



SCOTTISH EXECUTIVE

Financial Partnerships Unit

**Education PPP Projects
Pre-Issue of Tender Project Documentation (Pre-ITPD)
REVIEW DOCUMENT**

2006

Education PPP Project Review – Pre-ITPD

Introduction

What is the purpose of this review?

This review should not be regarded as a ticksheet or a pass / fail exercise. It is a tool to assist procuring Councils to stop and consider whether they are sufficiently advanced in their project development and documentation to proceed to issue of a project ITPD, which will secure high quality, sustainable bids, with minimal bidder qualifications.

In the following five sections there are questions for Councils and their advisers to consider as part of a self-assessment.

How will this review be carried out?

No later than 4 weeks prior to the KSR being submitted, Councils are required to give a preliminary indication of the proposed date for submission, to:

Director
Financial Partnerships Unit
Scottish Executive
Victoria Quay
Edinburgh
EH6 6QQ

Two weeks before the review is submitted the Council should confirm the final date to the FPU.

One week before the date of the review, the completed Pre-ITPD Review Document should be submitted to the Director of the FPU in electronic (CD-ROM) and paper format, with the responses given to each question.

A report will then be produced with recommendations. The Council will have the opportunity to comment on this report in draft prior to its submission to the Scottish Executive.

The Council's CE or Chair of the project steering group (assumed in this document to be the project sponsor), should make a written response to the Director of the FPU setting out the Council's response to any recommendations made. The Scottish Executive FPU will review this response and may ask to meet with the project manager, project team, or project sponsor to discuss any issues arising.

Outline Information
Please complete the following template.

Project Outline		
Council		
Advisors		
Project Title and Brief Description		
Estimated Project NPV (state interest rate assumption) Estimated FFY AUC		
Project Manager Contact details (and second contact)	Name Address	Name Address
	Tel E mail	Tel E mail
Project Sponsor	Name Address Tel E mail	
Shortlisted Bidders (and proposed lenders where known)		

Contents		
Section	Topic	Page
One: Affordability	<ul style="list-style-type: none"> • Affordability target • Shadow Model 	5
Two: VFM	<ul style="list-style-type: none"> • Payment mechanism • Risk matrix 	7
Three: Commercial Issues	<ul style="list-style-type: none"> • Project agreement • Funding 	9
Four: Deliverability	<ul style="list-style-type: none"> • Project management • Planning/land issues • Consultations/approvals • ITPD documents • Technical matters • FM • Evaluation 	11
Five: Data Room and background Information	<ul style="list-style-type: none"> • Technical • FM • Policy documents 	15
Six: Feedback		16

SECTION ONE: AFFORDABILITY

Key objective: a fundamental feature of a successful procurement is an affordable project. The purpose of this section is to provide a series of questions that allow the affordability position of the project to be considered and tested by the Council. The project sponsor should be confident that the affordability target for the project is realistic and robust before releasing the IPTD to bidders.

In particular, the project sponsor should be satisfied that the shadow bid model delivers sufficient and robust clarity on the affordability position of the project.

- 1 Is an affordability target (AT) being set for bidders and how has it been arrived at? (Does it equate to the shadow bid model NPC and / or FFY AUC?)
- 2 If it does not equate, what is the % difference between the shadow bid model NPC and AT NPC?
- 3 What information on affordability and related cost information will be made available to bidders, and at what time?
- 4 Have there been changes to the project scope since OBC or pre-OJEU KSR?
(For instance: has the capacity or size of the schools involved altered; have there been changes due to discoveries made by detailed technical surveys; has the risk profile altered significantly?)
- 5 What have been the major cost movements, if any, since OBC or pre-OJEU KSR?
(For instance, revision to accommodation size or requirements, revision to FM, construction or LCM costing, inclusion of off-site works or demolition costs, revision to concession period, revision to assumed funding structure, change to assumed build phasing, and so on.)
- 6 Are all the cost inputs and related assumptions to the affordability model and the PSC up to date? Are all the PSC and shadow bid model inputs cross-checked, verified and signed off by the appropriate internal / external advisers?
(For instance have all the construction figures been reviewed, updated and verified by the TA? Have the FM costs been updated to reflect a detailed services specification, risk transfer, and any likely interface issues? And so on.)
- 7 What design contingency %, if any, has been included within the construction costs inputs?
- 8 What base date has been applied to construction costs? What level of construction cost inflation has been applied to the capital sum in the financial assessment? Is this applied to the end of the construction period?

- 9 Is there clarity re the projected NPC, AUC and year on year affordability gap? Has there been a corresponding quantification of the financial impact of retained services / costs outside the PPP?
- 10 Please replicate and complete the table below for the duration of the concession period, applicable to your project (25 or 30 years etc). Please base the table on a 5.5% interest rate sensitivity. If the interest rate used in the shadow bidder model is different, please provide an additional table using the shadow bid model rate (i.e. one table using 5.5% and one using shadow bid model rate).
(Years 1 and 2 shown as an example only)

£ m's	Year	1	2	3	4 etc
Estimated (first full year) UC		7.0	7.3		
RSG		3.5	3.5		
Existing Budget transfer		2.5	2.6		
Estimated Affordability Gap		1	1.2		

- 11 Have sensitivities re interest rates and any other worst case / best case potential cost movements been tested and the potential impact on the affordability gap modelled over the life of the concession, as per the above table? Has this been discussed and agreed with the Project Board?
- 12 What interest rate / gilt rate and buffers have bidders been asked to assume in their bids?
- 13 Has the project the required Council approvals, signed off in a Council minute, to proceed on the basis of an affordability envelope that has been tested with sensitivities as per question 11? Please provide a copy of the Council minute.
- 14 Is the Council intending to use capital injections to close the affordability gap? If so, please set out the sums involved and explain the proposed mechanism. (Please note further points raised under question 30.)
- 15 What other measures is the Council intending to use to close the affordability gap and what risks have been identified with each measure?

SECTION TWO: VFM and RISK TRANSFER

Payment mechanism

Key objective: in project operation the payment mechanism is the tool by which operational performance is primarily measured and driven by the Council. It is imperative at IPTD that the Council sets out its payment mechanism technical and commercial requirements completely and clearly to ensure that these aspects of the payment mechanism are embedded as part of bids submitted, hence protecting the Council from erosion of its desired position post-preferred bidder.

The purpose of this section is to provide the Project Sponsor with a number of tools with which to test the appropriateness of the payment mechanism and to ensure that the payment mechanism will satisfy and deliver the Council's specific requirements. It is also designed to enable some interrogation of the Council's documentation by the project sponsor to assess whether it is sufficiently developed to avoid commercial debate post-preferred bidder.

- 16 Has the standard form SSSC payment mechanism been applied with full consideration given to areas for the Council to populate, such as calibration of warning notices and termination triggers and so on?
- 17 Has a payment mechanism calibration model been constructed (and tested) bespoke to the project taking due account of likely private sector performance levels, energy usage and so on? Do PSC designs match the defined functional areas and functional units? Will the calibration model, and worked examples of outputs, be shared with bidders during the dialogue period?
- 18 Has the payment mechanism been tested (via the calibration model) against a range of project specific performance and "what-if" scenarios, including operational FM interface issues where appropriate?
- 19 Is the Council satisfied that the service specification and the payment mechanism are synchronised and that the incentives delivered by the payment mechanism reflect the priorities and desired outputs of the Council? Has this been explained or tested with stakeholders and end users?
- 20 Has the level of incentives been explained in detail to the Project Board?

The Council should indicate how it has arrived at its decision that the payment mechanism meets its requirements. Has the Council considered if the tested deductions pass a "sense test"?

Risk matrix

Key objective: the purpose of this section is to allow some reflection on the methodology used to determine VfM, and to ensure the VfM position stated reflects the scope of the project being promoted through the ITPD and that all relevant project specific risks have been taken into account.

- 21 Has the SE guidance on VfM assessment during the procurement stage been followed?
- 22 Has there been identification and quantification of project risks (PSC / PFI / retained risk / transferred risk etc)?
- 23 Is the risk identification / quantification based on the standard contractual position as detailed in SSSC?
- 24 What analysis has been carried out to identify and quantify any FM interface risks? What are the outcomes of this exercise?
- 25 What is the current VfM headroom in actual and in % terms? Are there any differences in cost or risk assumptions between the PSC and shadow bid model? If so why?
- 26 What is base value of the PSC (NPV terms)?
- 27 What adjustment has been made for risk, optimism bias and tax adjustment in arriving at the final PSC value?
- 28 What assumed LIBOR / funding rate is used in the shadow bid NPV that is part of the risk, optimism bias and tax adjustment assessment?
- 29 Is the Council satisfied that an off-balance sheet position is likely to be established?
- 30 If Council-funded contributions (e.g. from release of land and subsequent sale, or from cash resources) are included in the project, then within the ITPD and the bid evaluation methodology are the arrangements in respect of the Council contribution noted separately as a variant bid, which can be compared against a fully-funded private sector standard bid? Are these arrangements in accord with SE guidance? Do the arrangements in respect of the Council contributions demonstrate VfM, and are they deliverable, robust and affordable?

SECTION THREE: COMMERCIAL ISSUES

Key objective: the purpose of this section is to support a smooth project procurement, and to promote compliance with the SSSC, by ensuring Councils to seek absolute clarity from bidders at ITPD on their attitude to the SSSC.

- 31 Has a list of proposed project specific derogations from SSSC been submitted to the Scottish Executive and approved?
- 32 What measures has the Council taken to ensure that bidders, their sub-contractors, and lenders demonstrate acceptance of the SSSC and state clearly any proposed departures from it?
- 33 Is it clear in the ITPD that the successful bidder will be required to sign a letter of commitment prior to becoming preferred bidder (as per SoPC3 clause 33) and can the Council confirm that the draft letter will include an agreed position on SSSC?
- 34 Has the Council provided a warranty in respect of information provided to bidders regarding transferring employees (if applicable)?
- 35 Does the ITPD and project agreement include a fully developed matrix of out of hours use required by the Council and is this fully factored into the PSC and shadow bid model?

Including, but not limited to:

Holiday exam revision, out of hours school clubs, sports activities, community uses, school administration, ancillary and teaching staff access out of hours, in holiday or weekend periods, use for election polling etc

- 36 Does the ITPD include provision for the Council to receive any general change in law reserve at the end of the construction or operation if it goes unspent?
- 37 Has the Council's position on % sharing for general change in law been stated?
- 38 In the view of the project team, which aspects of the ITPD are least resolved, and how should those issues be ranked in terms of risk to successful project delivery?
- 39 What, if any, aspects of the project scope remain intentionally unresolved because the Council is actively seeking to discuss alternative approaches with bidders during the dialogue phase? Please supply full details of any such aspects together with any anticipated implications in terms for example of affordability and timetable.

Funding Issues

Key objective: the purpose of this section is to assist Councils to consider whether their ITPD documentation will elicit sufficient information to demonstrate that bidders' lender support is clear and unequivocal. This section is also designed to assist the project sponsor in reviewing their understanding of the project's funding issues and in assessing whether funding issues have been considered and debated in sufficient detail by the Council.

- 40 Is the requirement for funder support clearly stated and appropriate term sheets/letters of support requested? Is a draft Lenders Direct Agreement included as part of the ITPD documentation?
- 41 Is there any direction to the bidders in the ITPD to compete sources of finance / demonstrate competitive funding up to and post-preferred bidder appointment?
- 42 Are reference funding rates for the ITPD submission applicable to different sources of finance to allow like for like comparison?
- 43 For bond funded solutions, has a set bond margin and underlying credit rating assumption been stated?
- 44 If a bond funding solution is being considered, has the Council taken specialist advice on the relative merits and disadvantages of alternative funding solutions, and has it formed its own view as to the delivery/robustness of a particular funding solution?

SECTION FOUR: DELIVERABILITY

Project Management

Key objective: the purpose of this section is to highlight to project sponsors the potential benefits of re-examining project management arrangements as the project moves into another, and critically important procurement phase.

The section is also designed to encourage the project sponsor to check that all the necessary processes and protocols are in place to ensure the Council derives maximum benefit from the dialogue and Final Tender procurement phases.

45 Is a detailed Project Management Plan in place for the dialogue and Final Tender phase, including:

- evaluation protocol (including evaluation of SSSC acceptance)
- management of meetings
- procedures for clarifications
- Council approvals
- payment mechanism “day” etc
- protocols for site visits?
- defined stages for the dialogue
- process for declaring conclusion of dialogue

46 Have all the necessary financial checks on the bidders who are on the ITPD short list been completed successfully?

47 Are robust protocols and evaluation procedures in place for the evaluation of the “in-house” bid (if applicable)? Have these been agreed with the Scottish Executive?

48 Has the Council updated / reviewed the internal procurement risk register and project delivery plan? As part of this exercise, has the Council team considered the risks extant to concluding the dialogue phase successfully and inviting final tenders, and has it considered from where any potential delays or commercial problems may emerge?

Planning/ Land Issues

Key objective: the purpose of this section is to highlight to project sponsors that land and planning issues represent some of the risks that are most likely to crystallise during procurement, impacting on programme and commercial terms.

49 Are all Outline Planning Permissions in place?

50 Are there any outstanding planning issues?

- 51 Are any / all planning development briefs approved and available for bidders? What status do the planning briefs have (for instance, do they have they committee approval)?
- 52 Do the planning briefs include all off-site requirements, such as road improvements, any site associated environmental or water course works etc?
- 53 What expectation is expressed in the ITPD on planning risk; is it capped?
- 54 Has the review of site ownership been completed successfully and are the reports on all site titles complete and available for bidders?
- 55 Have any site purchases required for the project been completed? Are there any outstanding land issues that give the Council or its legal advisers cause for concern?
- 56 Does the project require any enabling works to be carried out and, if so, how are these to be managed?

Consultation/ Approvals

Key objective: to minimise risk to project programme and to close down potential commercial problems.

- 57 Have all statutory consultations been completed? Are there any outstanding issues?
- 58 Has there been consultation with stakeholders and has it raised any concerns or potential risks to the success of the project?

Including but not limited to:

Staff, Pupils, School Boards, Community Councils, Community Users, Trade Unions, disability forums, church representatives.

- 59 Have all required, or desirable, consultations been carried out with Sport Scotland, SEPA, Historic Scotland, SNH, TRA and so on?
- 60 Are all Council approvals necessary to proceed in place?

ITPD Documents

Key objective: to maximise the opportunity for bidders to submit full and unqualified bids.

- 61 How long have the bidders been asked to hold their ITPD tender prices and what provisions have been made for indexation thereafter? What will be the requirement on pricing for Final Tenders?
- 62 How many mandatory variant bids has the Council requested? Is there a clear process in place to evaluate NMVB?

(For example: furniture - loose and fixed, soft services, capital/land injection, new build instead of refurb etc)

- 63 Are all the service interface issues fully developed and expressed within the ITPD?
For example, if catering is being provided in-house are the cleaning and maintenance responsibilities of catering and associated M and E equipment, kitchen and dining room facilities clearly expressed?
- 64 Is the position on interface energy use and monitoring defined? Is there a technical requirement to provide separate metering?
- 65 Is there sufficient information in the ITPD documents, backed up by information in the data room, on the school year, the school day, and the exam and prelim schedules including an explanation of individual pupil assessments?
This information is required to assist the FM service provider refine their bid and for the construction sub-contractor to scope their programme of works.
- 66 Has the requirement that the Full Business Case be made public, following financial close, been stated?

Technical

Key objective: to maximise the opportunity for bidders to submit full and unqualified bids and to close down potential commercial issues.

- 67 Have all necessary surveys been completed?
Including but not limited to: geo-technical, topographical, asbestos, structural, fabric condition and so on?
- 68 Is the position on warranties, relating to survey information, clearly stated?
- 69 Are plans of any existing buildings/sites available and complete?
- 70 Are the room data sheets complete?
(Please provide a sample of 10 data sheets, to include: music, science, games hall, computing, English, admin accommodation, head teacher office and primary general teaching, if appropriate)
- 71 Has the Council expressed maximum and minimum temperature limits and if so what are they, and has the Council's technical adviser confirmed specifically there is sufficient allowance in the shadow bid model to provide for this output?
- 72 Are the Council's requirements for fixed furniture and equipment clearly expressed?
- 73 Where construction works are adjacent to, or within, existing buildings, has the bidder been asked to provide detailed method statements in respect of management of construction in an education environment?

FM

Key objective: to maximise the opportunity for bidders to submit full and unqualified bids and to close down potential commercial issues.

- 74 If any FM services are to be excluded from the project prior to the ITPD being issued, what are they, and has this been agreed with the Scottish Executive?
- 75 Is the position on FM interface issues fully expressed in the ITPD through interface schedules or similar? Have any in-house providers commented on the interface schedules?
- 76 Is all the information required for accurate pricing of facilities management available for bidders?

Including, but not limited to:

- *Energy information – historic use, pricing, BEMS systems data*
- *Existing Service Level Agreements*
- *Catering uptake levels*
- *Dietary and nutrition requirements*
- *Staff details (how many, pensionable status, length of service etc)*
- *GIFAs of existing buildings*

Evaluation

Key objective: the successful bid will be sustainable and will meet the quality and affordability standards set by the Council.

- 77 Is there a detailed evaluation protocol that clearly determines how weighting between design and cost is to be evaluated, and has it been approved by the Project Management Board or the Council?
- 78 How is design quality and sustainability to be evaluated?
- 79 How are differing funding solutions to be evaluated?
- 80 Is compliance with SSSC part of the overall bidder evaluation, and if so, how much weight does it carry?
- 81 Does the evaluation protocol reflect the particular requirements of the competitive dialogue procedure, and has the protocol approved by legal advisors?

SECTION FIVE: DATA ROOM AND BACKGROUND INFORMATION

Policy documents and Council Information

Key objective: to maximise the opportunity for bidders to submit full and unqualified bids.

- 82 Has a data room been established and made available for bidders?
- 83 Are the Council Standing Orders in the data room?
- 84 Are all educational policies/information that relates to facilities, in the project data room?

Including, but not limited to:

- *Access for disabled users*
 - *Letting*
 - *Security and access*
 - *Class organisation*
 - *Project demographics*
 - *CABE guidance*
 - *Sustainability Requirements*
- 85 Are all relevant Conditions of Employment for Council Facilities Management staff in the data room?
- 86 Are insurance claim summaries for each facility, and current reinstatement values, in the data room?
- 87 Are annual historic vandalism costs included and are they extrapolated for each existing facility?
- 88 Are all IT strategic policy documents in the data room? Where applicable, is there information available on existing IT infrastructure and any existing warranties in place?

SECTION SIX: FEEDBACK

Thank you for completing this review.

In order that other Councils can benefit from your experience, the Scottish Executive would be grateful if you could complete the following questions.

- 89 Were there any aspects of procurement pre-ITPD not covered by this review that you feel should have been included?
- 90 Are there any other aspects of the Competitive Dialogue Procedure that you feel should be covered in the review?
- 91 Did you find the review difficult to understand or complete? If so, please be specific?
- 92 Do you have any other comments to make about the review process?