

21st Century Schools Band B Programme: Capacity and Funding

Reason for the Report

1. To provide the Committee with an opportunity for pre-decision scrutiny of the Council's proposed Band B schemes under the 21st Century Schools Programme, *specifically* in relation to amended senior management arrangements for leadership of the Council's school estate development Programme, and governance of the programme across the Council.
2. To familiarise Members with the two funding options available to the Council to deliver the Band B Programme: the traditional capital financing option, and the Welsh Government Mutual Investment Model (MIM).

Background

3. This Committee's Terms of Reference includes scrutiny of the implementation of the Council's policies, aims and objectives. The specific areas relevant to this scrutiny include responsibility for, Financial Control, Council Property, Commissioning and Procurement, and the Council's use of Human Resources.
4. The Committee does *not* have responsibility for the Council's policies, aims and objectives in the provision of schools services. This falls to the Children and Young People Scrutiny Committee, including School Improvement; Schools Organisation; and School Support Services.

5. Members of the Committee have expressed an interest in understanding the rationale applied in coming to the conclusion that of the two options on the table: traditional capital financing; and the Welsh Government MIM; the capital-financing route is the better approach for the Council to take to fund the Band B Programme.
6. Attached at **Appendix A**, is the report that Cabinet will consider on 12 July 2018, providing an update on the scheduling and funding issues associated with the delivery of Cardiff's Band B schemes. It seeks approval for the creation of the post of Programme Director - School Organisation Programme reporting to the Director of Education and Lifelong Learning. It also advises that the Director will review the roles and structure of the school organisation team to secure the capacity required within the funding already agreed under the Band B Programme.
7. For clarity, the Cabinet report at **Appendix A** does not set out in detail the rationale behind different funding models. This scrutiny will enable the Committee to understand the present position and the challenge ahead for the Council in delivering the 21st Century Band B Schools Programme. If Members wish to consider funding models in greater detail then, going forward, the 2018/19 work programme would need to factor in a joint scrutiny between this Committee and the Children and Young People Scrutiny Committee.

Funding the Delivery of Band B Programme

8. The Council has 127 school properties. It aims to complete the delivery of Band A Schools Programme by April 2019. Band B Schools Programme is an extensive and ambitious capital programme that will be delivered between April 2019 and 2024. It will lead to the construction of 5 secondary schools, 4 Special Schools and 4 primary schools, 2 Welsh medium and 2 English medium.
9. In December 2017 the indicative cost of the Council's outline Band B Programme was established as £284 million, based on standardised construction cost rates as provided by Welsh Government. This total cost represents the cost of all schemes within the preferred Band B Programme.

10. The Welsh Government's funding model requires the Council to match fund 50% of the total capital cost, with the Welsh Government contributing the other 50% in the form of capital grant. Therefore, the Council will be required to identify capital funding totalling £142 million. This funding will predominantly take the form of external prudential borrowing and any available capital receipts. External borrowing will give rise to revenue expenditure in the form of capital financing costs and, therefore, the Council will be required to identify revenue-funding sources to meet those costs.
11. In addition to the traditional funding model, the Welsh Government made an additional option available to local authorities as part of Band B, known as the Mutual Investment Model (MIM). The MIM is a revenue funded model based on a 75:25 cost sharing arrangement in favour of local authorities, whereby the asset is constructed, and then maintained, via a Special Purpose Vehicle (SPV) in which the Welsh Government would hold an interest with an external contractor. The Council would then make lease payments for the use of the building over a 25-year period and, at which point the building would transfer to Council ownership. The basic premise of the model is that any new schools created would be funded by the private sector through Special Purpose Vehicles (SPV), in which Welsh Government would be represented, and local authorities would lease the assets created over a period of 25 years. As such, local authorities would pay an annual lease payment for use of the new school facilities, rather than incurring the upfront capital costs associated with constructing and then owning the facilities. The Welsh Government's proposal was to provide revenue funding of 75% of the annual lease payments for the 25-year period. At the end of the 25-year period, the assets would transfer to the respective local authorities.
12. The Council reviewed both options available, particularly the MIM option, using example information provided by Welsh Government. In doing so, when submitting its Strategic Outline Business Case for Band B Programme, the Council expressed an interest in the traditional capital-funding model only. This followed consideration of the overall cost of MIM, the Welsh Government's proposed contribution rate and the overall level of risk exposure. As such, the intention is that the £284 million programme, if fully approved, will be funded on the traditional capital grant model basis. The final confirmation of funding

anticipated from Welsh Government is expected to be on the basis of the traditional model.

13. The Council's position remains not to express an interest in the MIM. However, dialogue continues between Welsh Government and local authorities in order to provide further clarity in relation to which types of scheme are eligible for MIM.
14. The traditional capital model and MIM contrast in respect of the fact that the capital model is only concerned with the initial design and build of the new school. With the capital model, the Council would, once the construction is complete, be responsible for identifying the necessary resources to maintain the building over its useful life. This would require revenue resources, channelled via the School Funding Formula, for the general upkeep of the building and capital resources for the more fundamental repairs and maintenance work. The maintenance arrangements under the MIM, in comparison, would see the SPV undertake the majority of maintenance and ensure the general condition of the building was kept at the required level. The annual lease payments made for the use of the building would be sufficient to cover the costs incurred by the SPV in maintaining the building. Under the MIM, the Council would still need to identify funding for certain elements of maintenance not covered by the MIM arrangement.
15. The Cabinet report attached at **Appendix A** outlines what is needed with regard to capacity and governance in Cardiff in order to ensure that the Council's ambitions are delivered and the significant financial investment delivers good value for money.
16. Members may recall that revised senior management arrangements were set out in a report on 16th November, and Cabinet approved a new Tier 1 and 2 Senior Management structure. Cabinet also agreed that the Council would need to ensure that sufficient capacity exists to deliver the Council's priorities in relation Band B of the 21st Century Schools Programme and recognised that the current staffing arrangements in this area would need to be reviewed, following confirmation by the Welsh Government of the Council's funding envelope.

17. Subsequent to both of the above Cabinet reports, Arup were commissioned to review the governance arrangements and resources required to ensure Cardiff Council can deliver this ambitious education capital programme. Arup's *Education Delivery Strategic Review* report is attached as **Appendix 1 to Appendix A**, with the **Executive Summary** at **page 1** of the report detailing the key recommendations.
18. To successfully deliver Band A expertise has been externally sourced in disciplines such as programme management, cost consultancy, project management, architecture and design, construction, demolition, security and design safety advice.

Corporate Landlord

19. Members will recall that in May 2018 this Committee published its inquiry into *Managing the Estate under a Corporate Landlord Model*. Recommendations for Cabinet's consideration included: Agree a clear statement of the Council's vision for the Corporate Landlord model to counter contradictory interpretations; Ensure political responsibility for the Corporate Landlord sits within a single Cabinet portfolio; Create a centralised Corporate Landlord management structure under the new Assistant Director (Corporate Landlord); Review and refresh as required the roles and responsibilities of the senior management team in respect of property matters;
20. A separate report to the 12 July 2018 Cabinet titled *Management of the Council's Non- Residential Property Estate – Embracing a Corporate Landlord Model*, sets out an update on progress in implementing this revised approach. This report also sets out the modified governance arrangements, which will apply in order to ensure alignment, integration and accountability of functions across the Council in delivering this corporate role, with clear accountability to Cabinet through the Asset Management Board, chaired by the Chief Executive.
21. The effective management of the whole Council estate, including schools, and the future development and expansion of the schools estate, both call for input

from a wide range of Council departments. These governance arrangements are designed to ensure that these major cross-cutting priorities for the Council have clear leadership and transparent accountability, with strategic governance for key decisions lodged with the Cabinet.

22. The Welsh Government has approved in principle Cardiff's Band B Programme of £284 million. Welsh Government will fund half of this programme, with Cardiff Council funding half. Release of funding will be dependent on the approval of individual business cases for the schemes within the overall programme.

Way Forward

23. To support this pre-decision scrutiny, in attendance will be Councillor Sarah Merry, Deputy Leader and Cabinet Member Education, Employment and Skills; and Nick Batchelar, Director of Education. Members will receive a verbal presentation of the proposals at the meeting and have an opportunity for questions.

24. Members may wish to explore whether the proposals to take forward the Band B Programme fit with the Council's aspiration to introduce a Corporate Landlord Model, and consider whether there is an opportunity for a follow up joint scrutiny together with the Children and Young People Scrutiny Committee in delivering the 21st Century Schools Programme.

Legal Implications

24. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters, there are no direct legal implications. However, legal implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any legal implications arising from those recommendations. All decisions taken by or on behalf of the Council

must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. Scrutiny Procedure Rules; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances.

Financial Implications

25. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters, there are no direct financial implications at this stage in relation to any of the work programme. However, financial implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any financial implications arising from those recommendations.

Recommendation

26. The Committee is recommended to:
- i) Note the proposals; and
 - ii) Consider whether it wishes to offer comments, observations, or recommendations for Cabinet consideration on 12 July 2018.
 - iii) Consider whether a joint scrutiny on delivering the 21st Century Schools Programme should be factored into its 2018/19 work programming discussions

DAVINA FIORE

Director of Governance and Legal Services

5 July 2018