

WIRRAL COUNCIL

SCHOOLS FORUM – 6th July 2016

REPORT OF THE DIRECTOR OF CHILDREN'S SERVICES

School PFI costs – Working party update and proposed consultation

1.0 EXECUTIVE SUMMARY

- . This report summarises the recent discussions at the Forum's Schools Formula Working group regarding the current 9 school PFI agreement. The report proposes a consultation with schools and providers with a view to introducing a new element for these PFI costs within the Schools Funding Formula.

2.0 BACKGROUND

- . Previous Forum reports have summarised the position with regard to the existing Wirral Schools PFI project agreement, signed by the Council, school governing bodies, and the PFI contractor in respect of the rebuild / refurbishment and facilities management of nine Wirral schools:

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

In addition the contract supports two City Learning Centres. The contract is for 27 years and will expire in July 2031.

Separate PFI agreements have also been agreed for Bedford Drive Primary and Ridgeway High School. However these sit outside the 9 school project and are not the subject of this report or proposed consultation.

3.0 PFI COSTS

The budgeted PFI costs for 2016-17 are:

	£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

The PFI Government grant is fixed for the duration of the contract, whereas other costs and income sources increase by the Retail Prices Index (less 10%) annually. 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 FM amounts paid by schools by £0.8m.

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 Working Group Meeting 21st June

This was a well-attended meeting with a range of Forum representatives (L. Ayling, E. Cogan, K. Podmore, B. Jordan, A. Whitely, J. Billinge, P. Young, A. Donelan, L. Hazeldene, L. Ireland.)

The agenda discussed:

- The work undertaken to examine how PFI and non-PFI school costs compared
- The PFI Affordability Gap
- How areas in respect of PFI can be reflected in the school funding formula
- The implications of any changes for schools and providers.
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Comparison of PFI and Non PFI costs

The comparison followed discussions with schools following the completion of PFI benchmarking and comments that:

1. Costs of FM are now far higher than in other schools.
2. Or an alternative view that benchmarking was to catch up with the rates paid elsewhere by other schools.
3. PFI school FM costs have a different basis to other schools; in that they are less flexible and harder to reduce. As a result PFI schools must commit an increasing proportion of their school budget at the expense of other areas.

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 comments of members in the working party were varied and indicated a range of views:

- Higher costs in PFI schools reflect a higher standard of maintenance in schools
- Non PFI schools do not benefit from the same standard of maintenance and need to ring-fence budgets to enable repairs to be undertaken.
- The increases for PFI are excessive, tied to inflation and are inflexible.
- Non PFI school costs for FM have increased as a result of pay awards, national insurance and pension changes. These have exceeded inflation. The National Minimum Wage and the Apprentice Levy will increase costs further in the future.
- General agreement that some PFI costs were unique – amounts paid for risk or profits.
- PFI schools do not need the same level of FM management as non PFI schools – ie they do not need to survey, place orders, oversee contracts and process payments.
- The comments made by PFI schools however were that the management and supervision required is greater, there are complex, time consuming negotiations and detailed supervision of work.
- No alternatives to the calculation based on square metres were suggested. The use of pupil numbers was not supported as it was felt this would disadvantage those schools with surplus capacity.

The implications of making formula changes for PFI costs on other schools and providers.

With regard to funding additional PFI costs the consensus of the working party was that all schools and pupils are being disadvantaged by the PFI contract, its lengthy commitments and increasing costs. Members felt the serious affordability issues should continue to be raised nationally with the Department for Education to promote a wider discussion. Until there is some other resolution to this issue however members agreed there is a collegiate responsibility. This is not a secondary school problem or a secondary v primary school issue. Members expressed the view that the costs of finding a solution within Wirral should fall across all Education provision, noting that this would be particularly challenging at a time when all education sectors are under severe pressure.

PFI Affordability Gap and reflecting costs within the funding formula

The PFI Affordability Gap is the difference between the cost of PFI and the funding from PFI Grant and school contributions.

PFI \contract Cost	£12.3m
Less	
PFI Grant	£5.5m
School Contributions	£3.9m
PFI Affordability Gap	£2.9m

The “Gap” is funded centrally in the Schools Budget, part by the Council and part by DSG. However it is possible to have a specific funding element within the formula to cover PFI costs and the delegation of the Affordability Gap. This is a

permitted element in the formula and is thought likely to continue as part of the National Formula

Member comments were:

- The Affordability Gap does not need to be delegated to schools. Whilst this is true, the delegation of costs is being encouraged by the Education Funding Agency, both to aid transparency and ensure that all school funding received within the LA is passed to schools. (The initial papers from the DfE earlier in the year indicated that all school block funding must be delegated).
- The funding provided to schools for PFI may change or not be sufficient in later years. However the affordability gap is and must continue to be fully funded in order to meet contractual commitments. As such it will be clearly specified amount within the delegated budget.

Proposed Consultation questions

1. Does the evidence suggest that PFI school costs for the 9 school project agreement are greater than non PFI school costs for:
 - Facilities Management Yes / No
 - FM management Yes / No
 - Profit / Risk Yes / No
2. Do these differences and their impact on specific schools suggest that funding should be increased? Yes / No
3. The comparisons are based on building sizes. Should this be the basis if costs are to be reallocated?
4. If funding for PFI schools should be increased do you agree that there is a collegiate responsibility for these costs? Should
 - a. all education sectors, including Early Years and High Needs be top sliced?
 - b. Primary and Secondary school sectors only?
 - c. Do you have another proposal?
5. Should the PFI Affordability Gap be delegated to schools in the light of guidance from the EFA?

Timescale

If agreed, this consultation would be issued to all schools and providers immediately and would run for 10 weeks. The final date for responses would be 21st September. A final decision on this issue would be taken at the Forum's next meeting, in time for inclusion in the school formula submission to the EFA in October if required.

Recommendations

That the Forum:

- Notes the comments made by the Working Party
- Approves the consultation and questions to schools and providers
- Makes a final decision on this matter at its next meeting in September.

Julia Hassall
Director of Children's Services