

REPORT TO AUDIT COMMITTEE – 21 MARCH 2018

PUBLIC PRIVATE PARTNERSHIP PROJECTS

1. Recommendation

- 1.1. **The Committee is requested to note the contents of the report and agree to receive future update on best value review.**

2. Background / Discussion

2.1. Public Private Partnerships

2.1.1. Public Private Partnership (PPP) is a general term used to refer to a wide range of public-private collaborations and include several business structures and partnership arrangements such as outsourcing, leasing, joint ventures, Public Finance Initiative (PFI), Non-Profit Distributing (NPD and Hub - Design Build Finance Maintain (Hub DBDM).

2.1.2. Aberdeenshire Council currently has two PFI contracts and one Hub DBFM.

2.2. Private Finance Initiative (PFI)

2.2.1. Private Finance Initiative (PFI) is a procurement method which consists of a group of private investors managing the design, build, finance and operation of assets and services such as roads and schools. The public sector does not own the asset, but rather leases it from the private investors typically over a 25-30 year period for which it pays a unitary charge, however at the end of the lease term the assets revert back to the public sector.

2.2.2. In a PFI project a Special Purpose Vehicle (SPV) is established to undertake the various project tasks to bring the asset to completion and to maintain the asset over the life of the contract. The SPV is typically composed of a construction firm, a facilities management firm and a private equity group.

2.2.3. The initial capital investment that is required for the build and transaction costs are provided by a combination of both private debt - bank borrowing or money through the capital markets and capital contributions generally from the SPV member companies.

2.2.4. The risks associated with a project such as build cost overruns and delay costs, fluctuations in finance costs and continued service delivery are managed and borne by the SPV.

2.2.5. Aberdeenshire Council currently has two PFI contracts :-

- AB1 – which includes the design, build and maintenance of Meldrum Secondary school as well as the design, refurbishment or extension and maintenance at two primary schools and a one secondary school.

The 25 year contract ends in February 2027. The unitary charge for 2018/19 is £4.4 million.

- AB2 - to provide Education services on six sites in Aberdeenshire until 2 October 2030. The contract involves the construction or substantial refurbishment and service provision by the contractor of educational assets, including primary and secondary schools across six different sites. The sites included within this contract are Portlethen Academy, and the following primary schools – Banchory, Kintore, Rosehearty, Longside and Rothienorman.

The 25 year contract ends in February 2030. The unitary charge for 2018/19 is £8.2 million.

The total unitary costs for both projects over the remainder of the terms are shown in Appendix 1.

2.3. Hub – Design Build Finance Manage

2.3.1. The Hub – Design Build Finance Manage (hub DBFM) model was developed by Scottish Futures Trust on behalf of the Scottish Government as a means of improving planning, procurement and delivery of infrastructure through public private partnerships.

2.3.2. To manage the hub DBFM process, five territories across Scotland have been created, and for each hub territory a jointly owned public private company, known as a hubco has been created. Aberdeenshire Council is one of the public sector shareholders in the hubco for the Northern territory, Hub North Scotland.

2.3.3. The SPV created to operate the contract is wholly owned by the hubco. The contractors and lenders within the SPV are expected to earn a normal market rate of return as in any other privately financed deal. The hub DBFM model aims to eliminate uncapped equity returns associated with the traditional PFI models and limit these returns to a reasonable rate, set as part of the competitive process. Any operational surpluses are returned to the hubco.

2.3.4. Aberdeenshire Council currently has one hub DBFM contract for the design, build and maintenance of a primary school, secondary school and community facility within the Alford Community Campus. The 25 year contract ends in October 2040. The unitary charge for 2018/19 is £2.2 million.

2.3.5. The total unitary charge over the remainder of the term of the contract are shown in Appendix 1.

2.4. Best Value

- 2.4.1. As was highlighted in Internal Audit Report 1827 the last review undertaken of the affordability of the PFI contracts was in 2012/13, and it has been agreed that a review of both of these contracts will be undertaken on an annual basis. The first review will be undertaken at the end of the current financial year with input from Education and Childrens' Service, the results of which will be reported to a future Audit Committee.
- 2.5. The Head of Finance and the Monitoring Officer within Business Services have been consulted and their comments are incorporated in this report.

3. Scheme of Governance

- 3.1. The Committee s able to take a decision on this item in terms of Sections G1.1.1d, G1.2.1 and G 1.2.2 of the list of Committee Powers in Part 2A of the Scheme of Governance as the Committee is responsible for internal audit matters and reviewing the adequacy of internal control systems and policies and practices employed to ensure compliance with relevant statutes, directions, guidance and polices.

4. Implications and Risk

- 4.1. An equality impact assessment is not required because this relates to an internal process and does not have a differential impact on any of the protected characteristics.
- 4.2. The financial implications of the unitary charges are contained within the existing budgets.
- 4.3. There are no staffing implications.

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Appendix 1

Total Unitary Charge Commitments for Public Private Partnerships 25 year period to Financial Year 2043/44

	PFI AB1	PFI AB2	DBFM Alford	Total
	£(000)	£(000)	£(000)	£(000)
Financial Years				
2019/20 – 2023/24	23,754	44,462	11,561	79,777
2024/25 – 2028/29	15,117	20,305	12,036	47,458
2029/30 – 2033/34	0	14,528	12,572	27,100
2034/35 – 2038/39	0	0	13,179	13,179
2039/40 – 2043/44	0	0	4,095	4,095
Total	43,313	87,578	55,703	186,564

PFI – AB1 ends February 2027

PFI – AB2 ends October 2030

DBFM – Alford ends October 2040

