

CABINET – 20 OCTOBER 2009

BUILDING SCHOOLS FOR THE FUTURE

**Report by Director for Children, Young People & Families and
Assistant Chief Executive & Chief Finance Officer**

Introduction

1. The Financial Monitoring report to Cabinet on 15 September referred to the accelerated production and submission of a Readiness to Deliver statement to Partnerships for Schools, the body with overall responsibility nationally for all school capital programmes. This statement set out the Council's ambitious educational transformation it will achieve through the Building Schools for the Future (BSF) programme.
2. The Readiness to Deliver statement was submitted on the 17 September along with a letter from the Leader of the Council and Chief Executive which committed the Council to a number of key principles. The Readiness to Deliver statement (Annex 1) and letter (Annex 2) are attached to this report. The purpose of this report is to update Cabinet on the current position, identify the key objectives of being brought into the national BSF programme, explain what needs to be done for this to happen, including extensive consultation with all stakeholders, and to highlight the key financial challenges which will need to be addressed.
3. Building Schools for the Future (BSF) is a major national capital investment programme worth approximately £55 billion. Every secondary school and special school with secondary aged pupils should see significant investment in Information & Communications Technology (ICT) and most will also see much, or all, of their existing buildings replaced or refurbished by 2023. Across the whole programme each local authority can expect to see 50% of school buildings replaced, 35% substantially remodelled and 15% lightly refurbished. The national programme is managed on behalf of the Department for Children, Schools and Families (DCSF) by Partnerships for Schools which has recently had its remit extended to cover all school capital investment programmes.
4. Oxfordshire currently has 32 maintained secondary schools and 11 eligible special schools. Four of these have been grouped into a priority project worth about £80million plus approximately £8m ICT funding (they are Banbury School; Cheney School, Oxford; Larkmead School Abingdon and Iffley Mead Special School, Oxford) and five follow-on projects, each of about £100m giving a total potential capital investment of just under £600million.
5. The Council's priority BSF project was ranked 22nd out of the 70 or so submitted in November 2008 by those local authorities not yet in the national programme. Along with the details of our priority and follow on projects, the

Council was required to give an indication of when it thought it would be ready to be brought into the national programme. The initial assessment was that the Council would be able to demonstrate 'Readiness to Deliver' in January 2010. However, in August of this year, Partnership for Schools contacted around 20 local authorities, including Oxfordshire, inviting them to bring forward their Readiness to Deliver submissions so that they might be considered for entry into the programme this financial year. The deadline given was the 17th September 2009.

6. The Readiness to Deliver statement (attached at Annex 1) was submitted by the specified deadline and its receipt by Partnership for Schools has been acknowledged.

Educational Transformation

7. At the heart of BSF is the need for local authorities to develop a vision for education in their area that offers real innovation and enables the teaching and learning in every school to be transformed. It is the first principle of a successful BSF strategy and the must-be in place *before* any capital investment can take place. In creating their education vision (known as the 'Strategy for Change'), local authorities are required to consult with their schools and a wide range of other relevant stakeholders to assess their education needs; now and in the future.
8. Although entitled *Building Schools for the Future*, the programme is, above all else, about transforming the quality and nature of secondary education to produce greatly improved outcomes for young people, their families and the communities of which they are a part. It affords an opportunity for the Council, headteachers, staff, governors and students radically to rethink the curriculum; the way schools are organised; how 'hard to reach' group can be re-engaged with education; how they engage with their community and other services working with young people and their families.
9. BSF investment could help deliver, for example:
 - schools designed to make the best use of external /internal spaces to provide stimulating, inclusive, flexible learning spaces with far better circulation and social spaces and clear sight lines to manage behaviour;
 - more adaptable buildings that can respond to changing needs
 - robust, resilient and integrated ICT that will enable personalised learning anywhere/anytime and better use of data to allow timely interventions to support learners better;
 - opportunities to co-locate and extend services around the needs of children and communities; and
 - improved energy efficiency of buildings and a substantially reduced backlog of outstanding school maintenance

Next Steps

10. Partnership for Schools will assess the Readiness to Deliver against a number of criteria and we should be informed of the outcome in November. A successful assessment will be followed by a Remit Meeting with Partnership for Schools which marks the formal entry into the BSF programme.
11. The Strategy for Change is the first key document that local authorities have to produce following entry into the BSF programme. The Strategy for Change will be the outcome of extensive consultation, particularly with headteachers. A working group of Council officers and headteachers has been established and an extensive list of other consultees has been compiled, divided into three groups according to their connection with the intended outcomes of BSF.
12. The Outline Business Case is another key document which must be completed to gain formal approval for a BSF project to move into procurement. The Outline Business Case will be reviewed to ensure that the project being proposed reflects the vision set out in the Strategy for Change, is affordable, offers value for money, will attract market interest and that the local authority is sufficiently resourced to deliver the procurement.
13. Local authorities are required to submit a Final Business Case at this stage to evidence that the procurement has delivered the objectives set out in the Outline Business Case. The Final Business Case is the final key approval prior to the release of funding (financial close) and therefore approval to enter into the agreements for each scheme.
14. There is a project plan in the Readiness to Deliver statement which sets out estimated dates for procurement and construction of the first project. Estimated key dates for the next 12- 14 months are set out below.

Key Dates	Milestones
November 2009	Invitation to the Remit Meeting
January 2010	The target date for submitting the Strategy for Change- Part 1 (The Vision)
July 2010	The target date for submitting the Strategy for Change Part 2 (how we will deliver the vision) Individual Strategy for Change for Tranche1 Schools
December 2010	The target date for submitting Outline Business Case The Official Journal of the European Union Notice issued

15. Internally a key step will be the recruitment of both new personnel and secondments of appropriate in-house staff for the core project team. These

arrangements need to be finalised in line with government deadlines to meet the requirements of such a challenging programme.

16. The Cabinet will receive programme update reports at key stages of the process and prior to making any formal submission to Partnership for Schools.

Programme Governance & Decision- Making

17. Governance arrangements were considered at an informal Cabinet in July and the first BSF Programme Board meeting took place on 1st October. The membership and terms of reference have been agreed. A Stakeholder Forum will also be established and will meet regularly to ensure that the views of key partners and the wider community needs are taken into account.

Procurement Options

18. The standard mechanism recommended by Partnership for Schools for procuring BSF projects is through a Local Education Partnership. All procurement options will be evaluated as part of the project development to ensure value for money is achieved.
19. A Local Education Partnership is a joint venture company comprising the local authority, BSF Investments (on behalf of Partnership for Schools) and a private sector partner. By having financial investment in the Local Education Partnership, the local authority shares (proportionate to its shareholding) in the risks and rewards. This gives both public and private sector partners an interest in seeing the Local Education Partnership succeed which, for the public sector shareholding, means returns which can be re-invested into local services.

BSF Funding from Partnerships for Schools

20. Central government funding for a local authority BSF scheme is based on a formulaic model which provides for the required space in schools depending on forecast pupil numbers over a 10 year period. The level of funding is valued using standard build costs. There is an additional element for abnormalities (e.g. asbestos removal), carbon efficiency, furniture and equipment and ICT.
21. Where the planned programme of work for a specific school involves a new build element which exceeds 70-75% of the total floor area, HM Treasury guidance is that these schools should be delivered through Private Finance Initiative (PFI). One of the key reasons for this is to ensure the condition of the built environment does not prejudice educational transformation over the lifetime of the PFI contract as the provider is contractually committed to maintain the buildings' condition.

22. Where the proportion of new build is lower, these are expected to be delivered through conventional design and build contracts. This method does not include Facilities Management services and ongoing maintenance as part of the contract..
23. The Partnership for Schools funding is provided either in the form of a capital grant for the design and build schools or in the form of Private Finance Initiative Credits which give rise to a stream of revenue support to contribute to the payment of annual PFI annual unitary charges on any schools built through the PFI. In either case the funding only meets the capital costs of the project.
24. The cost of build may exceed the funding made available by Partnership for Schools, thereby creating an 'affordability gap'. The Council, the Schools Forum and the schools' governing bodies will need to make decisions about contributions to the programme in addition to Partnership for Schools funding to meet the affordability gap. Alternatively, in some cases, it may be necessary to reduce the scope of the capital work to be undertaken, to reduce the cost.

Financial Commitments required of the Council and schools

Programme Delivery Budget

25. There is currently funding in the Medium Term Financial Plan totalling £4.2m over the five year period to 2013/14 to cover the expected costs up to the financial close phase of the project. This sum includes ongoing funding of £0.16m (£0.8m over the five years) and £3.4m one-off funding. Annex 3 provides an indication of how the funding will be utilised based on requirements for project up to the procurement phase.
26. There will be a need to establish longer term funding beyond the appointment of a preferred bidder. This is required to carry out work related to developing future phases. The Council will need to provide sufficient resources to establish a team to deliver the operational phase of the Programme and to work with the Local Education Partnership. The team will take on a strategic commissioning and performance management role. Future reports to Cabinet will determine the possible funding requirements.

Design & Build Costs, Capital Grant and Affordability

27. A financial model of the costs and funding for the Design & Build school in the priority project has been prepared by the external financial advisers to the Council. According to the initial analysis, there is an affordability gap between the estimated funding and capital costs of **£2.277m**. This would be a single 'one-off' payment. This does not account for any additional contributions from either schools or the local authority which would need to be determined.

	Total (£m)
Estimated construction cost	15.725
Partnership for Schools funding allocation	13.448
Initial Affordability Gap	£2.277

A number of sensitivities have been run to assess the impact on the affordability gap:

- A 10% increase in capital costs would increase the affordability gap by **£1.573m**;
- A 10% decrease in capital costs would decrease the affordability gap by **£1.572m**.

PFI costs, PFI credits and Affordability

28. Initial assessment of the priority project indicates that three of the four schools may fall into the 70% or more new build category and therefore *may* be expected to be built through the PFI. A financial model of a PFI unitary charge for these schools has been prepared by the external financial advisers to the Council, based on the building costs through the Funding Allocation Model, lifecycle costs and Facilities Management costs.

Unitary Charge Model Result	Total* (£m)	Annual (£m)
Estimated Unitary Charge	303.427	10.726
Estimated PFI Credits	190.388	7.285
Estimated Affordability Gap	£113.038	3.441

(a) over 25 years

29. An initial analysis by the Council's external financial advisers indicates that there may be a difference of up to £113m between the PFI credits made available to the Council and the total charges which will be levied over the 25 year lifetime of the contract. This would be equivalent to a shortfall of £3.4m in 2015/16, the first year in which the unitary charge becomes payable. The Council, the Schools Forum and individual school governing bodies will need to agree how this affordability gap can be bridged.

30. A number of sensitivities have been run to assess the impact on the affordability gap:
- (1) A reduction in Annuity rate of 0.1% would increase the affordability gap by **£0.054m**;
 - (2) An increase in capital costs of 10% would increase the affordability gap by **£0.737m**.
 - (3) Current funding market terms would reduce the affordability gap by **£0.515m**;

ICT Funding and Affordability

31. Whilst the capital value of the ICT element of the initial BSF project is small (£8m), compared to the overall capital value, ICT has the potential to transform education and is at the core of the BSF Programme.
32. There are two sources of funding for ICT from Partnership for Schools: a capital grant of **£1,450** per pupil and a capital grant for infrastructure of **£225** per pupil. There is an expectation that schools will pay a revenue contribution for the delivery of the ICT managed service. Experience has shown that the expected level of contribution would be in the region of **£150 - £200** per pupil.
33. There are a number of key areas for ICT affordability, including: the pupil to device ratio; legacy equipment; the learning platform; core hours; TUPE and local choice. The Council and schools will need to look at the details in all these areas and determine the funding strategies to fund the possible ICT affordability gap for the project.

Financial and Staff Implications

34. The financial and staffing implications are contained in the main body of the report.

RECOMMENDATION

35. **The Cabinet is RECOMMENDED to:**
- (a) **Confirm it's commitment to the BSF programme;**
 - (b) **Confirm that it wishes officers to continue to seek to have Oxfordshire brought into the national BSF programme as soon as possible and fully engage with all relevant stakeholders and partners;**
 - (c) **Confirm that, unless or until such time as the requirements change, it understands that the default model for the delivery of BSF is through a Local Education Partnership unless otherwise agreed with DCSF and Partnership for Schools subject to value for money consideration; and**

- (d) **Acknowledge that, under the current regime, new schools delivered through the BSF programme will be predominately procured through PFI and that refurbishments will be procured through capital grant.**

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Background papers: Partnership for Schools Readiness to Deliver Guidance

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