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| Item No. | Classification: Open | Date: November 24 2009 | Meeting Name: Executive |
| Report title: | | SSF: Finance update, risk management and related decisions | |
| Ward(s) or groups affected: | | All | |
| From: | | Strategic Director of Children's Services | |

RECOMMENDATIONS

1. That Executive note that:
 - Phase 1 of the BSF programme has reached financial close within the affordability parameters previously approved by Executive.
 - funding has been secured from BSF schools from all phases to support the project.
 - Good value for money has been achieved when benchmarked by Partnerships for Schools.
 - the Southwark won three awards at the recent Excellence in BSF awards, best local authority, best change programme and client design advisor of the year (Catherine Brownell).
2. That Executive note that residual revenue and capital affordability targets for Phase 2 and Phase 3 of the BSF programme are also within financial parameters previously approved by Executive.
3. That Executive note the additional £3.5 million of funding received from national government and welcome the commitments made by Balfour Beatty Capital to achieve current BREEAM excellent on new build Phase 3 schools, and release £1 million of earmarked SSF capital contingency for the eco-school back into the general capital contingency.
4. That Executive note that further BSF reports will be prepared with decisions relating to the management and commitments of the SSF capital contingency, and note the timing of these reports in order to maintain the target delivery programme, as set out in Section 3.
5. That Executive approve a budget of up to £200,000 to fund feasibility work required for Phase 3, and that this money is to be financed
 - £100,000 for Rotherhithe feasibility study, as previously approved in the primary capital programme; and
 - £100,000 reallocated from the unspent £250,000 commitment previously made from Council reserves to fund project management costs prior to financial close on Phase 1.

BACKGROUND INFORMATION

6. On 18 July 2006, Executive considered the BSF Strategic Business Case (SBC). The SBC set out five investment options for the schools included in the BSF project – each option was assessed in terms of education transformation benefit and cost. The Executive approved Option B as the basis for the preparation of the BSF Outline Business Case (OBC). Executive also committed £6 million revenue to support project management costs up to the end of procurement.
7. On 2 May 2007, Executive considered the BSF OBC. The OBC included two investment options: one based on SBC Option B, which required additional funding in addition to the BSF funding from national government and the another option, which could be delivered within the funding envelope provided by national government and no requirement for additional investment.
8. At the same meeting of 2 May 2007, Executive noted the estimated programme revenue implications of (a) the unitary charge for the 3 PFI schemes; (b) FM for community schools; and (c) Supported Borrowing for ICT, and signalled its commitment to PfS to fund any residual revenue affordability gap.
9. On November 21 2007, an OBC update report was considered by the Major Project Board. This report set out the changes in funding, capital cost and estimated revenue implications that resulted from national government's review and approval of the OBC.
10. On 21 October 2008, the Council's Revenue Monitoring Report identified that the Council faced an additional project management costs for Southwark Schools for the Future (£1m). The report noted that Schools Forum had agreed on a contribution of £0.75m from the set aside DSG reserve to mitigate this pressure; and that Officers were seeking support from the Department for Children, Families and Schools and Partnership for Schools for the balance of £0.25m. The subsequent Revenue Monitoring Report (18 December 2008) reported that the £0.25m was not forthcoming and that therefore the £0.25m balance would be a call against the Regeneration and Development reserve.
11. On 13 May 2009, following decisions from Major Projects Board (on 6 April 2009) and the Strategic Director of Major Projects (on 12 May 2009), financial close was reached and the Phase 1 contracts were executed.

KEY ISSUES FOR CONSIDERATION

12. The closed version of this report provides detailed commentary on the revenue and capital position of the BSF programme post financial close of Phase 1, an the residual affordability position for phase 2 and phase 3. The closed report confirms that affordability continues to be within previously agreed financial parameters, and sets out risk management strategy, including associated recommendations, for managing financial risk moving forward. The closed report also confirms that benchmarking of the phase 1 Schemes by Partnerships for Schools demonstrates that good value for money has been achieved for phase 1 schools.
13. The scope of Phase 3 of the project requires further analysis, given changes since Executive approved the Outline Business Case. Executive are asked to agree a budget of £200,000 to undertake this work

- £100,000 for Rotherhithe feasibility study, as previously approved in the primary capital programme; and
- £100,000 reallocated from the unspent £250,000 commitment previously made from Council reserves to fund project management costs prior to financial close on Phase 1.

14. Executive are asked to note that further reports regarding Council spending decisions for Phase 3 schemes will be prepared in parallel with the financial close on phase 2. This will allow Executive the opportunity to consider options and make decisions on the basis of an updated risk profile and the feasibility assessment.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Communities, Law & Governance

15. The Strategic Director of Communities, Law & Governance notes the contents of this report which seeks a number of approvals and updates the Executive on financial and risks issues in respect of the SSF project. A more detailed concurrent is provided in the closed report.

Finance Director

16. The Finance Director concurs with the recommendations as set out in this report and agrees with the management strategies for ensuring the programme achieves value for money and is delivered according to the Executive decisions for the OBC, subsequent and future decisions. A full concurrent is included in the closed report.

Head of Property

17. The Head of Property has considered the content of this report and has advised on the likelihood, financial impact and mitigation of the property and technical related risks arising through the BSF programme and outlined in Table 8 of the closed report.

REASONS FOR LATENESS

18. The closed version of this report includes complex financial analysis, and following initial consultation with key members and officers, further detail / clarification was required in order to demonstrate that the issues had been considered fully. It was not possible to update the report until after the executive agenda despatch.

REASONS FOR URGENCY

19. The closed version of this report includes recommendations concerning the management of risks, including technical risks. In order to manage certain technical risks most effectively, the Council needs to issue contractual instructions to 4 Futures, this notification needs to be given by end November.

BACKGROUND DOCUMENTS

| Background Papers | Held At | Contact |
|-------------------|---------|---------|
| None | | |

APPENDICES

| No. | Title |
|------|-------|
| None | |

AUDIT TRAIL

| | | |
|---|---|--------------------------|
| Lead Officer | Strategic Director of Children's Services | |
| Report Author | SSF Project director | |
| Version | Final | |
| Dated | 2 November 2009 | |
| Key Decision? | Yes | |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER | | |
| Officer Title | Comments Sought | Comments included |
| Strategic Director of Communities, Law & Governance | Yes | Yes |
| Finance Director | Yes | Yes |
| Head of Property | Yes | Yes |
| Executive Member | Yes | No |
| Date final report sent to Constitutional/Community Council/Scrutiny Team | November 17 2009 | |