receive bids | end March 1999 |
| 10. Evaluate bids | to mid April 1999 |
| 11. Select Preferred Bidder | mid May 1999 |
| 12. Negotiation with Preferred Bidder | mid August 1999 |
| 13. Award and sign contract | end August/early September 1999 |
| 14. Construction period | September 1999 to March 2001 + (as agreed phasing if appropriate) |

(This timetable is expressed in diagrammatic form at Appendix D)

Project Management:

The Authority will manage this project on a 3 tier basis:

Elected Members: The Strategic Policy Committee of the Council, at its meeting of 11 November 1997, resolved that Departmental Committees take responsibility for identifying service needs and priorities which might be met by PFI/PPP.

Departmental Committees should then approve that the PFI process should begin and receive regular updates of the position on schemes during the process to preferred bidder selection. (Strategic Policy Committee are to receive a full report with all financial details at 'preferred bidder' stage before contract close).

It is the intention that during this process the Appointed Members of Education Committee (comprising chair, vice chair and opposition shadow chair) mechanism be used as the prime link with elected members as regards update and as a forum for discussion and decisions.

Project Team: The Authority has begun the appointment of the Project Team which will be responsible for managing the project throughout. The Authority is very much aware of the importance of the Project Team and the skills it will collectively need.

Professionalism, enthusiasm and commitment will be qualities looked for by the private sector and Leeds intends its Project Team to possess and display these at all times throughout the contract.

Leeds is the second largest Metropolitan Authority in the country and within its workforce has considerable expertise, especially in Financial and Legal areas as well as within its Education Department. Having had full involvement with the Cardinal Heenan Pathfinder school PFI project, certain members of staff in those areas have gained significant experience in dealing with a PFI project.

In the latter, the professional officers of the council worked alongside external consultants on the project team to good effect. This was very much a two way process.

In addition, within the Leeds Development Agency (LDA) it has a small number of senior professionals who have project management experience.

As a result of the above, the Authority **has approached Mr. David Outram, B.A. (Hans) Town Planning, MRTPL (Project Manager with Leeds Development Agency) to be the Project Manager for this project** and the primary group project submitted in its own right.

Following a successful career in Town Planning, David was seconded to the Leeds Development Agency's Project Division in 1991. Since that time he has had extensive Project Management experience within the City Council on a variety of projects.

Two of his more recent projects have been the South Leeds Stadium, a £6 million new sporting venue for the Council, incorporating new rugby league and athletic facilities and the Rothwell Colliery Country Park, being a restoration scheme to the value of £4 million.

In carrying out these and other projects David has practical experience of managing professional staff and co-ordinating a range of professional disciplines in the project team situation. He has led contract briefings and other meetings with the private sector and has developed outstanding presentational abilities.

As a Senior and experienced officer of the Council he has a good understanding of the Council's contractual and procurement procedures and has considerable experience of working with elected members and MP's as well as other senior officers of the Council.

As indicated the Project Manager will oversee this project and the Primary Group project submitted separately. At the very least the projects will run concurrently and may ultimately, dependent on bids received, be awarded to one consortium. In the light of this, and because of his experience gained on the **PFI Pathfinder project, Mr. Derek Howell (Principal Finance Officer (PFI))**, has been invited to join the project team as Projects Co-ordinator.

Derek has been involved in PFI since the start of the Cardinal Heenan PFI Pathfinder project in 1996 and takes the lead on **PFI** matters across the Authority. He is a member of the Cardinal Heenan Project Team and has been involved in all aspects of that scheme to date.

He is CIPFA qualified and has considerable experience at all levels within the Authority, having worked for Leeds for 29 years, the last 9 in Education, where he was responsible for LMS. He therefore is familiar with schools and well known to them. He is fully aware of the role and importance of Governing Bodies, Teachers and Parents within the process and will take the lead in ensuring communications from the Project Team to that 'third tier' are maintained. In addition to providing much of the financial advice to the project team.

It is felt that this combination of Project Manager and a Project Co-ordinator will greatly enhance the smooth running of such group projects.

Further appointments will follow but crucially the Project team will include those who will be directly affected by the project. Headteacher and Governor representatives will be an essential part of this team but these will need to be limited to ensure the project team remains of workable size. Legal, building and educational representatives will also be an integral part.

The proposed make up is:

Project Manager (David Outram)

Headteachers / teachers

Governing Body representatives

Project Co-ordinator and Finance Officer (Derek Howell), assisted by financial advisers

Legal Officer, assisted by legal advisers

Education Professionals in the areas of buildings, curriculum and resources

other areas such as planning can be added on a when needed basis.

As can be seen the Authority acknowledges that there will be a need to call upon the services of external advisers. This will be on an 'as and when' basis to advise on particular matters or to oversee or check particular processes or calculations. The appointment of advisers will be through a competitive process which may involve the Authority's approved list. Most probably, appointments will be on the basis of identified and time limited tasks. Experience of previous PFI work in the education sector will be an important selection criteria however.

Governors, Officers and general communications: as referred to above, although the Project Team, under the leadership of the Project Manager, will be responsible for the day to day running of the project there is a wider constituency which need to be both kept informed of events and also have their collective voice represented to the team.

Regular meetings will be arranged throughout the project with each of the governing bodies, staff, pupils and parents and the immediate public around the schools, to ensure all with an interest are kept informed. The Project Manager will attend at least some of these meetings but the project co-ordinator will take the lead here, together with some of the Education representatives. The Headteacher and Governing Body representatives will also have a part to play in this process. Similarly, senior officers of the council and a wider group of elected members will also need to be subject to communication and updates.

This whole process will develop as the project does, but it is intended that through this project, and the primary group project, an organisational template can be established for use on future schemes in Leeds.

Should at any time during the process there be a need to change or adapt these initial thoughts that will be done.

Close contact has been kept by Leeds with the Public, Private, Partnerships Programme Ltd. (The 4P's) and with the Private Finance Unit of the DfEE (and other government departments where Leeds is considering potential partnerships)

and we would wish this close relationship and flow of advice to continue throughout this and other future projects.
 Members of 4P's and the DfEE would be welcome to attend any of the project team meetings on this project, indeed their input would be valued.
 We would be willing to share lessons, processes and documentation resulting from this scheme to assist others to pursue successful projects.

Organisational Diagram:

