1 PURPOSE AND SUMMARY

1.1 This report is to update Members on the significant progress with the delivery of a new Kelso High School; to update on the affordability and funding of the project to recommend the way forward for future stages.

1.2 The report to Council on 28 March 2013 gave a background to the project; identified a project delivery structure and initial recommendations to allow the project to proceed. The report also identified that delivery of the project would be by way of a Design, Build, Finance and Maintain agreement with Hub South East Scotland Ltd.

1.3 Since March 2013, the project has completed the initial concept design stage during the remainder of 2013. In 2014, the project has secured the necessary land and obtained planning consent. Working with Midlothian Council and joint external advisers the details of the Design Build, Finance and Maintain contract are well developed.

1.4 Subject to confirmation that the project remains affordable and within project parameters, the Council will be capable of entering into Contract to deliver the school.

1.5 Funding could be amended by Scottish Government in that the project has now moved to a fully funded Revenue arrangement.

1.6 The current programme could see a school opening in August 2016.

2 RECOMMENDATIONS

2.1 It is recommended that the Council:

(a) Notes the progress with the project since March 2013;

(b) Delegates authority to the Chief Legal Officer to agree Financial Close within the project parameters identified within this report in consultation with Chief Financial Officer and Service Director Capital Projects;

(c) Delegates authority to the Chief Legal Officer to sign the Project Agreement and other project related documents to which the Council is a party, for and on behalf of the Council.

(d) Agrees to consider further update reports on the project as the construction progresses.
3 BACKGROUND AND RECENT PROGRESS

3.1 The report to Council on 28 March 2013 gave a background to the project. The report also identified the general scope of the project, the funding arrangements from Scottish Government in terms of part capital/part revenue based approach and also the intended delivery method using Hub South East Scotland Ltd (Hubco). The report gave authorisation to establish the scope of the project and set an Affordability Cap.

3.2 In April 2013, the Statutory process under The Schools (Consultation) (Scotland) Act 2010 to relocate to the new identified site was completed. From an educational consultation perspective, there is support for the location of the new school.

3.3 Using the Hubco pre-procured framework approach and following a selection process in July 2013, a main contractor, Morrison Construction Ltd, was appointed to deliver the design and construction of the new school and Facilities Management company Galliford Try FM were appointed to deliver the operation of the school over the terms of the concessionary period of 25 years.

3.4 On 6 February 2014, Members approved a revised Capital Financial Plan to include the Kelso High School project at a cost of £21.407M.

3.5 In March 2014, the Council secured the land for the project through a purchase by agreement from the landowner.

3.6 In June 2014, the project team approved the first design stage for the school with Hubco. This allowed the project to proceed to the detailed stage. The project in June 2014 remained affordable and within project cost tolerances.

4 CURRENT PROGRESS

4.1 Following approval in June 2014 of the technical and financial Stage 1 submission by Hubco, work on the detailed design has commenced.

4.2 During the early summer period of 2014, the design progressed to the point where sufficient detail was developed to allow an application for Planning Consent to be made. On 6 October 2014, the Planning & Building Standards Committee approved the application with conditions and informatives.

4.3 With this key part of the project now completed, the project team have been progressing with the remaining detailed design stages. The appointed contractors, Morrison Construction Ltd and Galliford Try FM have been preparing the Stage 2 design to allow a formal technical and financial proposal to be submitted in December 2014.
4.4 As a key element of the financial submission, the contractors will be market testing a significant percentage of the project to identified suppliers of sub-contract services. As part of the Hubco Key Performance Indicator obligations, 80% of the construction works require to be market tested. To give local suppliers an opportunity to take part in the construction and operation of the project, a Meet The Buyer event was held locally in July 2014. It is forecast that a follow on event will be held early in 2015.

5 ENABLING WORKS

5.1 As well as the main construction contract to build the new High School, the Council also needs to complete off site Enabling Works. These are split into three main headings;

- Improvements to the school access road
- Planning conditions
- Utility services

5.2 The most significant element of these off site Enabling Works will be the need to construct a foul and surface water drain from the school site to the nearest point of connection. In discussions with Scottish Water, it is likely that a drainage connection near to Queens House will be made. This will result in approximately 350m of twin pipe drainage being constructed from the school site, down Angraflat Road to this point of connection. Reinforcement work to the existing Scottish Water network in the vicinity of Croft Park will also be undertaken. This will improve the resilience and performance of the network at this location.

5.3 It is intended that this drainage enabling works will commence after Technical Approval has been given by Scottish Water and is forecast to be complete by March 2015. It is likely that there will be temporary lane restrictions on Angraflat Road while this work is ongoing. It is envisaged that this work will be undertaken by SBc Contracts.

5.4 These enabling works and also the land purchase costs are included within the Council’s overall project budget of £21.407M but are not part of the Scottish Government funding element.

6 GOVERNANCE AND COLLABORATION WITH MIDLOTHIAN COUNCIL

6.1 The Project Board arrangements identified within the March 2013 report to Council have continued throughout 2013/14. However, following the changes within the Council’s Corporate Management Team, the Corporate Transformation and Services Director takes over the Project Executive role. The project delivery team is also strengthened by the appointment of Service Director Capital Projects.

6.2 Collaborative working with Midlothian Council continues on the basis of the partner project at Newbattle High School. Both projects are on a similar programme. To maximise efficiency, both school projects share main contractors (Morrison Construction Ltd / Galliford Try FM), the same design team and also key external advisors.

6.3 Both projects require Technical, Legal and Financial Advisors. Following a joint procurement exercise with Midlothian Council, the following advisors were appointed;
As required for a project of this nature, a joint Independent Tester has been appointed to provide technical assurance on the contractor’s construction works. Sweett Group have been appointed for this role. This will be a key role in being able to advise the Council when the building is available for use. This key stage is referred to as ‘Service Availability’.

7 FUNDING

7.1 At the time of securing the Scottish Government funding towards the new Kelso HS in 2012, it was envisaged that this would be on a 1/3rd Scottish Borders Council and 2/3rds Scottish Government. The Council’s 1/3rd funding contribution was intended to be by way of a Capital payment with the most significant element of this being at the opening of the school (service availability). The 2/3rds funding from Scottish Government would take the form of revenue support grant to cover the anticipated Unitary charge payment to the contractor during the concessionary period.

7.2 At the time of writing this report, it is noted that contact with the Council has been made by the Scottish Government. This contact suggests that there is emerging likelihood that the Scottish Government will increase their revenue support funding on the project from 2/3rd to a fully revenue funded arrangement. The change in funding arrangements is expected to be conditional on the Council bringing forward other school estate projects as part of the Schools for the Future Phase 4. This will be the subject of further reporting to Members.

7.3 The change in the funding arrangement will have an impact on the financial model at the point of Financial Close. This impact is being discussed with Hubco.

8 PROGRAMME AND FINANCIAL CLOSE

8.1 The Council project team continues to work with the Hubco team to achieve a start on site as quickly as possible. At the time of writing this report, it is expected that a Stage 2 submission will be made by December 2014. This Stage 2 submission is the effective ‘offer to contract’ from Hubco.

8.2 Following a review of this offer from the Legal, Technical and Financial Advisers to the project, the Council will be in a position to reach a Financial Close and concluded contract. This review will involve, amongst other things, confirmation that the project remains within the affordability limits established. The contract will be between the Council and a special purpose vehicle company established by Hubco to deliver the Design, Build, Finance and Maintain.
8.3 It is a recommendation of this report that the Council delegates authority to the Chief Legal Officer to:

(a) agree Financial Close within the project parameters identified as below in consultation with Chief Financial Officer and Capital Projects Director.

(b) sign the Project Agreement and other project related documents to which the Council is a party, for and on behalf of the Council.

<table>
<thead>
<tr>
<th>Description</th>
<th>£</th>
<th>Base date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Development Fee</td>
<td>84,697</td>
<td>Q2/2014</td>
</tr>
<tr>
<td>Hubco Portion</td>
<td>156,848</td>
<td>Q2/2014</td>
</tr>
<tr>
<td>Construction Costs</td>
<td>18,133,857</td>
<td>Q2/2014</td>
</tr>
<tr>
<td>Hard Facilities Management Costs</td>
<td>133,065 p.a.</td>
<td>Q1/2013</td>
</tr>
<tr>
<td>Lifecycle Replacement Costs</td>
<td>115,323 p.a.</td>
<td>Q1/2013</td>
</tr>
<tr>
<td>Construction Phase SPV Costs</td>
<td>225,000</td>
<td>fixed cost</td>
</tr>
<tr>
<td>Operations Phase SPV Costs</td>
<td>100,000 p.a.</td>
<td>Q2/2012</td>
</tr>
</tbody>
</table>

p.a. – per annum
SPV – Special Purpose Vehicle company established to deliver the project over the lifetime of the Agreement.

8.4 Reaching Financial Close will allow works to commence early 2015 and the working programme at this stage will see the building works completed in the summer of 2016. At this stage, it is anticipated that the opening of the new school could coincide with the first day back after that summer holiday period on or about 16 August 2016.

9 MEETING THE UNITARY CHARGE

9.1 Revenue support to cover the unitary charge will be provided to the Council from the Scottish Government up to a set level based on the project scope which has been agreed to be funded through Scotland’s Schools for the Future Programme. This revenue support will be calculated from the financial model established from the project parameters identified in section 8.3.

9.2 The Council will be required to meet the unitary charge component covering hard facilities management and lifecycle replacement over the 25 year concessionary period.

10 IMPLICATIONS

10.1 Financial

(a) The Council approved a project within the 2014/15 Capital Financial Plan at £21.407M. The budget allocation within the Capital Financial Plan was expressed in Capital terms. The project will comprise a mixture of capital and revenue contribution from the Council and revenue contribution from the Scottish Government. The Chief Financial Officer is aware that not all of the identified expenditure will be by Capital and in year monitoring and adjustments will reflect this combination of capital and revenue funding.
(b) At the time of writing this report, the project remains affordable in both the construction of the building (now expected to be fully revenue funded by Scottish Government) and operation (lifecycle and hard facilities management).

10.2 **Risk and Mitigations**

(a) There is a risk that the scope of the off site enabling works exceeds the current cost plan allowance. This risk has been mitigated by working closely with Scottish Water to identify the point of connection and any other adaptation works to their existing adopted network in Kelso. At the time of writing this report, it has been identified that a suitable connection point on Angraflat Road, together with capacity improvements in Croft Park will provide a technical solution. This is currently being designed and a cost plan developed.

(b) There was a risk that the land assembly process may take longer than required so that entry to the site to commence the construction process is affected. This risk no longer exists following a successful purchase by agreement in March 2014.

(c) There was a risk that the statutory consultation process to relocate the school is not approved. This risk no longer exists with the Statutory Consultation being concluded in April 2014.

(d) There is a risk that the project cost plan changes during the final design stage. This risk is being mitigated by market testing of key elements of the construction process. The risk is also being mitigated by ensuring that the scope of the project does not exceed guidance from Scottish Futures Trust in terms of space metrics.

(e) Project Risks are reviewed as part of the Hub South East Scotland Ltd Method Statements that govern delivery of the project. Risks have also been reviewed by Scottish Futures Trust as delivery agency for Scottish Government at a recent Key Stage Review as the project transitioned from Stage 1 to Stage 2.

10.3 **Equalities**

There are no Equalities or Diversity issues associated with this report.

10.4 **Acting Sustainably**

There are no direct economic, social or environmental issues with this report.

10.5 **Carbon Management**

There are no direct carbon emissions impacts as a result of this report.

10.6 **Rural Proofing**

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.
10.7 **Changes to Scheme of Administration or Scheme of Delegation**

No changes to the Scheme of Administration or Delegation are required as a result of this report.

11 **CONSULTATION**

11.1 The Chief Financial Officer, the Service Director Strategy & Policy, the Chief Officer Audit & Risk, the Chief Officer Human Resources, the Clerk to the Council, the Corporate Equalities and Diversity Officer and the Corporate Communications Unit have been consulted on this report and any comments have been incorporated in the final report.

---

**Approved by**

**Service Director Capital Projects**  Signature

---

**Author(s)**

<table>
<thead>
<tr>
<th>Name</th>
<th>Designation and Contact Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steven Renwick</td>
<td>Projects Manager, 01835 826687</td>
</tr>
</tbody>
</table>

**Background Papers:**

**Previous Minute Reference:** Nil

**Note** – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Corporate Management Support Support can also give information on other language translations as well as providing additional copies.

Contact us at
Corporate Management Support, Council HQ, tel 01835 825.