

WIRRAL COUNCIL

SCHOOLS FORUM – 27th APRIL 2016

REPORT OF THE DIRECTOR OF CHILDREN'S SERVICES

School PFI costs

1.0 EXECUTIVE SUMMARY

- . This report updates the Forum on the costs of PFI in schools and also an exercise recently undertaken to compare the costs paid by PFI and non-PFI schools in Wirral, in order to better understand any differences.

2.0 BACKGROUND

- . The Wirral Schools PFI project agreement was signed by the Council, school governing bodies, and the PFI contractor in March 2001. The scheme involved the rebuild / refurbishment of one primary and eight secondary schools in Wirral. These were:

Leasowe Primary
Bebington High
Birkenhead Park School
South Wirral High
Weatherhead High
Hilbre High
Prenton High
Kingsway Academy
Wirral Grammar Girls

Variations were subsequently agreed for the construction of two City Learning Centres (CLC's) located on PFI sites, one at Wallasey and one at Hilbre.

The contract was originally for 25 years to July 2029, but in September 2004 it was extended by 2 years and will expire in July 2031. Construction works were completed in August 2006. The PFI contract also provides for facilities management (FM) support services in schools. These services include building and grounds maintenance, catering, cleaning and caretaking, security, waste, minibuses, utilities and telecommunications.

An annual sum is paid to the PFI contractor Wirral Schools Services Ltd. for the cost of PFI. This "unitary charge" represents the repayment of capital costs for rebuilding / refurbishing the schools and a payment for the cost of providing facilities management services. It is the assessed costs of these FM services that schools pay for out of their delegated budget that is the main purpose of this report.

The contract makes provision for the total costs to increase each year by the December Retail Prices Index, less 10%.

3.0 PFI COSTS

In 2016 -17 the annual PFI contract cost (excluding CLC's) will be £12.3m. These costs are in part financed by a PFI Government Grant. This is a fixed annual grant for the duration of the contract to 2031 and totals £5.5m per year. In addition each PFI school will pay its share of FM support service costs. In total these are currently £3.9m. FM costs are subject to periodic review and benchmarking, following which the amount paid may be amended.

This first benchmarking exercise, completed last year, has increased the overall amounts paid by schools by £0.8m.

The budgeted PFI costs for 2016-17 can be summarised as:

	£m
Contract Payments of	12.3
Funded by:	
PFI grant	5.5
Individual school contributions	3.9
Schools Budget (central)	2.3
Council Contribution	0.6
Total	12.3

As part of the current consultation on a National Funding Formula, the DfE are encouraging local authorities and schools to fully delegate PFI costs which will then enable amounts to be reflected in the new formula allocations. Many authorities have already delegated costs for PFI and the PFI Affordability Gap; some however, including Wirral, have not.

4.0 Wirral School PFI costs

The main focus of this report is to compare the school contributions for PFI Facilities Management costs with those paid by other similar schools. This has been undertaken for two reasons:

1. There has been a benchmarking exercise undertaken as required in the PFI contract, where FM services are compared with market rates. The conclusion of this has been to increase the annual amounts paid by schools, particularly for cleaning. One view is that costs are now far higher than in other schools, another is that the benchmarking exercise has caught up with the rates paid elsewhere by other schools.
2. PFI schools believe their FM costs have a different basis; in that they are less flexible and harder to reduce. As a result schools must commit an increasing proportion of their school budget at the expense of other areas.

A detailed piece of work has been commissioned by an experienced PFI advisor, who has a detailed knowledge of the PFI structures and payments on Wirral. His initial findings have been discussed with a number of PFI school business managers in order to test the assumptions made.

FM costs can be compared in a number of ways e.g. cost per pupil, costs using planned size / admission numbers and costs using internal floor area. Costs can also be compared between Wirral schools and non-Wirral schools. In deciding the most suitable method the following factors were taken into account:

- Pupil numbers - there are a number of schools that are at capacity and a number that are not. Empty places will increase unit costs and may distort comparisons
- Non-Wirral schools - whilst benchmarking data is available more caution is needed with this data, since there will be less knowledge of the schools concerned.
- Gross internal floor area - the data for which is readily available for Wirral schools and has been used for the comparison below.

The comparison is based on 2013/14 prices, being the most complete full year data available when the exercise was undertaken. Although PFI school costs are fairly consistent each year, this wouldn't necessarily be the case for Non-PFI schools, so as such, data over 2 financial years was gathered to make sure costs were representative.

COMPARISON OF COSTS FOR WIRRAL SECONDARY PFI AND NON-PFI SCHOOLS

	Average 3 PFI Schools	Average 3 non PFI Schools	Services More / (less)	Total per sq M	Total across all PFI Schools
Gross Internal Floor Area	31,820 £	32,218 £	£	£	£
Services					
Building Maintenance	4.09	6.92	(2.84)		
Other Occupancy	0.30	0.33	(0.03)		
Cleaning, Caretaking	23.66	19.35	4.30		
Utilities	11.84	13.16	(1.32)		
Minibuses	0.63	0.63	(0.00)		
Insurances	2.25	2.25	<u>0.00</u>	0.11	9,588
FM Management	2.00			2.00	168,795
Overhead & Profit	3.87		3.87		
SPV FM Risk Margin	1.00		<u>1.00</u>	4.87	411,723
TOTAL COST PER m2	49.63	42.64		6.98	590,105

The results which take account of the recent benchmarking exercise have made some assumptions. These include:

- There are similar minibus and insurance costs.
- That catering should not be included, each school having their own arrangements, with some staff charged directly to school, others to a contractor and various agreements on profit sharing.
- but utilities / energy costs should be included.

Overall the table indicates a difference for FM services of just 11p per square metre. On average the 8 PFI secondary schools are paying about £1,000 pa more for FM than a non-PFI school. This does not support the case for PFI costs being higher across a basket of services, although there are clear differences in individual services.

PFI schools are paying an FM management cost of £2.00 per sq m. equivalent to £20,800 pa per school. Whilst there is no exact agreement about this comparison, a non-PFI school would be responsible for all management, ordering and oversight of arrangements for FM, whereas in a PFI school this is shared with the contractor and may require less direct support.

It is clear that there are some costs which are unique to PFI. There is no equivalent in other schools to the payment contributing to PFI parent company overheads and profit. There is also an additional payment in respect of risk. Risk probably surrounds unforeseen events or emergencies that cannot be planned for. Where this applies in non PFI maintained schools, this is reflected to an extent in central contingencies.

Proposal

The work undertaken would suggest that the current distribution of funding across schools does not properly reflect the additional costs a PFI school incurs. Whilst PFI schools will benefit from additional levels of maintenance and services, their costs are relatively fixed and inflexible over the medium to longer term. Although differences only account for a small proportion of the overall school budget (about 0.2%), for a secondary PFI this is about £50,000 pa.

On this basis there should be some consideration given to a new formula element in the school funding formula i.e. a PFI factor. This element is one of the 14 permitted formula factors. However the timing for this is not ideal, there would be no additional funding for this and the change would lead only to a redistribution of existing funding. In addition a change would be introduced at the same time as a national “soft” funding formula, the implications of which will not be known for some time.

Being mindful of the DfE’s guidelines i.e. that PFI (including the Affordability Gap) should be fully delegated to schools, this proposal should be developed and considered in more detail. Initially it is planned to do this through the Forum Formula Working group prior to any consultation with schools later in the year.

Recommendation

- That the Forum endorses the approach and work undertaken to date.
- That the proposal is referred to the Forum Funding Working group, following which schools are consulted on this matter.

Julia Hassall
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