



Scottish Funding Council

Promoting further and higher education

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Cabinet Secretary for Education and Lifelong Learning  
Scottish Government  
St Andrew's House  
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*Dea Nike*

**City of Glasgow College NPD estate redevelopment:  
Decision Point 4 (pre-Financial Close)**

I am writing, under the authority delegated to me by the Scottish Funding Council (SFC) at its meeting of 17 December 2012, to ask you to authorise City of Glasgow College to proceed to Financial Close on its estate redevelopment project procured through the Non-Profit Distribution (NPD) model.

This advice is based upon the Decision Point 4 (DP4) report received from the College dated 15 April 2013 (and subsequently approved by the College Board of Management on 17 April 2013) and the Scottish Futures Trust's (SFT) pre-Financial Close Key Stage Review (KSR) report dated 24 May 2013, both of which are attached to this letter. This advice also reflects our review of progress made by the College since SFC approval at DP3b (approval to close competitive dialogue and proceed to an Invitation to Submit Final Tenders) was granted in November 2012.

The SFT KSR report provides a detailed assessment of the procurement and contract, and SFC agrees with the assessment and recommendations within that report. This letter focuses on the:

- aims and objectives of the project;
- project management structure;
- costs and affordability of the project;
- project's sustainability strategy;
- project risks; and
- impact of the further education regionalisation agenda on the project.

My colleagues in SFC have worked closely with the College project team and with colleagues from SFT and the Scottish Government in providing this assessment.

### **Project background**

The project procurement was launched via OJEU notice in December 2011; the scope being to design, build, finance and maintain the College's twin campuses on Cathedral Street (79% estate/activity) and Thistle Street (21% estate/activity) in Glasgow. This will consolidate the College's estate down from 11 sites currently in use to 2. In addition, the College is self-financing additional commercial space and a Halls of Residence facility.

### **Strategic case**

The strategic case for the redevelopment remains unchanged since Ministerial approval of the Full Business Case (FBC) was provided at DP2a in November 2011. The project continues to deliver the desired strategic and educational aims and objectives in line with the College's estate strategy.

The City of Glasgow College was created in September 2010 through the successful merger of Central College Glasgow, Glasgow Metropolitan College and Glasgow College of Nautical Studies. The new buildings provided by the project will allow the full strategic benefits of the merger to be realised.

The College's estate has been in need of redevelopment for some considerable time with much of it having gone beyond its useful life. The current estate is inefficient, unfit-for-purpose and not well adapted to 21st century educational delivery, and needs to be redeveloped. SFC continues to strongly support the strategic and academic rationale for the project and the new buildings will provide significant educational benefits, improve operational efficiency and effectiveness, and meet high environmental standards.

### **Project scope**

The only significant change to the original project scope is the inclusion of new Halls of Residence on the Riverside site. This inclusion reflects the importance of accommodation for the College's curriculum, particularly Maritime studies. The new Halls will be provided and funded through the NPD model but paid for through staged capital payments from the College's reserves. We have stressed to the College their responsibility to ensure the operation of these Halls remains commercially viable and is not subsidised by SFC grant funding.

Since we wrote to you at DP2a (to approve the FBC) in November 2011, the gross internal area of the project has increased by around 6%. This is largely attributable to an additional incremental area offered by the Preferred Bidder - Glasgow Learning

Quarter (GLQ) - to support the deliverability of their scheme. The planned curriculum mix and volume remains unchanged.

Since the close of competitive dialogue and the appointment of GLQ in January 2013, activities have centred around refinement and validation of final detailed solutions, submission of the required planning applications and progressing the senior debt funding competition.

### **Project management**

Since its inception, the project has been managed well by the College and its progression is in line with its original programme. In March 2012 the College's DP3 submission provided a management and resourcing strategy outlining the governance, management, engagement and resourcing structures for the project. This included a number of refinements and additions to meet project demands to comply with Scottish Government conditions and to address management of transition planning issues and project associated changes in the College's future operating model. These changes further strengthened the team and enabled the College to enter competitive dialogue with a fully-resourced and highly-skilled cohort.

Since August 2012 the Project Sponsor role has been further redefined with the ongoing allocation of a Vice-Principal to have strategic responsibility for leading the project, reporting to the College Principal as Project Owner and the Board of Management. This ensures that a dedicated resource continues to be provided with sufficient seniority to manage and direct operational matters and key decisions and approvals within the framework of the Board-approved scheme of delegation. On the basis that the College will continue to work closely with SFT and SFC up to and beyond Financial Close, we remain satisfied that the College team is adequately resourced to deliver the project.

Post Financial Close, the Project Director will assume responsibility for contract implementation and management during the construction phase (within the College's existing governance and reporting structures). The College is aware of the need for these arrangements to be kept under review as the project progresses through the construction phase and is committed to developing a resourcing strategy for the operational phase in conjunction with its estate/Facilities Management/ICT transition plan for the move to the new facilities.

### **Project costs, funding and affordability**

The total cost of the project stands at £228.5 million. When we wrote to you in November 2011 at DP2a, the total NPD project cost falling to the Scottish Government was projected at £193 million. Prior to Financial Close the cost remains very close to this projection at £192.9 million.

Non-NPD costs (elements that fall outwith the annual operating cost/unitary charge) have increased from an estimated £19 million in November 2011 to £35.6 million at pre-Financial Close. This increase relates primarily to the addition of a new Halls of Residence and commercial space funded through College reserves. Non-NPD costs have remained largely unchanged since the DP3 'Invitation To Participate in Dialogue' (ITPD) budget was approved in March 2012.

At pre-Financial Close the annual operating cost, including unitary charge, has dropped from an original estimate of £25 million to £21 million, of which the College will bear £2.7 million (at 2017-18 prices). The unitary charge is 19% below the budget agreed at DP3 and reflects improved financing terms, a more refined financial model and the benefits of GLQ's endeavours to achieve the most efficient financial structuring of senior and junior debt drawdown and repayments.

A contribution of £19.1 million from College reserves is being put towards non-NPD costs, including £5 million for commercial space and £7.5 million for Halls of Residence. SFC is providing up to £16.5 million towards non-NPD costs.

As noted above, the College's on-going share of the annual operating cost/unitary charge is £2.7 million (2017-18 prices inclusive of VAT), over a 25 year term. The College has provided us with an updated affordability analysis and financial model. The model forecasts that, in the early (construction) years of the project (2013-14 to 2016-17), the College will incur net operating deficits but thereafter will generate small operating surpluses. This operating position is predicated on the following key assumptions:

- (i) The College receiving an additional 45,000 funded WSUMs from 2016-17 onwards; increasing their total allocation up to circa 210,000 WSUMs and bringing an additional net contribution of £1.7 million per annum;
- (ii) Ongoing capital funding from SFC, estimated prudently at £0.5 million per annum; and
- (iii) Sale proceeds of £3 million in 2016-17 from the disposal of the College's old surplus estate being returned to SFC.

Given the level of surpluses forecast over the period, it is clear that the additional WSUMs are critical to the affordability of the project for the College in terms of being able to meet on-going operating cost and unitary charge payments.

A review of the balance sheet forecasts indicates that the College will maintain positive cash and net asset balances throughout the period. The lowest net asset position is reached in 2016-17 (£3.7 million).

## Risk

The College has maintained a fully developed College Risk Register throughout the project procurement, in addition to a comprehensive Project Risk Register. At this stage in the procurement process the project risks have reduced and risk reviews by the College over recent months have been timed to coincide with bidders' commercial dialogue meetings and the appointment of the preferred bidder. This was to permit any new items raised by bidders to be considered and to give the opportunity to reassess the College's position regarding risks that were proposed to be transferred to the bidders.

Detailed planning permission for the project has been secured, with Glasgow City Council granting its approval for the development in early April 2013. Shortly after planned Financial Close on 12-14 June 2013 (i.e. 12 weeks after permission was obtained) the potential risk of judicial review of that permission will pass to the private sector.

As outlined in SFT's KSR, the College will retain the risk of Scottish Water works on an area of the Riverside site continuing after 31 December 2013 (and therefore impacting negatively on the project programme). The College however is confident that the Scottish Water works will be completed well in advance of that date. Since the appointment of GLQ the College has received written acknowledgement from Scottish Water that if the works are not completed by this time, the College will be liable for a compensation claim from the NPD company and that Scottish Water's compensation to the College would include any compensation properly due to the NPD company.

A key risk, highlighted by SFT, is that the College does not receive the level of funding predicated within its financial model (i.e. a total SFC allocation of 210,000 funded WSUMs from 2016-17) and therefore its share of the annual operating cost/unitary charge is not affordable. The surpluses generated by the College over the period are less than £0.4 million per annum and the net cash generated each year is of the same magnitude, therefore any shortfall in funding or larger than expected cost increases could render the College in financial difficulty.

The mitigation of that risk remains that SFC have made a clear planning commitment for the new estate to accommodate 210,000 funded WSUMs and we will ensure that the project and the College's financial commitment to the project over the next 25 years are fully understood and taken into account within the context of regionalisation. Once the major college structural changes currently taking place within the Glasgow region are complete, we would anticipate an agreed strategy to deliver this increase in funding to emerge. The size (both current and anticipated) of what is a recently merged College and the consequent economies of scale, along with the efficiencies the new estate will provide, will also help it to manage its finances and the Council will continue to monitor the College's financial position.

The College will need to continue to develop and review its Risk Register to cover the construction and operational phase of the contract. In particular it will need to ensure that individuals in key roles in the project have a clear understanding of the College's contractual obligations from the outset and that the Risk Register reflects risks associated with the performance of these obligations. SFC and SFT will continue to provide support to the College, as required, as it undertakes this work.

### ***Office for National Statistics reclassification***

SFC has been working with the Scottish Government and SFT on the implications of the Office for National Statistics (ONS) reclassification of colleges, which will have a direct impact on the project in terms of the College's ability to use its existing reserves to fund certain project costs. Following discussions with SG and the College, we have agreed a mechanism that will allow ear-marked College reserves to be allocated to the project via SFC.

We understand that commercial income generated can be retained by the College if spent in-year and therefore commercial income assumptions within the College's financial model should not be materially affected by the ONS reclassification. We are also advised by colleagues in SFT that the potential risk in relation to investors'/bidders' attitude to the project and/or challenge to the procurement process as a result of the ONS reclassification announcement is unlikely to materialise.

### **Value for Money**

The College has undertaken a procurement level assessment in line with the Scottish Government's Value for Money Guidance and its framework for evaluating a project's viability, desirability and achievability. The Principal and Project Sponsor has confirmed that he is satisfied that this assessment continues to demonstrate value for money for the College.

I am satisfied, as required as Accountable Officer for the SFC, that the project will deliver value for money in accordance with the Scottish Government's Value for Money Guidance. With reference to educational/strategic rationale, design flexibility, project management, risk allocation/transferral, terms agreed with the preferred bidder and project costs against budget, I believe that the project outcomes achieved represent value for money and I am satisfied that the project will deliver a viable, desirable and achievable solution for the City of Glasgow College and the region as a whole.

### **Regionalisation**

The Post-16 Education Reform (Scotland) Bill was published in November 2012, after the close of the Competitive Dialogue stage of the project. The provisions of the Bill

mean that funding for City of Glasgow College will, from Academic Year (AY) 2014-15, be routed from SFC through the yet-to-be established Glasgow Regional Board. SFC will attach conditions of grant to ensure that both any remaining SFC up-front capital grant and the Scottish Government's on-going contribution to the annual operating cost/unitary charge must be paid directly and in full to City of Glasgow College.

The Glasgow colleges are planning to develop a regional estates strategy and the new campus buildings at City of Glasgow will benefit wider partnership within the region. The distribution of WSUMs within Glasgow will be a matter for the Regional Board. However we will be able to ensure that the appropriate level of activity is delivered in the new buildings through our Outcome Agreement with the region. We do not consider that regionalisation will have any negative impact on the project scope, risks or affordability.

### **Sustainability**

The College's determination to press bidders to produce sustainable solutions for the new facilities at City and Riverside were reflected in the specific sustainability key performance indicators (KPIs) that bidders had to achieve (or surpass) for their bid to be compliant. The College's evaluation process incorporated criteria that directly relate to economic, social and environmental sustainability.

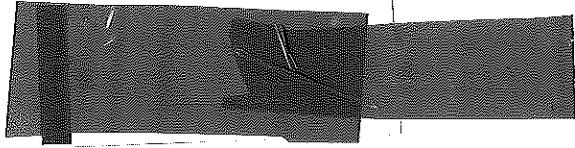
The College has been committed to the highest standards of environmental sustainability throughout this project. The College's Technical Requirements will ensure that the buildings achieve a number of sustainability Key Performance Indicators (KPIs), including energy performance and carbon emissions. The design includes passive design measures, seeks to minimise heat gains and incorporates low/zero carbon technologies and the use of sensible renewable energy sources to deliver best value whilst respecting scarce resource. SFC requires the College to aim for an 'Excellent' BREEAM rating, to be achieved at both Design Stage (interim certification) and Post Construction Stage (final certification). Work done to date has resulted in a BREEAM pre-assessment target score of 76.25% for both campus sites. The Design Stage interim certification is targeted for the end of February 2014.

### **Conclusion**

In summary, SFC commends the City of College Glasgow estate project to you and recommends that you now authorise the College to proceed to Financial Close, which is scheduled for 12-14 June 2013. In doing so, we would highlight that the Scottish Government will need to set aside circa £18.5 million per annum to fund its share of the operating cost/unitary charge for 25 years from the date of opening. (Final figures are subject to the final interest rates as determined at Financial Close.) Scottish Government will also need to make provision for the cost of placing the project insurances.

If you would like any further information or advice we would be pleased to provide this.

Yours sincerely



**Laurence Howells**  
Interim Chief Executive

cc: Ms Nicola Sturgeon MSP, Deputy First Minister of Scotland, Cabinet Secretary for Infrastructure, Capital Investment & Cities and Member for Glasgow Southside

Mr John Swinney MSP, Cabinet Secretary for Finance, Employment & Sustainable Growth and Member for Perthshire North

Dr Alasdair Allan MSP, Minister for Learning, Science & Scotland's Languages and Member for the Western Isles