GCRB | Glasgow Colleges' Regional Board

Performance and Resources Committee Meeting

Date of Meeting	Tuesday 2 May 2017
Paper Title	City of Glasgow College NPD Briefing
Agenda Item	7
Paper Number	PRC6-C
Responsible Officer	Janis Carson, Depute Principal (Acting) City of Glasgow College
Status	Disclosable
Action	For Information

1. Report Purpose

1.1. To provide an overview of the City of Glasgow College's Non-Profit Distributing (NPD) Model.

2. Recommendations

2.1 The Committee is invited to **note** the attached report.

3. Background

3.1. At a previous Committee meeting, members asked for a briefing on the Non-Profit Distributing (NPD) Model used to develop City of Glasgow College's new estate.

3.2. The attached document provides an overview of NPD related contractual commitments, including the college's maintenance commitments and contractual service standards, alongside a summary of the college business case.

4. Risk Analysis

4.1. Now that the campus buildings have been completed, the main risk to the region and the college relate to meeting the financial costs associated with the NPD model over the 25 year timeframe. The provision of this paper to the committee is intended to support the mitigation of these risks, through an enhanced level of understanding of the financial implications of the NPD arrangement.

5. Legal, Financial, and Regional Outcome Agreement Implications

5.1. Legal and financial implications are highlighted within the attached report.

5.2. A high quality regional college estate will support achievement of Regional Outcome Agreement commitments.

Glasgow Colleges Regional Board

New Campus Briefing Paper

This paper is to provide the Glasgow Colleges Regional Board with additional information to increase the understanding of the funding framework that supports the City of Glasgow College's new campus.

New Campus Overview

The College has 2 new buildings funded using the Non Profit Distributing (NPD) model. Only the Riverside campus is included with the 2015-16 accounts with both buildings fully incorporated in the 2016-17 accounts (this reflects the building completion dates).

Although the buildings were procured via Scottish Government's NPD model, the buildings are fully owned by the College. The NPD model is a mechanism to fund the construction, financing, ongoing maintenance and lifecycle asset replacement over the 25 years of the contract. The NPD contract was awarded to Glasgow Learning Quarter (GLQ), a special purpose vehicle established from a partnership between Sir Robert McAlpine (Capital Ventures) and Forth Holdings (FES).

In addition to the investment attracted to fund the NPD contract the College contributed £19m to the project costs covering mainly the student accommodation building (fully funded by the College), project management and new equipment. The main financial assumptions under pinning the full business case as shown in Appendix 1, these include the 210,000 WSUMs of teaching activity and an annual minimum SFC Capital grant of £1.4m. The College is contractually committed to paying the annual unitary charge for 25 years and additionally has an obligation to replace a wide range of equipment and for elements of maintenance. It is essential that City of Glasgow College continues to review a significant share of the regional SFC Capital grant.

Funding

GLQ	£193m
City of Glasgow College	£19m
SFC	£16m
Total Initial Project	£228m

The annual contractual payment to cover the GLQ (£193m) share of the initial construction, financing, ongoing maintenance and lifecycle asset replacement over the 25 years of the contract is known as the unitary charge. The unitary charge is paid by the Scottish Government by an additional grant paid directly to the College and the College also pay a share of the unitary charge. The annual unitary charge is subject to an annual increase for inflation.

Annual Unitary Charge

City of Glasgow College	£2.5m
Scottish Government	£19.4m
Total	£21.9m

Non Profit Distributing Contract

The main characteristics of the NPD contract are;

- The contract is secured through a compliant procurement process and the resulting contract is based on the Scottish Futures Trusts standard form contract used across a wide range of public infrastructure projects
- Winning bidder (GLQ) designs, builds, funds and maintains the new buildings
- At financial close (Oct 2013) a comprehensive contract was agreed that detailed all the obligations on the supplier and the College.
- All major categories of maintenance and future replacement are stated with the timing and estimated cost over the 25 year contract
- The contract identifies the minimum position with respect to condition and residual values that must be achieved at the end of the 25 year concession hence ensuring an appropriate maintenance regime
- GLQ are paid an agreed annual payment (Unitary Charge) based on the total cost of all the design, build, maintain and replacement over the 25 year contract
- Annual unitary charge is index linked over the 25 year contract.

Contract Costs Summary

Elements covered by the Unitary Charge	Nominal Total £'000	NPV £'000
Construction costs (excluding those covered by capital contributions)	£160,860	£141,516
Development costs	£2,802	£2,681
Senior Debt	£155,102	£6,445
Junior Debt	£37,286	£6,136
Hard FM Costs	£44,948	£17,783
Lifecycle Costs	£61,530	£18,354
SPV costs, including SPV operating costs during construction	£9,731	£4,920
Interest Income	(£7,211)	(£2,746)
Reserve Accounts	£0	£5,858
Surpluses	£33,416	£6,759
TOTAL COSTS	**£498,465**	**£207,706**
Annual Unitary Charge - Scottish Government		**£19,354**
Annual Unitary Charge - City of Glasgow College		**£2,534**

The only elements of the total costs funded by the College through the annual unitary charge are the Hard Facilities Management Costs and half the Lifecycle Costs. All other elements of the annual unitary charge are funded by direct Scottish Government funding.

Effectively the NPD contract will ensure that all required maintenance and replacement of assets are performed when required to the contractual standard within the 25 years period with no variations from the agreed annual unitary charge payments. From the first contractual payment the Scottish Government and the College have started to pay towards maintenance and asset replacement of the buildings.

Lifecycle Replacement

Lifecycle Replacement is the renewal or replacement of any Plant, Group 1 Equipment, or any other asset or part of the Facilities that is necessary to ensure that the Facilities comply with the SLS, Method Statements, Construction Requirements and GLQ's proposals throughout the term. This would exclude the College's Maintenance Obligations (see *Section 15.1*) i.e. internal finishes and carpets, as well as Group 2, 3, 4 & 5 Equipment.

All aspects of the service levels agreed with GLQ are covered by the contractual Project Agreement and an associated Service Level Specification which sets out financial penalties for non availability of spaces or under performance of the building. This schedule includes a range of Performance Standards.

GLQ will propose and carry out a Schedule of Lifecycle Replacement and must track and report that it has been completed, or they could be in breach of **Performance Standard FM56.**

It is important to note (**Clause 23A.6**) that whilst the College can comment of the Lifecycle Schedule, GLQ is not obliged to amend the Schedule to reflect the comments made.

However, if the Schedule does not contain the information set out in **Clause 23A.4** then GLQ would be in breach of **FM55**. Note this includes some important elements for the College:-

- **Clause 23A.4.3** - Demonstration that GLQ has taken account of the College's cost of occupation and operation – including energy consumption, maintenance and cleaning costs.
- **Clause 23A.4.4** - Where Group 1 Equipment is being replaced, this should be in consultation with the College with regard to curriculum requirements
- **Clause 23A.5** - Where Lifecycle Replacement provides an opportunity to improve whole life costs – such as through lower energy consumption, longer life etc., then GLQ must provide details and benefits of alternative.

These obligations do not require GLQ to necessarily change what they plan to do, but can provide an opportunity for discussion, or for the College to request a change through the Change process.

Example: An asset is due for replacement, and indications are that it should be replaced during the next year, so it is added to the Lifecycle Schedule. There may be three replacement options:-

1. Like-for-like replacement with the same product – which might now be considered 'old technology';

2. Replacement with a similar specification up to date product, at a similar cost, that is a bit more energy efficient;

3. Changing to a new technology replacement that is much more energy efficient, but costs considerably more.

To comply with the requirements GLQ should probably select the second option, since otherwise they would not be '*taking account of the College's cost of operation*'; however ideally they should also outline the benefits of option 3 so the College can consider requesting a Change.

College’s Maintenance Obligations

In addition to the FES maintenance within the NPD contract the College still has elements of maintenance responsibility. The College’s Maintenance Obligations (**Clause 23.13**) are as follows:-

- Interior redecoration not less than once every 5 years (excluding Halls of Residence)
- Replace all carpets not less than once every 15 years (excluding Halls of Residence)
- Maintain anything provided by the College under a Derogated Low Value Change
- Ensure that all portable appliance testing is carried out in accordance the law and relevant codes of practice
- Rectify any damage which is agreed to have been caused by ‘malicious damage or vandalism’
- Rectify any damage caused by user error where appropriate training has been provided
- Aspects of maintenance of specialist Group 5 procurement items such as simulation suite and working ships engine
- Ensure and arrange on-going maintenance and legal compliance checks to specialist equipment
- The College remains responsible for all ‘Soft’ FM services

The College must carry out the College’s Maintenance Obligations in accordance with Good Industry Practice, and they must not interfere with GLQ carrying out their Services and planned maintenance.

GLQ is still responsible for:-

- Making good any defects in finishes resulting from defecting design or workmanship in the Works
- Making good any damage resulting from implementing a College Change
- Making good any damage caused by carrying out the Services

The College and GLQ must cooperate in relation to the College’s Maintenance Obligations and include the College’s programme in the Schedule of Programmed Maintenance.

FES Facilities Management Contract Requirements

Policy & Strategy	• Provide management structure • Develop and implement Method Statements • Provide quality, environment and health & safety systems • Comply with College's processes
Staff & Development	• Check and screen staff • Appropriately train staff
Partnership & Resources	• Liaise with the College • Robust supply chain management
Contingency Planning	• Maintain contingency plans • Maintain fire safety and security systems
Performance & Information Management	• Provide a manned helpdesk • Minimise Utilities consumption whilst achieving optimum environmental conditions • Self-monitor performance against the Performance Standards and the Availability Standards • Regular reporting of performance against the Standards • Maintain records including maintenance records, Utilities consumption, provide information required and validate invoices
Maintaining the Facilities in accordance with the Standards	• Carry out Maintenance Works in accordance with the Schedule of Programmed Maintenance • Maintain the connections to the Utility Providers • Provide all plant, equipment, tools, consumables etc. required to deliver all work • Arrange and undertake all statutory testing
Maintaining the supply of Utilities	• Throughout the Facilities of adequate capacity to supply the requirements of the College

Service Quality Standards

One of the ways of testing whether the Facilities continue to meet the required standards, and/or whether Unplanned Maintenance is required, is to refer to the Service Quality Standards, which are contained in **Appendix B** of **Schedule 12 Part 1 Service Level Specification**. These are summarised as follows1:-

B1: Buildings

- Building Fabric – External (walls, roof etc.) should be functional, operational, complete, weatherproof, free from damp etc.;
- Building Fabric – Internal (walls ceilings) should be functional, operational, complete, free from cracks, damp, damage etc.;
- Fixtures & Fittings – (Doors, Windows etc.) should operate as intended, without binding, rubbing; free from blemishes, complete;
- Floors & Floor Coverings – Complete, fixed, free from damage, allow drainage etc.

B2: Systems

- Infrastructure Services – (water, gas, telecoms, data security etc.) Should function as intended at correct temperatures, pressures, flow rates, voltage etc. without noise or vibration.
- Heating & Ventilation Services - Should function as intended at correct temperatures, pressures, flow rates, voltage etc. without noise or vibration; air changes as per Availability Standards, free from leaks, corrosion, secure etc.
- Specialist Services – (UPS, fire detection etc.) Should function as intended at correct temperatures, pressures, flow rates, voltage etc. without noise or vibration;
- Fire Fighting Equipment – Maintained in accordance with BS5306.
- Lifts – no person trapped for more than 30 minutes, functioning control panel & phone, function as intended.
- Mechanical & Electrical Services – (electrical, lighting, etc.) Should function as intended at correct temperatures, pressures, flow rates, voltage etc. without noise or vibration;
- Emergency Power Supply – operational, secure, tested regularly, comply with standards
- HV / LV Distribution – fully operational as intended
- Electrical power & cabled systems – (IT, BMS, Lighting, CCTV etc.) Comply with BS7671, weatherproof, functions as specified.
- Hot & cold water systems – provide water at the right temperature,. Quality & flow rates. Function as intended, free from leaks, etc.;
- Drainage Systems – (including sanitary ware) Safe, free flowing, free from persistent odour, free from leaks.

B3 External Site Elements

- Site circulation routes – (paving, walkways, road, car parks etc.) safe and even surface, free from standing water, free from accumulated leaves, moss etc.
- Gutter & Drains - free flowing, free from persistent odour, free from leaks, free from litter, leaves, weeds etc.

B4 RAFM Existing Assets Standards

- Marine Skills Centre – Maintain to standard B1, B2 & B3 as appropriate and relevant insurance and lease obligations;
- Jetty – safe functional and operate as designed, maintained to B2 and B3 etc. as above, and allow access for Scottish Fire & Rescue as per their agreement with the College;
- Free Fall Lifeboat Tower and Pontoon and Linked Bridge– as above;

The above standards provide a reasonably detailed description of the condition that the Facilities should be maintained in at all times, and to identify when a repair is required, but it is worth remembering that they are absolute standards, and not a simply guideline. The College may decide to be relaxed about some of them, but can also apply them strictly when it is appropriate.

Business case

The College's business case for the New Campus Project was supported by SFT and SFC during the developmental stages prior to approval by Scottish Government. A variety of Key Review Stages and Decision Points featured in the approval process. At each of these the College was required to reiterate the Key Assumptions and parameters on which affordability was premised. An excerpt (Appendix 1) from the major DP3 business case document approved by SFT and Scottish Government highlights the on-going funding assumptions and risks identified at that time.

Executive Summary

The **key assumptions** made in developing the financial projections over the 25-year period are:

1. The size of the estate is based on the assumption that the College will be **funded for 210,000 wSUMs** of student activity from the start of the 2016-17 academic year. This equates to a 21% increase in funded activity compared to the current level of 173,000 wSUMs.
2. The SFC will provide a **capital grant of £18.609m** over the development period 2011-2016 to assist the college in funding non NPD costs.
3. The College will be responsible for meeting the development cost associated with space for commercial/non-fundable activity, which is estimated **to cost approximately £6.1m**. The cost will be financed from the College's **own cash reserves**.
4. The College will be responsible **for funding the replacement of existing halls-of-residence**, which require to be vacated to allow the new estate to be developed. It is anticipated that this development will be **financed by borrowing £10m over a 25-year period** with the resultant operating costs and debt repayment financed by income generated by the new Halls of Residence together with related international student course fee income.
5. The College continues to receive annual Funding Council capital grant allocations over the 25-year period at **a minimum of £1.4m per annum**.
6. That the **accounting treatment** of the Funding Council grant related to the NPD estate development unitary charge will offset the depreciation cost associated with the new estate.

The key areas of **financial risk** are:

1. The non-NPD development costs exceed the estimated cost of £18.609m.
2. The Funding Council fails to cover the full cost associated with estate development unitary charge and 50% of the life cycle unitary charge over the 25-year period of the NPD agreement.
3. The Funding Council fails to offer the College grant funding for 210,000 wSUMs throughout the 25-year period of the NPD agreement.
4. The College fails to meet its annual wSUMs target over a sustained period during the 25-year NPD agreement.
5. The College fails to maintain a sustained annual operating surplus over the 25-year period of the NPD agreement.
6. The College fails to maintain and develop alternative sources of income over the 25-year period of the NDP agreement.
7. Unforeseeable changes are required in future years which cannot be accommodated within the flexibility designed into the building, resulting in a requirement for additional future capital expenditure.

Affordability Conclusion:
Based on the above key assumptions, and mindful of the key financial and project risks, this business case for the redevelopment of the College's estate through the NPD financing option is affordable.