

MUTUAL INVESTMENT MODEL (MIM)

BACKGROUND

Welsh Ministers have previously confirmed that the Band B 21st Century Schools and Education Programme will be funded by both capital and revenue budgets. £500 million of capital funding is available to 22 Local Authorities (LAs) and 14 Further Education institutes (FEI) for the 21st Century Schools and Education programme from 2019 to 2024.

In addition to the capital funding, there will also be a revenue budget funding model that will enable an additional investment with an equivalent capital value of £500 million. This is called the Mutual Investment Model (MIM).

The Council's original SOP (approved in principle by WG) included the option of a one MIM project, primarily to support an ambitious Band B programme which sought to maximise all sources of external funding.

WG intervention Rates

In November 2018, LA's received positive news from WG regarding an uplift to the intervention rates for the onward investment programme. The new intervention rates are as follows:

- Capital – Schools : 65% WG / 35% LA
- Capital – PRU/ALN Schools : 75% WG/ 25% LA
- MIM – 81% WG / 19% LA (through revenue budgets of both Organisations)

Why has WG chosen MIM?

MIM enables WG to deliver infrastructure investment beyond the capital borrowing limits set by UK Government. MIM funding is additional as it is PPP and it has been structured to be off Government debt. If WG doesn't use MIM, £500 million pounds of investment in the education estate won't be available to LAs and FE institutes within Wales.

What is the difference between MIM and a traditional Capital project?

MIM is essentially a vehicle to deliver an infrastructure product which is designed, built, financed, maintained and life-cycled over a 25 year period.

This means that an educational facility would be in an excellent condition at the end of the 25yr contact period, unlike schools who have benefited from traditional capital investment, whereby the school is built to condition A standard but deteriorates over time as funding available is insufficient to maintain the building to a high standard. On a MIM project, once it has reached the operational phase if during the school day, areas of the school are unavailable or the performance of services is poor the LA or FEI

is entitled to make a deduction against the private sector contractor until such time as the issue is rectified, would receive a financial penalty.

Both MIM and 21st Century School Capital Funding will deliver the same community benefits (including supporting Welsh supply chain as stipulated in WG grant criterion and take into account Wellbeing of Future Generations Act. In fact a MIM project would have improved community benefits, as these would be delivered over the duration of the contract not just the construction phase (as with traditional capital).

In terms of the positive movement of the intervention rate from 75% and 81% on MIM. The original intervention rate was designed to be broadly comparable in repayment terms to the cost of an LA prudentially borrowing 50% of the cost of a capital build. Since, the increase in intervention rates, WG has reviewed against the new 65%/35% capital intervention rate, their conclusion was it was a comparable uplift to the increase in capital intervention. However, a direct comparison of two differing products is not possible as significant elements of risk are transferred to the private sector in MIM which is not the case in Capital funded projects.

Isn't MIM just a rebadged Private Finance Initiative (PFI)?

Nationally, some LAs with historical PFI arrangements have encountered issues and problems.

These arose from a combination of:

- inadequate early PFI contract terms which often allowed refurbishment projects (which are not really suitable for PFI delivery);
- the inclusion of soft services making additional use of the facility outside of the school day very inflexible;
- inadequate or non-existent Change Protocols which led to high costs when making changes.
- the public sector was not always in a position to resource the required level of contract management to ensure that deductions were being made for unavailability or poor performance over the life of the contract.

WG has considered these issues and have sought to mitigate them in the new MIM model by adopting the following principals:

- The MIM draws on best practice from Scotland, Ireland and England and WG has put in place an experienced team with up to date procurement and delivery experience to deliver MIM.
- Only new builds of a specific size are eligible for MIM.
- The Welsh Government will have a right to earn to a return on public investment in MIM schemes by contributing a small amount of risk capital to each MIM scheme. A Director will be appointed by the Welsh Government to manage this shareholding.
- The MIM is Hard FM (Facilities Management) only which allows the LA/school to delivery its own soft FM services and use the facility as and when it wishes.

- There are provisions which allow LAs to perform small permitted changes to the building itself and in addition a provision which deals with keeping costs down when there is damage that is the LA's responsibility to repair. (rates for these works will be transparent and included in the contract paperwork)
- There is also a small works catalogue which includes costed changes from the Contractor, e.g. Addition of a power point or data point. The MIM contract will map out (and cost) when products which form the building will be replaced (life-cycled) and will be transparent.
- The MIM embeds transparency about costs and performance, and sets out a requirement to review efficiency, effectiveness and performance every two years.
- Schools will remain responsible for their other non-educational services e.g. cleaning; catering; grounds maintenance, utilities, non-fixed furniture and ICT.
- The school caretaker or building manager will remain an employee of the school as they are currently.
- A MIM school, like traditional capital builds would have to meet WG criteria namely, cost per m2, BREEAM excellent, EPC A, and (Building Information management) BIM Level 2.
- All MIM construction project will have an independent Clerk of Works, this will seek to mitigate construction issues.(issues as publicly reported in Scotland)
- The WG commissioned multi-disciplinary team (legal & Technical) will work with LA teams to assist LAs in developing and delivering their projects via the strategic partner.
- It is proposed by the 21st Century Schools MIM Programme Director that WG puts in place a central contract management unit and centre of excellence to support LAs and FEIs to manage their projects effectively and efficiently.

WG Procurement Progress

- Summer 2019 - Pre- Qualification Questionnaire (PQQ) and Selection Questionnaire (SQ)
- Autumn 2019 – Spring 2020 – Competitive dialogue
- Spring 2020 – Public Sector Delivery Partner (PSDP) Appointment
- Autumn 2020 – WEPco Established