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# Welsh Government's 21C Schools and Colleges Band B (MIM) Programme:

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# **Facilitating the delivery of the Mutual Investment Model for Education**

# 21<sup>st</sup> Century Schools and Colleges Programme (Revenue)



**WEPCo**

- Delivers partnering Services
- 2 stage project development process
- Strategic Partnering Agreement

Strategic Partnering



Mutual Investment Model



**Project Co**

- DBFM of Facilities
- No Contractual link to WEPCo
- Project Agreement

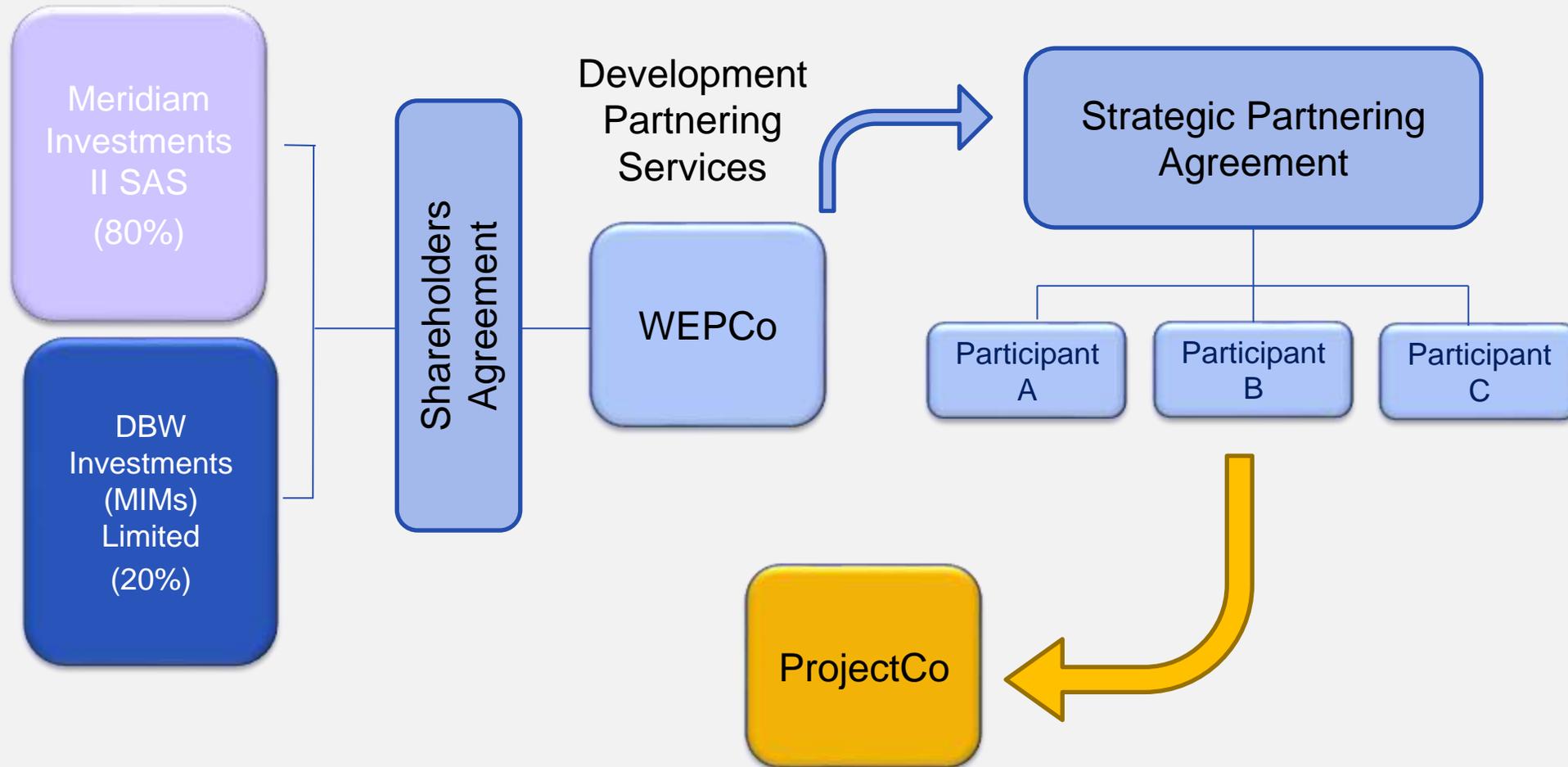
# Bespoke Strategic Partnering for Wales



- 80% private 20% public ownership
- 10 year term plus a possible 5 year extension to deliver partnering services
- Exclusivity over the 21CS Band B MIM projects (subject to VFM)
- Delivery of stretching community benefits (WEPCo and Project level)
- Open book tendering for Project supply chain
- Identification of optimal private finance package from debt market
- Delivery of Partnering Services:
  - Costs met initially by WEPCo working capital
  - Recovery of costs by Stage 1 and Stage 2 fees (capped in Procurement)
- Projects to be delivered at Capped Equity IRR



# Welsh Education Partnership Structure (WEPCo)

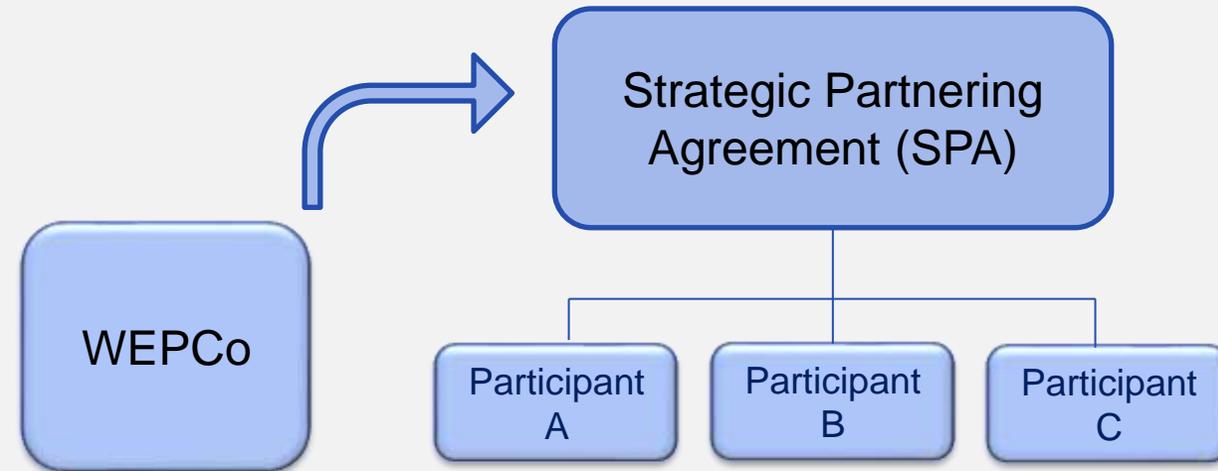




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# Welsh Education Partnership (WEPCo); Strategic Partnering Agreement and Partnering Services.

- WEPCo = Development Company
- SPA signed by:
  - WEPCo
  - Welsh Government
  - Participants (i.e. Authorities and FEIs)
- Key elements of the SPA:
  - Partnering Services defined:
    - Ongoing
    - Project
    - Strategic
  - Process for payment for Partnering Services set out
  - Scope of WEPCo operations defined





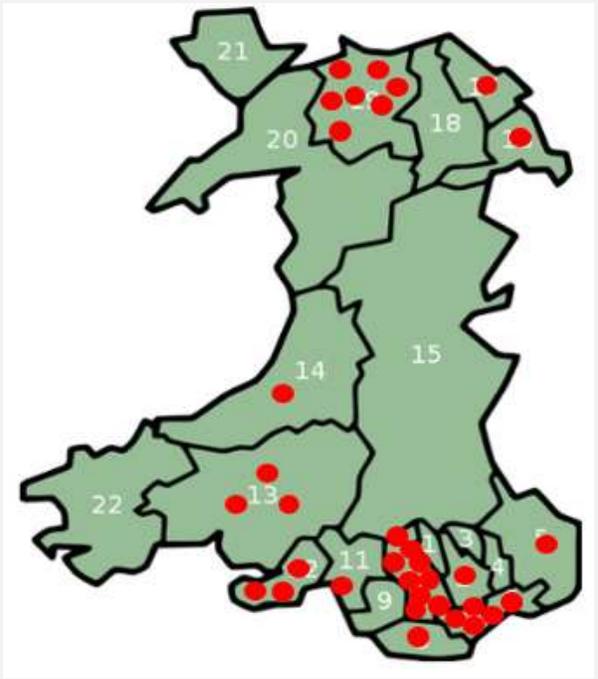
# Delivery Timeline – Where are we now?

- Education MIM Project Agreement (consultation) published November 2018
- ACRs and SLS (consultation) published January 2019
- OJEU and SQ published July 2019
- Full suite of documentation issued July 2019
- Competitive Dialogue with three shortlisted bidders commenced October 2019
- Virtual Bootcamp March 2020
- PSDP appointed/WEPCo formed August/Sept 2020
- Strategic Partnering Agreement Signed September 2020
- Strategic Partnering Board established November 2020
- Flintshire NPR issued November 2020
- Rhonda Cynon Taf NPR issued February 2021
- Flintshire Stage 1 submission received March 2021
- RCT Stage 1 submission July 2021
- Flintshire competitive supply chain assembly July/August 2021

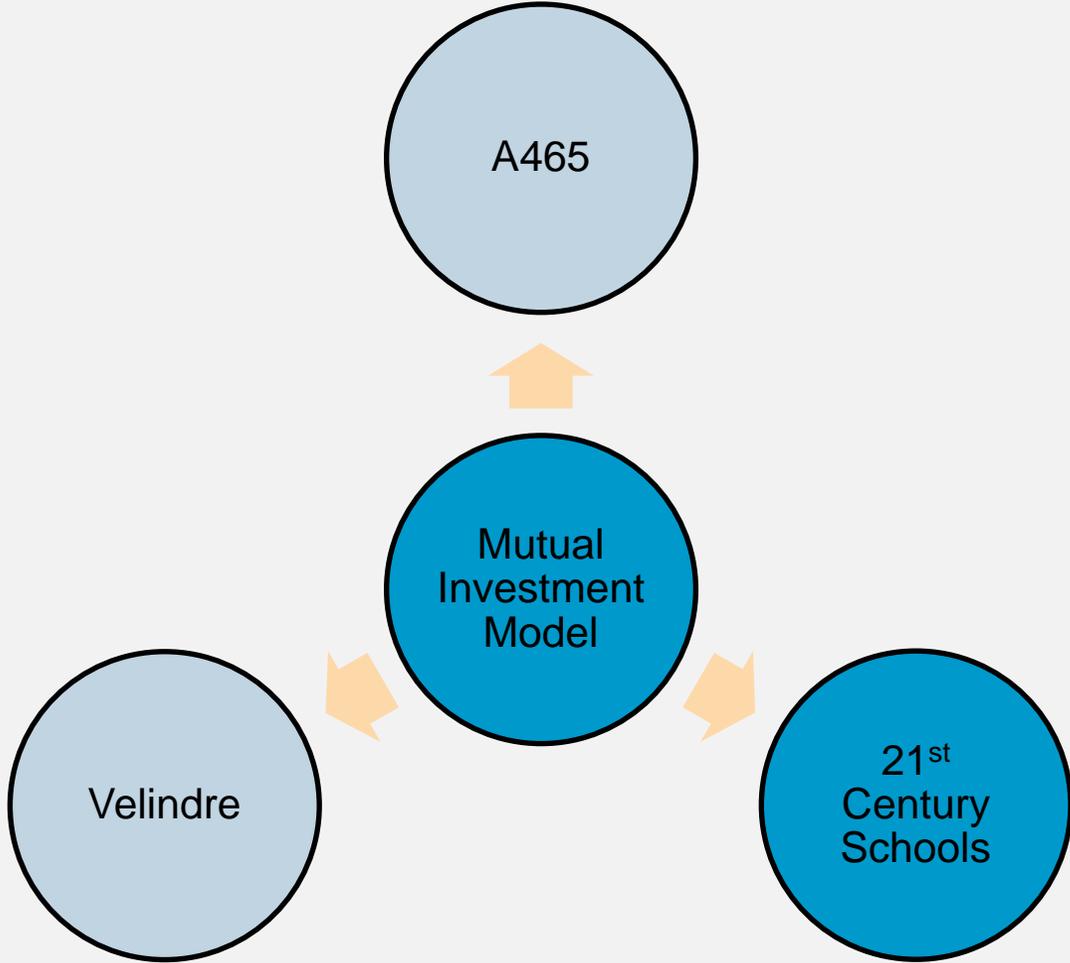
# Strategic Partnering Arrangements

Pre-identified Band B pipeline consisting of 33 revenue funded school and college Projects, including:

- 4 no. Colleges
- 10 no. Secondaries and All-Through Schools
- 19 no. Primaries
- All of the above projects have a construction value of circa £520m.
- Pipeline Projects already identified are generally concentrated in the North and South of Wales
- The delivery pipeline is indicative and is monitored and updated by Welsh Government and WEPCo over the course of the programme.



# What is the Mutual Investment Model (MIM)



**The Mutual Investment Model (MIM)** is an **innovative way to invest in public infrastructure**, developed by the Welsh Government to finance major capital projects. The MIM:

- facilitates additional investment in social and economic infrastructure projects, improving the delivery of public services in Wales.
- promotes Community Benefits, Public Interest and it offers an Off Government Debt solution.
- **has fundamentally different approaches in key areas for each of the three projects/programme**

# What is the Mutual Investment Model (MIM)



**The Mutual Investment Model (MIM)** is a Public Private Partnership (“PPP”) model.

Lessons have been learned from all previous UK PPP models to ensure benefits are maximised.

Key benefits deliverable under MIM (and Education specifically) include:

- Public sector equity investment and ProjectCo Board representation;
- Contractual requirements for delivery of Community Benefits;
- Highly developed output specification with energy sharing mechanism;
- Interface drafting and detailed service level specification;
- Permitted small value changes;
- Ability to survey every two years to monitor asset status
- Additional quality assurance and monitoring roles

These enhancements were included in our Project Agreement (“PA”) and underpinned the Procurement

ONS sign-off, prior to Procurement, that our Education PA was **off-Government Debt**



- **What distinguishes MIM from PFI?**

Commercially, there are some specific and fundamental differences but not many

The PA issued reflects these changes, but key is in deliverability, and:

Our expert Team has significant experience across PFI/BSF/PSBP and understand the importance of:

A standardised Output Specification (including NZC, reflected in pilots);

Contract Management support for Local Authorities and Further Education Institutions;

A centralised 'Centre of Excellence' within WG, providing each Participant authority/FEI with:

commercial

financial

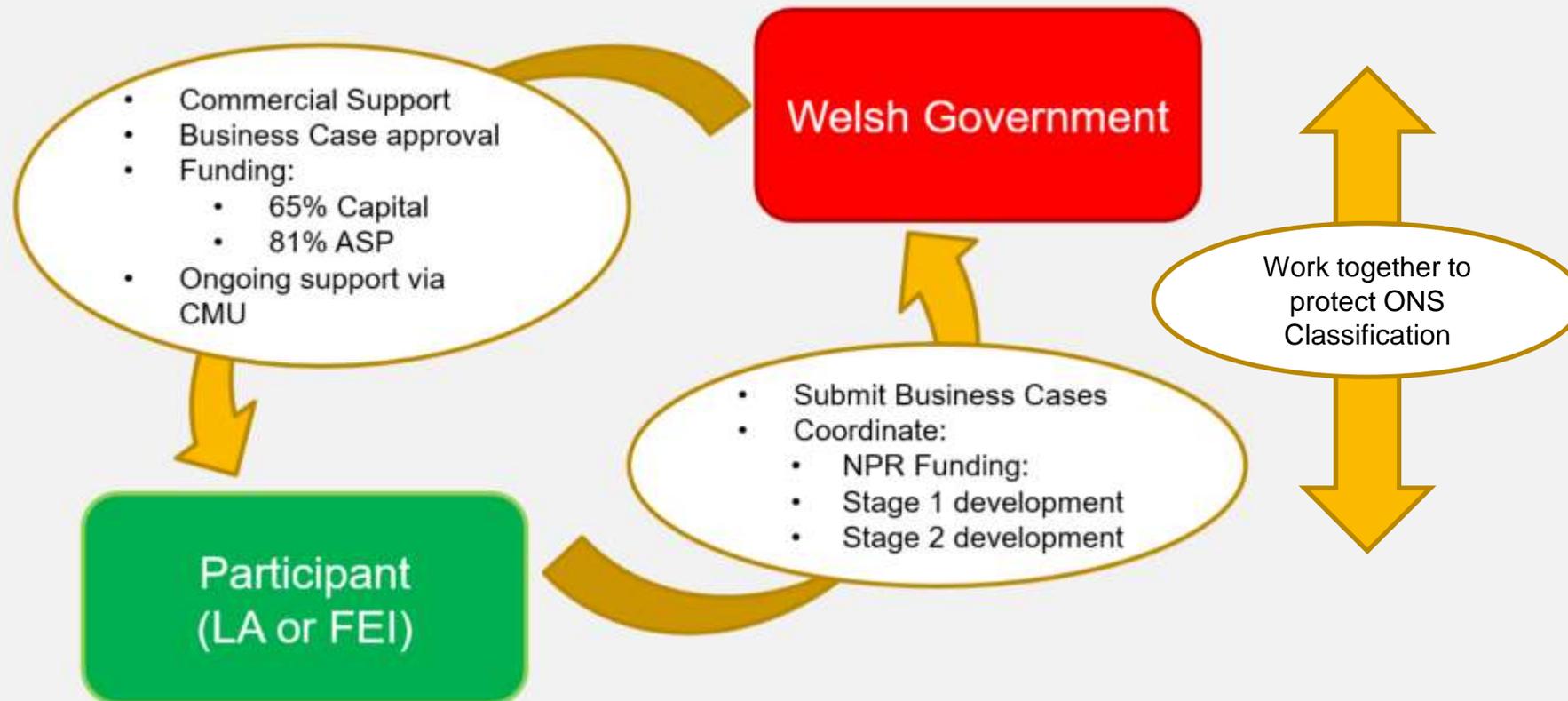
technical

support during each stage of the lifecycle of a MIM Project.

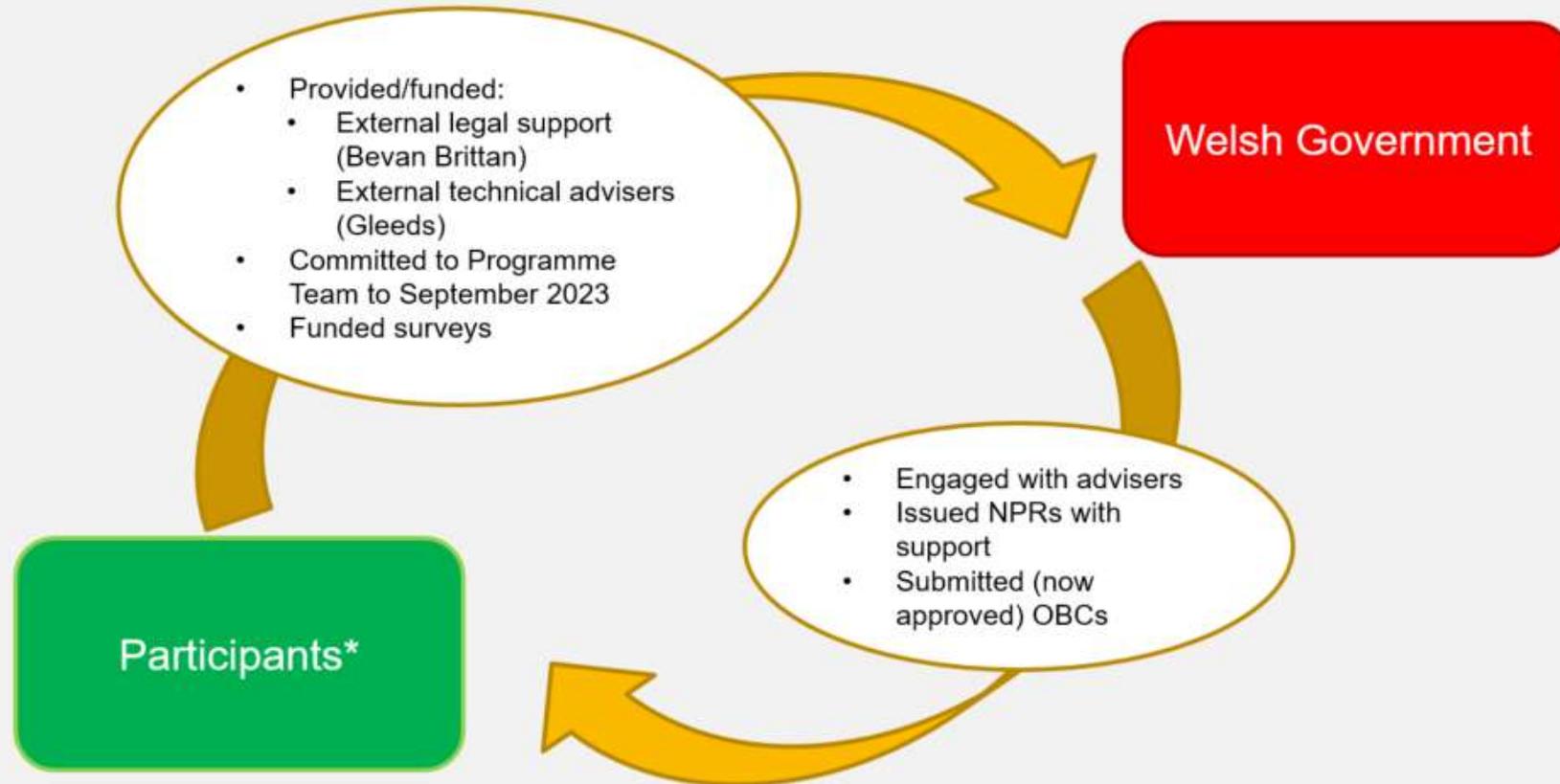
Contract Management support for Local Authorities and Further Education Institutions



## Public Sector Roles and Responsibilities

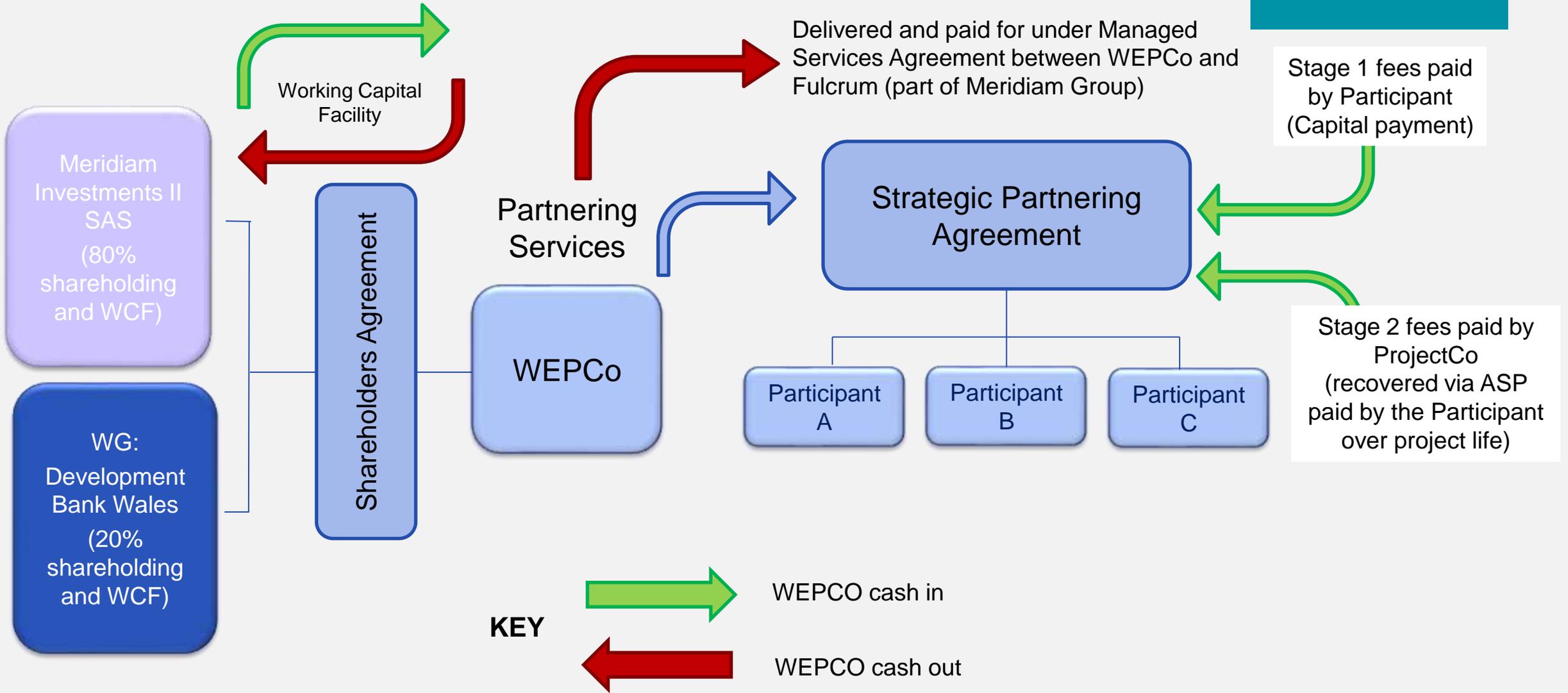


# Public Sector Roles and Responsibilities – In Practice



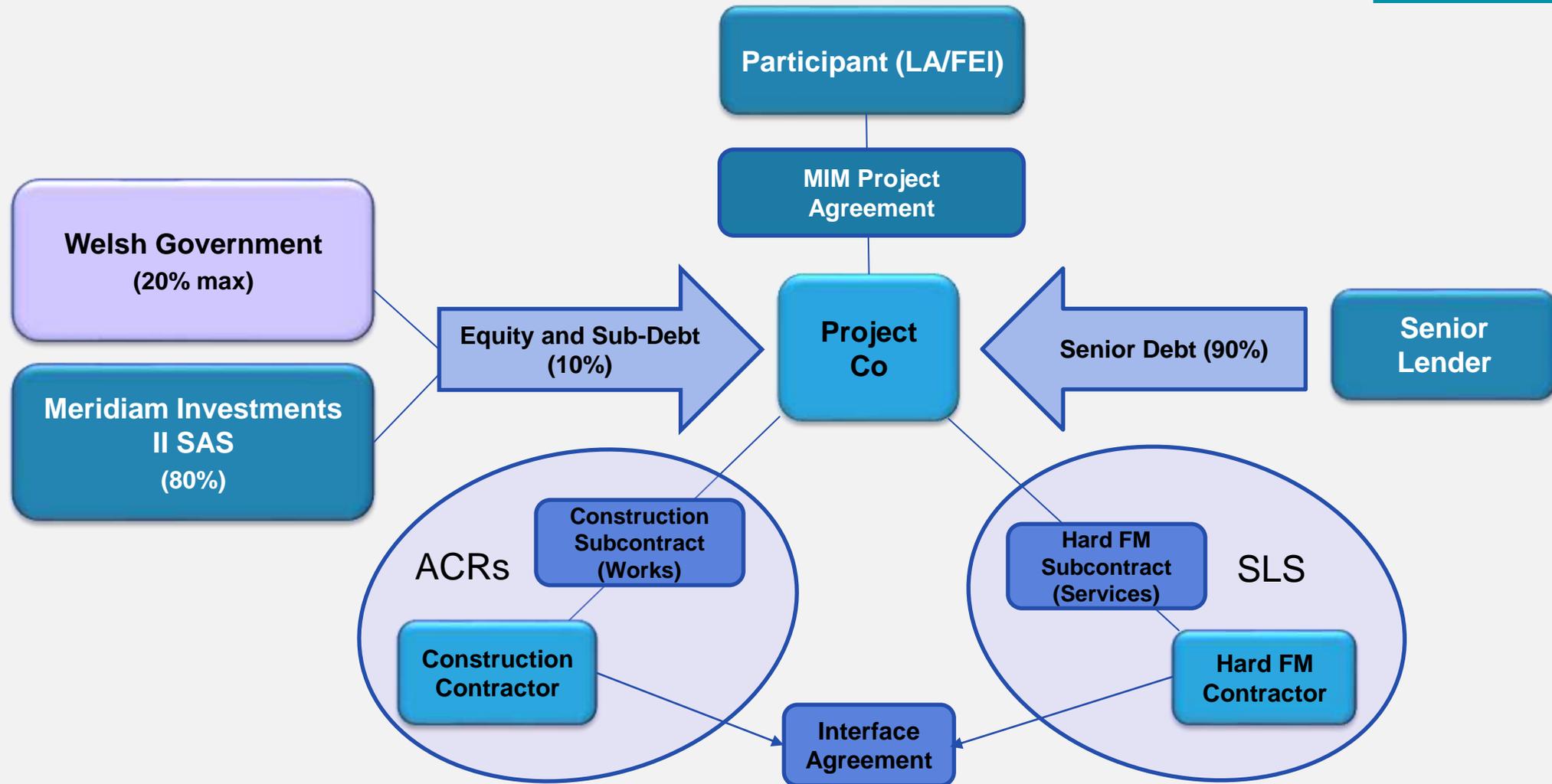
\* = Flintshire and RCT primarily, but principal applies to all Participants

# WEPCo Operations and Funding Flows

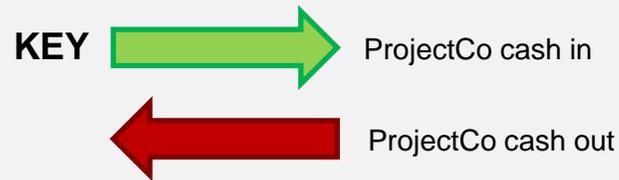




# Welsh Government MIM Structure: ProjectCo



# MIM Education Structure: ProjectCo Funding Flows



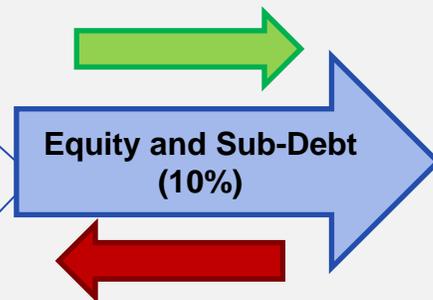
**Participant (LA/FEI)**

MIM Project Agreement  
Annual Service Payment  
(ASP)

- Participant pays 100% of ASP (revenue) to ProjectCo;
- WG education directorate reimburse 81% of ASP to Participant;

**Welsh Government  
(20% max)**

**Meridian Investments  
II SAS  
(80%)**



**Project  
Co**



**Senior  
Lender**



**Other ProjectCo costs  
including Stage 2  
development fees to WEPCo.**

- Subordinated debt (or junior debt) will come from shareholders on a 80/20 split;
- Typical gearing (between senior and junior debt) in debt market for lower value MIM schemes is 90/10 senior/junior;
- Senior debt repayments have priority over junior debt repayments. Senior debt can lock-up junior debt repayment for breaches of the funding agreement of the Project Agreement.

- Senior debt funding will be secured through a funding competition to secure best available rate at the time;
- Senior debt market is currently active and competitive for MIM type projects as seen as safe lending;
- Project bundles above £50m seen as more attractive to senior debt market.



## WG Funding Assumptions:

- S278 works are excluded from MIM funding – these costs will be payable by the LA/FEI.
- S106 works will not be included as part of any MIM Project.
- Capital contributions will need to be considered carefully to ensure that the contribution does not impact on the Project classification (and move the Project onto Government Debt).
- Stage 1 and Stage 2 fees are **capped**
- The Affordability Cap is set by the MIM Education Team based on the Schedule of Accommodation prepared by the Participant with Gleeds and Scott Brownrigg.
- Funding is based on the requirement for all LA/FEI's to use the **MIM standard form** contract documentation that has been agreed (Strategic Partnering Agreement and Project Agreement). Derogations must be reviewed and approved by Welsh Government (supported by the MIM Education Team) to ensure that the project classification is not impacted.
- The LA/FEI will be responsible for **funding their own activities** e.g. contract management resources. The LA/FEI will be responsible for the contract management of ProjectCo.
- It is anticipated that many LA/FEI's will require additional support from the Contract Management Unit being established within the Education Directorate.
- **Some** resources will be funded by Welsh Government including BIM Information Manager, Clerk of Works, M&E Commissioning Manager and Independent Tester.



# Project cost payment points

Affordability Cap (Annual Service Payment) is set at SOC stage by the LA/FEI and WG MIM Education Team.

Stage 1 fees payable by the LA/FEI upon approval of the Stage 1 submission.

Stage 2 fees are paid to WEPCo by ProjectCo after ProjectCo is formed at Financial Close.

The Participant Local Authority/FEI are responsible for their Business Case submissions

Strategic Outline Programme (SOP)

Strategic Outline Case (SOC)

Stage 1 Approved

Outline Business Case (OBC)

Stage 2 Approved

Final Business Case (FBC)

**WEPCo activity**

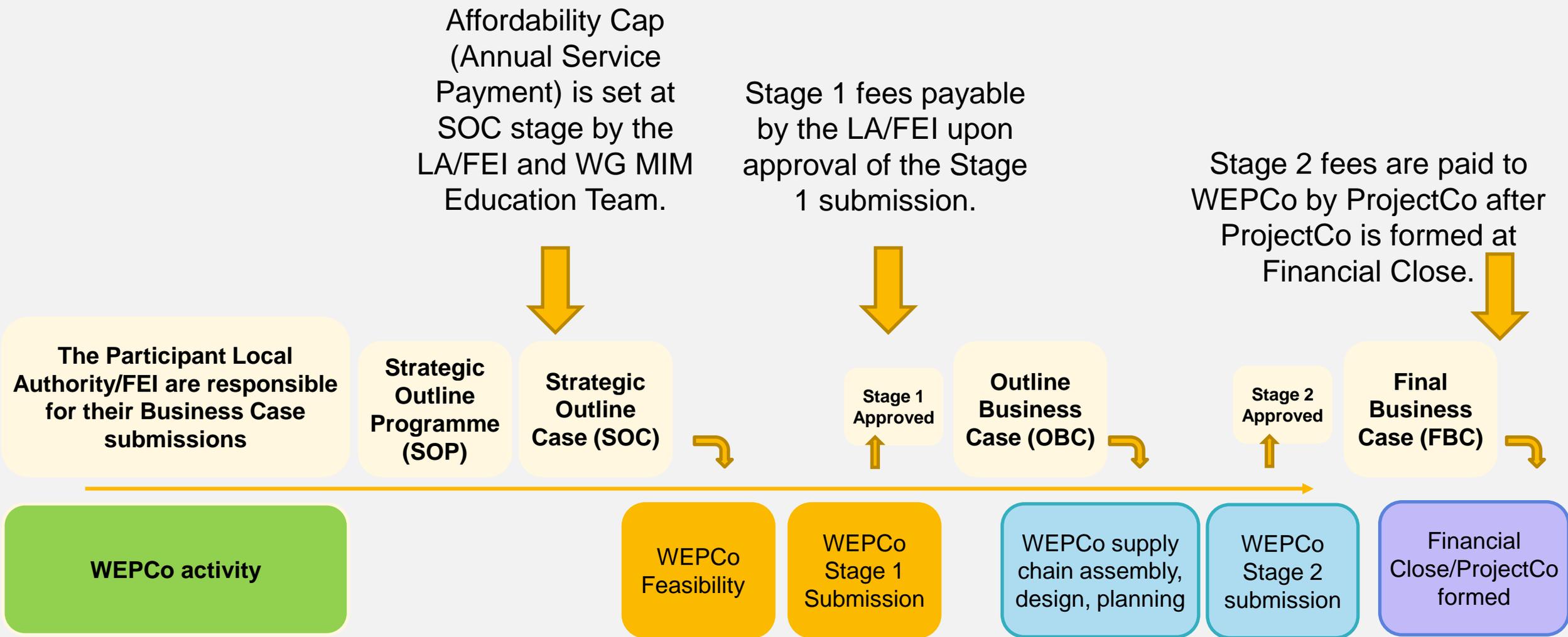
WEPCo Feasibility

WEPCo Stage 1 Submission

WEPCo supply chain assembly, design, planning

WEPCo Stage 2 submission

Financial Close/ProjectCo formed





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# Quality Assurance and Net Zero Carbon



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# Quality

- Quality is at the **heart** of the 21CS Band B MIM Programme to ensure that the buildings are operating and functioning as designed and to safeguard its condition for 25 years whilst being maintained and life-cycled by ProjectCo.
- Introduction of new roles to ensure quality through design, construction and operation:
  - Clerk of Works (MIM policy requirement)
  - Independent M&E Commissioning Manager
  - Independent Tester
- Standardised Authority's Construction Requirements (ACRs) and Service Level Specification (SLS) – all LAs/FEIs will be required to adhere to these standards in order to obtain WG funding (any derogations will be reviewed by WG CMU).
- Standardised approach = efficient, implements lessons learned across the Programme & ensures consistency across the estate.



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## Authority's Construction Requirements (ACRs)

The baseline MIM Schools Output Specification (ACRs) requires that facilities target low energy principles as a baseline:

- Fabric First Approach
- Design for Performance
- PassiveHaus “light”
- Presumption of all Electric building
- Point of use hot water including showers
- Air leakage testing

# The Net Zero Carbon Challenge



Net Zero Carbon in Operations?

Whole Life Carbon?

Embodied Carbon?

Value for Money test? Green Book?

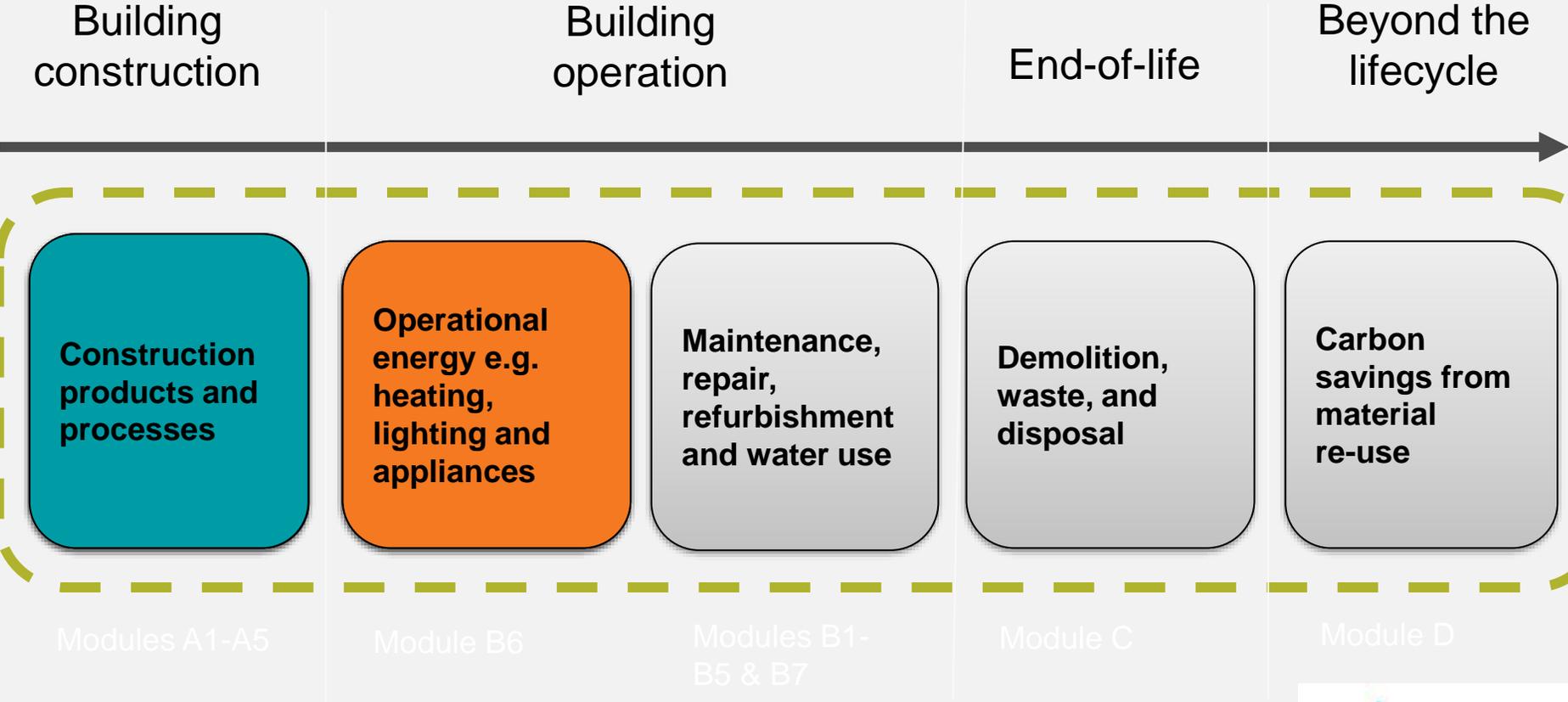
On site generation?

“the grid is getting greener”

**Net Zero Carbon –  
Construction**

**Net Zero Carbon -  
Operational Energy**

**Net Zero Carbon –  
Whole Life**





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# Net Zero Carbon Cost Differential

- Area standards for 21<sup>st</sup> Century Schools and Colleges are BB98/99 Maximum.
- These are more generous than BB103 which is used by DFE.
- Consequently additional area to deliver features such as cross ventilation do not require so much (or any) additional area.
- Early cost planning on the two schemes in development is that the uplift in cost is between 9 and 12% from the base ACR design.
- It is suspected that due to the requirements of meeting our ACRs this differential is likely to reduce – for example the decision has been made not to go forward with triple glazing.
- The emphasis on good practice in construction and the quality product is paramount to delivering the energy efficiency. This could lead to an uplift in construction costs.
- However, if this approach becomes the norm going forward everyone will benefit.





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