

## CABINET MEETING – 5 OCTOBER 2011

### EXECUTIVE SUMMARY SHEET – PART I

**Title of Report:**

Capital Investment in Schools – Opportunity to bid for priority schools building programme

**Author(s):**

Executive Director of Children's Services and Executive Director of Commercial and Corporate Services

**Purpose of Report:**

The purpose of this report is to advise and update members on the current position in relation to capital investment in schools and the opportunity to bid for the Department for Education (DfE) Priority Schools Building Programme, which is a programme funded by the Private Finance Initiative (PFI). The report also asks members to consider the recommendation to undertake further work with a specific group of schools to determine their eligibility for the Department for Education (DfE) Priority Schools Building Programme. Should these schools meet eligibility criteria, the final list of schools that meet eligibility criteria will be provided to the Cabinet meeting on 5<sup>th</sup> October 2011. Subject to approval at the meeting, Children's Services will submit a bid on behalf of those schools to the Department for Education (DfE) to be included in the Priority Schools Building Programme.

**Description of Decision:**

Cabinet is recommended to approve that:

- (ii) Should the specific group of schools meet eligibility criteria, the final list will be provided to the Cabinet meeting on 5<sup>th</sup> October 2011. Subject to approval at the meeting, Children's Services will submit a bid on behalf of those schools to the Department for Education (DfE) to be included in the Priority Schools Building Programme.

**Is the decision consistent with the Budget/Policy Framework?**

**\*Yes/No**

**If not, Council approval is required to change the Budget/Policy Framework**

**Suggested reason(s) for Decision:**

Submitting an application for the Priority Schools Building Programme is a pragmatic opportunity to tackle the issues in those schools which are deemed to be in the worst condition in Sunderland. An opportunity such as this may not present itself for some time in the future and the capital investment would allow annual capital maintenance monies to then be allocated to a wider group of schools. This in turn would enable the maintenance backlog to be addressed.

**Alternative options to be considered and recommended to be rejected:**

In terms of progressing capital investment priorities for schools within Sunderland, the Priority Schools Building Programme is the only opportunity available at this time. Therefore there are no alternative options suggested.

**Is this a "Key Decision" as defined in the Constitution?**

Yes

**Is it included in the Forward Plan?**

Yes

**Relevant Scrutiny Committee:**

Children, Young People and Learning



**JOINT REPORT OF THE EXECUTIVE DIRECTOR OF CHILDREN'S SERVICES AND EXECUTIVE DIRECTOR OF COMMERCIAL AND CORPORATE SERVICES****CAPITAL INVESTMENT IN SCHOOLS – OPPORTUNITY TO BID FOR PRIORITY SCHOOLS BUILDING PROGRAMME****1. Purpose of Report**

- 1.1 The purpose of this report is to advise and update members on the current position in relation to capital investment in schools and the opportunity to bid for the Department for Education (DfE) Priority Schools Building Programme, which is a programme funded by the Private Finance Initiative (PFI). The report also asks members to consider the recommendation to undertake further work with a specific group of schools to determine their eligibility for the Department for Education (DfE) Priority Schools Building Programme.

**2. Description of Decision**

- 2.1 Cabinet is recommended to approve that:
- (i) Should the specific group of schools meet eligibility criteria, the final list will be provided to the Cabinet meeting on 5<sup>th</sup> October 2011. Subject to approval at the meeting, Children's Services will submit a bid on behalf of those schools to the Department for Education (DfE) to be included in the Priority Schools Building Programme.

**3. Introduction and Background**

- 3.1 The Council has maximised opportunities over the past ten years to invest in schools wherever possible with a total of more than £200 million invested in new build over that period. Through Building Schools for the Future (BSF) and Primary Capital Programme, the Council successfully implemented significant capital investment of more than £120 million in eight secondary schools and Sunderland academies, and had secured investment of approximately £10 million in primary and primary special schools with building works currently underway (St Joseph's RC Primary School and Maplewood Primary Special School). Prior to its cessation in July 2010, Sunderland had also successfully secured a place in Wave 7 of BSF which would have seen a further £130 million invested in the nine remaining secondary schools and 4 secondary special schools across the city.
- 3.2 The removal of the above funding has frustrated plans to create a fit for purpose school estate and to eliminate the backlog of significant condition priorities which still exist in many of our schools. The backlog across all schools amounts to some £20 – 25 million approximately. In 2011/12 capital allocations for schools were reduced nationally by about 60% compared to 2010/11 funding, largely due to the demise of BSF and pending the outcome of the government commissioned

Sebastian James Review. The number of funding streams for the Council were reduced in 2011/12 with £3,307,883 allocated in Basic Need funding and £3,979,270 for Capital Maintenance, to be shared appropriately with all schools, including the Voluntary Aided Sector and academies.

- 3.3 As neither of these grant allocations are ring fenced, both have been treated as a single sum to address urgent maintenance priorities in secondary non-BSF schools and primary schools. This work includes the replacement of life-expired boiler plant, water systems, infrastructure, roofing, windows and so on. The estimated cost for Priority 1 work (ie the most urgent work) in secondary schools is £2,838,431; in primary schools this is £2,833,000. The priority for Children's Services is health and safety, keeping buildings wind and watertight, and avoiding loss of schooling through school closures. In addition to planned maintenance, a contingency sum is required to address the numerous ad-hoc situations that arise in schools year on year. In addition, the Council has statutory responsibilities in relation to Health and Safety in schools eg asbestos management and legionella testing. Any findings must be funded through maintenance budgets. In recent years schools themselves were able to use Devolved Formula Capital (DfC) to address maintenance priorities in line with their asset management plan, or to increase or upgrade ICT stock. DfC sums have been reduced by 75% in 2011/12 and will continue at this level in future years.
- 3.4 On 19<sup>th</sup> July 2011 the Department for Education (DfE) announced a privately financed (PFI) programme to re-build schools in the worst condition nationally and those in the most pressing case of Basic Need (pressure on places). The full scale of the programme is still to be finalised but is likely to include a mix of primary, secondary and special schools, sixth form and alternative provision potentially covering 100 - 300 schools in total. Local Authorities (LAs) are responsible for co-ordinating and submitting applications from all maintained schools (including VA, Voluntary Controlled and Foundation Schools). Academies may choose to be included in LA submissions or can apply themselves. It is anticipated that 20% of the programme will be delivered each year with the first schools to open in the academic year 2014-15. Those schools included in the initial group for procurement are expected to commence during the second quarter of 2012.
- 3.5 Eligibility for the programme is clearly set out by the DfE in the 19<sup>th</sup> July announcement letter:
- Schools must accept being part of a long-term (approximately 27 year) private finance arrangement including Hard/ Soft Facilities Management (FM). This includes a requirement for schools to make a contribution to the annual revenue payment of around £50-£60 per square metre;
  - Voluntary Aided Schools will be required to make a 10% contribution to the cost of capital;
  - The PFI contract will be procured and managed by a central procurement body (although LAs or schools could be the

contracting parties) and new schools will be delivered in batches, not necessarily geographically;

- Procurement will be based upon standardised designs and space standards;
- Schools that have received major investment in the last 15 years (full replacement or refurbishment of more than 50% of existing buildings) are unlikely to be considered for this investment;
- Schools where more than 30% of buildings are Listed under Planning Regulations are unlikely to be considered for the investment;
- Schools where there are significant site issues that may include difficult ground conditions or land ownership or legal issues are unlikely to be considered;
- The cost of addressing the current condition of the school must address more than 30% of the notional rebuilding cost;
- Schools will only be considered where there is evidence of sufficient long term pupil demand.

3.6 Officers within Children's Services and the Transformation Programmes and Projects Team have developed a 'short list' of schools across secondary, primary and special schools which could be considered as eligible for the programme. Applying the eligibility criteria in 2.5 above has created a much reduced list of schools which are considered to be the worst condition schools (using 30% maintenance against notional rebuild cost) but which also meet the criteria in relation to their listed status and site specific issues; where long term projections of sustainability can be evidenced and where there has been no significant investment in the past 15 years.

3.7 The Asset Management Plan (AMP) information which the Council holds on each of its schools has been used to assess whether the cost of the maintenance backlog is more than 30% of the notional building cost. By way of illustration this would mean that a secondary school would have a notional building cost of £9, 800,000 (on the basis of DfE space standards) and therefore the AMP priorities would need to exceed £2, 940,000 to be considered for inclusion in the programme. Further survey work is being undertaken to provide a detailed picture of condition in a shortlist of five to six schools to inform the submission. The shortlist will be reduced further to two to three schools and this detail is yet to be finalised. It is unlikely that more than one or two would be successful given that there is likely to be strong competition nationally for inclusion in the programme.

#### **4. Financial Implications**

4.1 The PFI programme proposed by DfE is seen as a pragmatic opportunity to renew a very small number of schools in Sunderland over the next three year period. As the projects will be funded through PFI and for the most part centrally managed, the Council would not be financially responsible for the capital building works.

- 4.2 From a revenue cost perspective the expectation of schools is to; 'accept being part of a long-term private finance arrangement including Hard and Soft FM with a requirement for schools to make a contribution to the annual payment of around £50-£60 per square metre'. It should be noted that schools maintained by the LA currently spend significantly less than £50-£60 per square metre on Hard and Soft FM services, with current spend being closer to £20 per square metre. For an averaged sized secondary school of 900 places, the increased FM spend requirement is likely to cost an additional £200,000 - £300,000 revenue spend per annum. For an average sized primary school of 420 places, the additional revenue spend per annum would be between £60,000 - £80,000. The reason for the discrepancy between current and expected PFI revenue spend levels relates largely to the requirement of the PFI contractor to maintain the buildings to a high service standard and carry out lifecycle replacement of building components over the c25 year contract life.
- 4.3 There is therefore no question that buildings will be better maintained given that there will be a tightly defined performance regime in place. That aside the ability of an individual school to manage such an additional cost pressure could prove extremely difficult particularly as funding sources previously earmarked for spend in relation to buildings are significantly depleted. If individual schools are unable to meet PFI costs, the alternative for consideration would be an increased budget allocation from the DSG to meet their contractual revenue commitment. This additional call on the global DSG allocation will result in all schools being impacted as the global DSG grant will be top-sliced before individual schools are allocated their budgets from the remaining grant. The sum involved is assumed to be up to £500,000 depending upon how many schools are taken forward as part of the application. This would represent approximately 0.03% of the overall DSG, based upon the 2011/12 DSG global sum of £183,000,000. The review of the current funding formula indicates that a provision will be made in order that PFI commitments can be made before individual schools and academies are allocated their annual budgets.
- 4.4 Although there appears to be no financial risk to the Council, this will be clarified through the application process and before proceeding to the next stage. The annual FM payment is a key issue since it places the on-going (and long term) financial responsibilities of the programme with all schools through the proposed 'top-slice' of the DSG. Under current legislation, matters relating to the total schools budget are taken by the Schools Forum in relation to the delegated budgets to schools and a decreasing number of centrally managed services. Membership is made up mainly of representatives from Headteachers and governing bodies but also includes "non-school" members, representing relevant bodies such as the Trade Unions, Diocesan representatives and the Council. The Schools Forum is the appropriate body asked to make the decision as to whether the funding available to all schools through the DSG could be used to fund the annual FM payments in relation to the PFI contract.

- 4.5 The Schools Forum met on 15<sup>th</sup> September 2011 and received a presentation from officers on their Priority Schools Building Programme and the revenue implications for schools. The Forum agreed in principle that the revenue implications on DSG were acceptable and asked that further work be undertaken to develop the application to DfE to the next stage. The group also requested further reports in relation to progress at their October meeting. Furthermore the Schools Forum was clear that the programme offered a good opportunity to attract capital investment to rebuild a small number of schools in the worst condition. These schools currently are allocated a disproportionate share of the limited capital available to keep them operational. If the application were successful this would allow the remaining schools to benefit from the investment and the overall maintenance backlog would reduce.

## **5. Reasons for decision**

- 5.1 Submitting an application for the Priority Schools Building Programme is a pragmatic opportunity to tackle the issues in those schools which are deemed to be in the worst condition in Sunderland. An opportunity such as this may not present itself for some time in the future and the capital investment would allow annual capital maintenance monies to then be allocated to a wider group of schools. This in turn would enable the maintenance backlog to be addressed.

## **6. Alternative Options**

- 6.1 In terms of progressing capital investment priorities for schools within Sunderland, the Priority Schools Building Programme is the only opportunity available at this time. Therefore there are no alternative options suggested

## **7. Relevant consultations**

- 7.1 Consultation has taken place with the Schools Forum, the Office of the Chief Executive (Land and Property) and Corporate and Commercial Services. Individual schools are also being consulted on proposals.

## **8. List of appendices**

DfE Invitation to Bid letter (19<sup>th</sup> July 2011)

