

**FALKIRK COUNCIL**

**Subject : NEW COMMUNITY SCHOOLS – PROJECT UPDATE**  
**Meeting : POLICY & RESOURCES COMMITTEE**  
**Date: 12 June 2007**  
**Author : CHIEF EXECUTIVE**

**1. INTRODUCTION**

- 1.1 Financial Close on the Project was concluded on Friday 18 May. This represents the point where the multitude of legal documents are signed and the interest rate is fixed.
- 1.2 This report advises on the Financial Close outcome and looks forward to the Construction and Operational phases of the Project.

**2. BACKGROUND**

- 2.1 The Final Business Case was submitted to a Special Meeting of Council on 23 April. This reflected a Commercial Close position which in effect means the Council knows what it is going to get, when and for how much.
- 2.2 Council approved the Final Business Case subject to Scottish Executive and Audit Scotland approval. Moreover, delegated powers were granted to take the Project to Financial Close, with a subsequent report back to Committee on the outcome.

**3. FINANCIAL CLOSE**

- 3.1 There were a range of points raised by the Scottish Executive and Partnerships UK [PUK] on the Final Business Case, including derogations, but they were resolved following, in some cases, protracted discussion and negotiations.
- 3.2 Audit Scotland have signed-off the Project in terms of being off-balance sheet and delivery of Value for Money relative to the Public Sector Comparator.
- 3.3 A Key Stage Review has been completed by PUK on behalf of the Scottish Executive. Rather than being a review of the Final Business Case the Key Stage Review is forward focused on the Construction and Operational phases of the Project. This is considered further at sections 5 and 6 of this report

- 3.4 Inevitably, there were also a range of points which required to be negotiated to a conclusion with Gateway.
- 3.5 All necessary legal documents were signed. There was a delay in A&L King signing attributable to issues relating to their potential takeover by the Stewart Milne Group, but these were ultimately resolved. The Council and the Gateway Consortium have both received letters of comfort for the Stewart Milne Group.
- 3.6 The Financial Close rates were fixed at:-
- |                      |        |
|----------------------|--------|
| Interest Rate Swap - | 5.075% |
| RPI Swap -           | 3.05%  |

This results in a first full year unity charge of £11.697m which compares well with the estimated £11.93m contained in the Final Business Case. As previously highlighted this will be subject to full indexation.

#### **4. FINANCIAL CLOSE – RELATED MATTERS**

- 4.1 The Underwriting liability for Enabling Works previously approved by Council will now lapse as Financial Close has been reached before any payment trigger date.
- 4.2 Work will require to be taken forward with respect to the Charity. The final modelling means that apart from the annual £10k distribution which is “hard-wired” in, the charity will not receive large sums until the end of the contract. If there was to be a Refinancing early in the Project’s life the Charity can potentially receive 10% of the gain.

Special Council on 23 April agreed that legal and financial support would not be provided by the Council, albeit it will provide a level of administrative/secretarial support, which is to be determined by the Acting Director of Law & Administration.

- 4.3 The Service Level Agreement for the cleaning services being undertaken by the Council in-house needs to be completed.
- 4.4 Arrangements will be put in place in June to update the school communities and local communities on the firm design proposals determined at Financial Close. Local Area Forums will also be updated at the next available opportunity.
- 4.5 The Final Business Case and Project Agreement, subject to the exclusion of agreed commercially sensitive material will be placed on the Council’s website.

- 4.6 Following an interview and selection process Mr Graeme Hogg has been selected as the Independent Director. Mr Hogg is a former partner in Ernst & Young and also undertakes the role of Independent Director in the Argyll & Bute pilot.

## **5. GOING FORWARD – CONSTRUCTION PHASE**

- 5.1 The Key Stage Review sets out the Council's outline contract management framework and PUK's observations on this. It may be helpful to draw out some of the key points:-

5.1.1 PUK note that, "The overall project governance structure appears to be robust and gives assurance of ongoing effective contract management" and, "The proposed contract management structure and meeting/liaison arrangements appear to be appropriate to deal with issues arising during the construction phase and for ensuing timely delivery of the buildings". They acknowledge also the steps planned to ensure continuity as the Project moves through the various phases, but suggest specific steps to reinforce this. They recommend that the Steering Board should have formal terms of reference and that Internal Audit should review the project monitoring arrangements. Action will be taken to accommodate these recommendations.

5.1.2 Contract management will be geared to deliver the schools on time and to specification and with due regard to health and safety, together with minimum disruption to the delivery of the curriculum.

5.1.3 The Project Team is being recalibrated to reflect the challenges of this stage of the Project. The Manager and Co-ordinators will change from full-time to part-time. A greater focus is required on technical matters. This will require a Technical Supervisor and 2 Clerks of Works to be in place and discussions are live with Development Services to this end. The Task Groups are also being recalibrated to ensure they are fit for purpose.

- 5.2 The delivery timetable for the schools is:-

Grangemouth	December 08
Denny	February 09
St Mungo's	June 09
Falkirk	July 09

The initial activity on site is at Grangemouth and Denny High Schools. In both cases, site establishment and earth movement are already underway and a Scottish Power power cable will be diverted at Herbertshire in mid June. Gateway have advised that the cable diversion at Herbertshire will be completed quicker than expected. This will allow them to get several weeks ahead of schedule.

## **6. GOING FORWARD – OPERATIONAL PHASE**

- 6.1 Again, with reference to the separate Key Stage Review paper, some of the key points which arose follow. Work will now progress to set out in more detail the arrangements and responsibilities for contract management during the operational phase, which is some 18/24 months away. The development and early completion of a user manual will be a key element of this and will facilitate continuity.

## **7. CONCLUSION**

Reaching Financial Close represents a key milestone in the Project. The focus now turns to the actual building of the schools and the management thereof and this will inevitably present its own suite of challenges.

## **8. RECOMMENDATIONS**

**The Committee is invited to note the status of the Project.**

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**Chief Executive**

**Date : 29 May 2007**

### **LIST OF BACKGROUND PAPERS**

1. Project Files \*\*

\*\* Not for publication by virtue of Paragraph 9 of Part 1 of Schedule 7a of the Local Government (Scotland) Act 1973.