

DECISION-MAKER:	COUNCIL CABINET		
SUBJECT:	BUILDING SCHOOLS FOR THE FUTURE		
DATE OF DECISION:	19 th MARCH 2008 31 st MARCH 2008		
REPORT OF:	CABINET MEMBER FOR CHILDREN'S SERVICES		
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STATEMENT OF CONFIDENTIALITY

None

SUMMARY

This report delegates authority to the Executive Director for Children's Services and Learning, following consultation with the Cabinet Members for Children's Services and Adult Learning and Young People, to make a "Readiness to Deliver" submission for Building Schools for the Future (BSF) to the Department for Children Schools and Families (DCSF) and Partnership for Schools (PfS) by 11th April 2008.

Building Schools for the Future is a national government programme to rebuild and refurbish secondary schools, including upgrading Information and Communications Technology (ICT) services. Local Authorities join the programme in 'waves' (i.e. groups of local authorities determined by government). Southampton is in waves 7-9. The last wave to be announced was wave 6.

On the 25th February 2008 Sally Brooks (Head of Schools Capital DCSF) and Tim Byles (Chief Executive Partnership for Schools) wrote to wave 7 – 9 Authorities inviting them to make a Readiness to Deliver Submission for an interim wave: i.e. local authorities who consider themselves ready to enter the programme early. This report is intended to demonstrate the commitment of Southampton City Council to make a submission for the interim wave.

Having complied with the requirements of paragraph 15 (general exception) of the Access to Information Procedure Rules it is recommended that:

RECOMMENDATIONS:**COUNCIL**

- (i) Subject to a successful bid, Council agrees in principle to meet the funding required to take forward the Building Schools for the Future programme, and to include funding as necessary (both capital and revenue) within future budgets. The actual funding required will be subject to further approval reports

CABINET

- (i) To delegate authority to the Executive Director for Children's Services and Learning, following consultation with the Cabinet Members for Children's Services and Adult Learning and Young People, the Chief Finance Officer and Solicitor to the Council, to make a "Readiness to Deliver" submission to the Department for Children, Schools and Families for Southampton to be part of an interim wave for "Building Schools for the Future"
- (ii) To note that the potential financial implications which would need to be built into future budget assumptions should the bid be successful
- (iii) Subject to a successful bid, to recommend to Council that it agree in principle to meet the funding required to take forward the Building Schools for the Future programme, and to include funding as necessary (both capital and Revenue) within future budgets. The actual funding required will be subject to further approval reports

REASONS FOR REPORT RECOMMENDATIONS

1. This report is submitted for consideration as a general exception under paragraph 15 of the Access to Information Procedure Rules in Part 4 of the Council's Constitution, notice having been given to the Chair and Vice Chair of the Children's Services and Learning Scrutiny Panel and the public. The matter requires a decision because of the need to respond promptly to the government invitation to apply for inclusion in the interim wave of Building Schools for the Future and cannot be deferred for inclusion in the next Forward Plan.
2. The Readiness to Deliver submission is the first step in a process which could deliver substantial capital expenditure in Southampton to replace and refurbish its secondary schools. The City Council can take advantage of the opportunity of applying to be included on an interim wave, thereby bringing forward the benefits of new buildings.

CONSULTATION

3. A small team has been preparing for BSF in Southampton since September 2007. This has included consultation with schools, local authority officers and a range of other partners and stakeholders. It is anticipated that further consultation will take place as part of the preparation of the Readiness to Deliver submission.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

4. It would be possible not to apply to be included in the interim wave and to wait for an announcement on the re-prioritisation of waves 7 to 9. However this would be to miss an opportunity to bring forward funding for Southampton schools.

DETAIL

5. Building Schools for the Future is a major government programme to replace or renew secondary school buildings throughout England over a 15 year period. Local Authorities are being allocated funding in waves.

- Southampton is in waves 7-9. Waves 7-9 begin in 2009.
6. An indication has been given to DCSF that Southampton City Council is interested in applying to join the interim wave, and work is under way to prepare the "Readiness to Deliver" submission.
 7. Following the Learning Futures decisions in July 2007 a small BSF team was assembled which has been undertaking the preliminary work leading up to making a BSF submission. In view of the significant work already done Southampton appears well placed to make a strong case for its early inclusion on the BSF programme.
 8. In order to be included in the interim wave authorities must meet the following requirements:
 - making a commitment to the BSF model and procurement route
 - individual schools' in principle commitment to an ICT managed service
 - agreement with the Office of the Schools Commissioner on plans to address diversity, choice and access
 - a clear and cohesive strategy for Educational Transformation within the city
 - school organisation planning to be well advanced
 - clear plans for consultation
 - a Project Director and BSF team to be in place for the commencement of the programme
 - a commitment to support revenue funding for the delivery of the project of a rate at least equivalent to 3% estimated project value
 9. The BSF Model is that a Local Education Partnership (LEP) is established to deliver the programme. The LEP is a company set up for the purpose with a private sector partner. The private sector partner owns 80% of the equity, the Local Authority owns 10% and Partnership for Schools (the government's delivery agent for BSF) owns 10%. Refurbishment work is generally procured through traditional tendering methods. Complete rebuilds are generally procured through the Private Finance Initiative (PFI).
 10. The DCSF and Partnership for Schools has stated that not all applications will be successful even where they meet all the criteria laid out, as there are only a small number of places available. Any work done in relation to the interim wave would also be applicable to subsequent waves.
 11. This report authorises the Director of Children's Services and Learning to make a Readiness to Deliver submission in response to the recent announcement. It should be noted that this is a first stage, and that there will many other decisions required as part of the overall approval of a BSF programme for Southampton. A "Strategy for Change 1", setting out the strategic overview for BSF, has to be submitted in August or September 2008 for authorities on the interim wave. A "Strategy for Change 2", which sets out greater site specific detail, has to be submitted in December 2008 or January 2009. An Outline Business Case, which has a still greater level of detail, including arrangements for procurement, has to be submitted in June or July

2009.

12. The Council is not making a binding commitment to the interim wave at this stage. However it is clearly the expectation of government that authorities only submit an Expression of Interest if they are seriously interested in consideration and are satisfied that they will be ready to join the interim wave if invited. Costs associated with making an Expression of Interest can be met from existing budgets.

How ready is Southampton?

13. The following paragraphs give a brief assessment of Southampton's readiness in relation to the bullet points in the Brooks/Byles letter (25.2.2008 see summary above) inviting submissions for the interim wave of BSF.
14. *Progress towards Strategy for Change* – much work has been undertaken including wide consultation, and a draft of the vision has been developed and shared with schools. This can be achieved within the timescale
15. *Commitment to the BSF model, the LEP and individual schools' commitment in principle to an ICT managed service* – commitment to BSF and the LEP model requires member support. This report is intended to demonstrate elected member commitment to the principles of BSF. Steps will be taken to secure schools' agreement to the principle of a managed ICT service.
16. *Agreement with the Office of the Schools Commissioner (OSC) on plans to address diversity, choice and access* – An initial meeting with a representative of the Schools Commissioner took place in February 2008, who expressed support for the steps the council has taken to re-shape secondary schools provision. Further discussions will take place to secure the support of the OSC for Southampton's Readiness to Deliver submission.
17. *A clear and cohesive strategy for educational transformation* – A strong strategy for educational transformation in Southampton will be transformed has been developed and is under consultation with schools and other stakeholders. It will form part of the Readiness to Deliver submission.
18. *School organisation and pupil place planning to be well advanced* – A major review of school places was conducted through Learning Futures. This is a strength for Southampton's Readiness to Deliver Submission.
19. *Clear plans for consultation, including timeline and any statutory school organisation consultation prior to Outline Business Case (OBC)* – any further consultation relating to school organisation if required can be completed by June 2009 in accordance with the timetable for BSF.
20. *Project Director, BSF Team and Advisers able to be in place for June 2008, prior to the start of the project* – a team is currently in place although its size and composition may need to be altered to meet the challenges of the next phase. An interim Project Director could be in place almost immediately, and steps taken for a permanent substantive Project Director to be recruited.
21. *A clear commitment in writing from the Chief Executive to support revenue funding for the delivery of the project at a rate of at least equivalent to 3% of the project value* – this report is intended to facilitate member understanding

of and support for the principle of BSF thus enabling the necessary assurances to be provided to government about ongoing revenue support for involvement in the programme.

FINANCIAL/RESOURCE IMPLICATIONS

22. Whilst the funding envelope is necessarily unclear at this stage of the process given the extent of information available, the BSF bid to the DCSF is likely to be in the order of **£150m**.
23. In order to deliver the overall programme, it is almost certain that the Council will need to supplement the funding provided through the BSF programme in the form of significant revenue and capital funding to support the overall delivery of the programme. This is based on information provided by government agencies and consideration of local authorities currently on the BSF programme.
24. In summary, the **Capital funding** support required to be funded through Council resources could be in the order of **£15m - £30m**, depending on the final size of the programme. This funding would be required across the lifetime of the build programme, currently estimated at 7 – 10 years although at this stage the absolute time span of the programme and the phasing of capital expenditure cannot be determined fully.
25. For **revenue**, the table below provides indicative levels of the revenue funding which the Council will need to support the delivery of the programme from its inception through to completion. The figures in some cases are a range, and are based on our best estimates at this stage, based on the experience of other Authorities and advice from the 4ps (Local Government's Project Delivery specialist):

It should however be noted that in the initial phase of work, to move the project forward to the procurement of a Local Education Partnership, the City Council is likely to be required to fund procurement and project management costs in the region of **£3m - £6m**.

In addition there are some one-off revenue costs which would need to be funded to cover for Investment in the LEP and Investment in the Special Purpose Vehicle(s), and these one off costs will be circa **£1.1m**.

On an ongoing basis, funding will be required during the life of the BSF programme to support the Client Management of the LEP. This will equate to circa **£200k - £300k per annum** for up to a 7-10 year period (approx £2m - £3m in total).

In addition, it is likely that there will be ongoing revenue contributions required to support the PFI element of BSF, and this is estimated at between **£300k - £1m per annum** for the 25 year life of any PFI contracts.

The ICT Managed Service is also likely to require top up funding of between £110 and £150 per pupil per annum (circa **£1.2m - £1.65m per annum**), but is a cost which may well fall to individual schools to fund.

	Min	Max	Years
Procurement of Local Education Partnership (LEP)	£3m	£6m	Total over a 3 year period
Client Management of LEP/Special Purpose Vehicle (SPV)	£0.2m	£0.3m	Total per annum for lifespan of programme
Investment in LEP	£0.05m	£0.01m	One off
Investment in SPV (actual figure will depend on number of SPV's created)	£0.25m	£1m	One off per SPV
PFI revenue contribution (actual figure will depend on number of schemes required)	£0.3m	£1m	25 years
ICT Managed Service – this is likely to require a £110 - £150 top up per pupil to be funded by individual schools (assume 11,000 secondary school population)	£1.2m	£1.65m	Per annum

26. At this stage, the Council is not in a position to be definitive in how it will meet its funding requirements. However, the Council is likely to draw on a range of funding streams to deliver the funding requirement, including:

- Funding from individual schools
- Funding from the Dedicated Schools Grant via topslice
- The existing funding and future funding available within the Children's Services capital programme
- Borrowing
- Reviewing whether any Capital receipts can be utilised to support the capital funding contribution
- Grant funding

27. Further detail on the Capital and Revenue implications of the BSF programme are detailed below.

Capital

28. The capital implications of the overall BSF programme are significant. Appendix A summarises the estimated capital and revenue costs that could result from undertaking BSF. It is assumed by the DCSF that local authorities will make a contribution to these costs, some of which will be through capital receipts directly linked to the project.

29. Government support will be delivered as conventional capital grant and/or private finance initiative (PFI) credits. There is no revenue funding in the programme (apart from that which is given as a consequence of PFI credit

allocations).

Funding allocation

30. BSF aims to fund each authority on the following basis:

- 50% New build
- 35% Remodelled
- 15% Minor refurbishment

31. Where the new build element in an individual school exceeds 70-75%, the assumption is that these will be delivered through PFI. Authorities will be able to agree locally how much of their new build allocation they can concentrate in all-new schools, and how much they will want to spread to existing schools.

Voluntary Aided Schools (St Anne's Catholic School and St George Catholic School)

32. VA schools are funded in the same way as other schools. This includes the VA governors' 10% contribution to building works that would otherwise be required. Additional funding will be provided for VA schools where VAT liabilities are non-recoverable under current VAT regulations.

PFI Schools (Redbridge Community School, Cantell Maths and Computing College and Woodlands Community School)

33. New schools that have been built in the last 15 years are presumed not to require BSF investment, and do not count towards the funding allocation calculation. However, funding will be provided where they are being enlarged for an increase in pupil numbers, at the 50:35:15 rate.

Abnormal costs

34. Abnormal costs cover:

- *Enabling works* - demolition, asbestos removal and temporary accommodation
- *Site issues* - difficult topography and poor ground conditions (substructure);
- *Building issues* - work to listed buildings, planning constraints, party walls, and environmental issues.

35. Internal demolition as part of remodelling proposals is not an abnormal cost. The expectation is that local authorities will make every effort to minimise abnormal costs – for example through phasing projects to reduce the requirement for temporary accommodation. Site acquisition costs will not be funded. Where abnormal costs relate to the provision of another service – for instance road works outside the perimeter of the school – they will not be funded by BSF.

36. All new build areas will be funded to include up to 12% site costs and 5% abnormal costs. For areas which are to be remodelled or refurbished, the allowance is 8% for site costs and 9% for abnormal costs, which reflects the retained infrastructure. The additional funding element for exceptional site-

specific abnormal costs will take total abnormal funding to approximately £1 million for a 1,200 pupil (including 200 post-16) school, at 50:35:15 and 2007 prices.

37. Where the funding does not fully meet the needs of every school within a BSF project, local authorities will be expected to manage the total abnormal liability across the estate as part of their management of the cost of the project as a whole. Clearly it will be in the interests of authorities to minimise abnormal costs, where possible by careful site selection, and to make early assessments of abnormal-related site issues through surveys, to avoid last minute affordability surprises.

Indicative funding level

38. An indicative funding level for the BSF scheme will be provided to the Local Authority at several stages in the process:
- 1st Funding Allocation model issued after Readiness to Deliver produced
 - 2nd Funding Allocation model issued after Strategy for Change produced, and forecast pupil places agreed
 - 3rd Funding Allocation model issued at Outline Business Case submission and level of Abnormals funding finalised

39. The Funding Allocation Model is an Excel spreadsheet provided by PfS to allow authorities to estimate the size of their funding envelope and the whole life costs towards which the Local Authority will be expected to contribute.

Funding assumptions

40. The school area formulae applied to school projects is based on the assumed size of each school. A base floor area is applied to each school, and additional floor space is funded on a per pupil basis, which varies by age. The resulting floor area is then funded as follows:

Type	Base cost £/m2	F&E £/pupil	Abnormals	Site Costs
Mainstream schools				
New build	1080	1000	5%	12%
Remodelling	700	500	9%	8%
Minor refurbishment	150		9%	8%
Special schools				
New build	1228	3500	5%	12%
Remodelling	800	1750	9%	8%
Minor refurbishment	150		9%	8%
PRU				
New build	1228	1000	5%	12%
Remodelling	800	500	9%	8%
Minor refurbishment	150		9%	8%

41. The base cost will be adjusted by the Department's location factor for the area (updated yearly) and the construction inflation forecast (DTI pubsec index) to the Reconciliation Date for the wave to give the SfC funding figures. Then, as the **Outline Business Case and subsequent formal stages of BSF are developed and approved** the funding is adjusted to the planned start of construction. The base build construction cost is an out-turn cost and thus includes preliminaries, contingencies, overheads and profit etc.

ICT Funding

42. The funding allowance for ICT is calculated on the basis of £1,450 per funded pupil place. This funding is also available for recently built schools, where local authorities can demonstrate that this funding will join effectively with other BSF ICT funding as part of a strategic estate-wide ICT managed service. There is no inflation indexation of this figure, as ICT unit costs are not expected to rise. This allowance is not hypothecated – local prioritisation will determine in detail how funding is used within the overall envelope.
43. ICT funding is expected to be provided in the form of capital grant (although some supported borrowing may be allocated), and local authorities will be expected to join this with their own revenue budgets to provide ICT under a managed service contractual arrangement. It is anticipated that top up funding of between £110 and £150 per pupil per annum will be required, which based on a secondary pupil estimate of 11,000 would equate to an annual contribution of between £1.2m and £1.65m. The understanding at this stage is that this would be a contribution which individual schools would need to make.

Drawdown of funding

44. All BSF funding is allocated and paid to the local authority and not direct to any school, regardless of type, ensuring that the predominant contractual relationship with the private sector partner is through the local authority. There are three types of BSF funding:
- Capital grant* will be allocated to authorities who have projects procured through design and build contracts, and will be used to fund the ICT element of projects. Payments will be made to local authorities by the DCSF, through the Standards Fund (Grant 204), following financial close.
 - Supported borrowing* may be provided as part of a project allocation. Should supported borrowing be allocated, authorities will receive funding as a revenue stream provided by the Department for Communities and Local Government (DCLG) as part of their Revenue Support Grant (RSG) allocation.
 - PFI Credits will be provided for projects procured through a PFI scheme. Authorities will receive revenue funding through the DCLG.

Capital Receipts

45. *The two principles relating to capital receipts are as follows:*
- that the programme and local authority/school should share in any estate rationalisation efficiencies enabled by the provision of significant investment; and,
 - that the benchmark funding envelope is not reduced at the outset, so that authorities are better able to match funding and the release of capital receipts to programme capital requirements.
46. As part of taking the BSF programme, the Council will need to give consideration as to whether any capital receipts will be available to support the funding requirement.

Effect on other DCSF Capital funding

47. As per government agency guidance, all schools in BSF projects will not be considered for Basic Need funding for five years from the start of the financial year in which funding is available and will be excluded from their local authority's Modernisation funding allocation for four years from the year in which BSF funding is available for the project. After these periods have elapsed all schools will be factored into their authority's Basic Need allocation but only non-PFI funded schools will be included in the authority's Modernisation funding allocation.

Capital funding gap

48. Based on government agency advice and the experience of other authorities, there is likely to be an affordability gap in the programme depending on the difference between the Funding Allocation Model used to calculate the BSF funding envelope and the estate plans. The 4ps state that the capital gap is likely to be £250 per pupil per year over the lifetime of the project, which could give a total funding gap of circa £23m. Other information suggests

that a shortfall of 10 – 20% could be assumed according to the council's plans. Depending on the final costs of the programme, this could equate to circa £15m - £30m

Revenue

49. The costs of making the Readiness to Deliver submission will be met from within existing budgets. The Council allocated £100,000 in 2007/08 and £150,000 in 2008/09 to prepare for BSF as part of its decision on Learning Futures in July 2007.
50. Appendix A summarises the estimated capital and revenue costs that could result from undertaking BSF.

BSF Project Management

51. The experience of other authorities involved in the early waves of BSF suggests that there are considerable costs involved in project management and procurement up until the formal contract is signed, which are the responsibility of the council. Typical potential procurement costs have been estimated by the 4ps at £3.4 million over three years.
52. The DCSF have asked for a clear commitment in writing from the Chief Executive to support revenue funding for the delivery of the project at a rate at least equivalent to 3% of the estimated project value. This would equate to an estimated commitment of between £3 million to £5 million over three years depending on the size of the final programme. The experience of other authorities suggests that a figure of £5 to £6 million could be more realistic. Should the bid be successful this will need to be factored into future budget assumptions, with a current assumption that funding of between **£3m - £6m** will be required.

Local Education partnership (LEP)

53. Assuming that Southampton's BSF project will be managed by a Local Education Partnership, the costs of setting up and running the LEP will need to be covered by the council:
 - Client management – in much the same way as the Strategic Services Partnership has a client side. The costs would equate to at least £200,000 per annum assuming that a Director, project manager and admin time will be needed
 - Investment in LEP – this is the 10% equity and working capital contribution of the council. This is likely to be in the order of **£50k - £100k**.

Private Finance Initiative (PFI)

54. Normally schools which require more than 70% new build will be procured through PFI. All though grant funding will be available to cover the capital costs of the builds, this will not cover all of the costs of PFI:
 - Investment in Special Purpose Vehicle – this is the company formed to implement the PFI scheme. Typically this would equate to 10% of the equity requirement for each scheme. For example, a £25m capital build

would require a 10% share of the equity (where the finance is split 90% debt/10% equity), which equates to **£250,000** (£25m x 10% x 10%).

- PFI Revenue contribution – this is the shortfall between the PFI grant received, the contribution from schools and the costs of the overall scheme. The actual contribution to fund any shortfall is difficult to estimate at this stage, as this would depend on the actual level of PFI credits, discount rate and swap rate. It can be noted however that for the previous 3 schools built under PFI in Southampton, there was a contribution required of circa £750,000 per annum.

ICT costs

55. Other authorities have found a gap between the amount of ICT grant received through BSF and the cost of implementing a fully integrated ICT service. It is likely that schools would be requested to make a contribution to fund any gap, and that typically this could equate to £110 - £150 per pupil per annum period.

Ongoing lifecycle costs

56. The PFI contract delivers ongoing repairs, maintenance and replacement (lifecycle costs) to the new school over the 25 year lifetime of the project. Schools procured through a traditional design and build route will not benefit from this automatic programme of works, and council may decide to contribute additional funds in order to avoid a two tier system.

Property

57. The BSF programme could affect a substantial proportion of secondary school sites and buildings in the city. This could include the acquisition and disposal of sites, complete rebuilding of some schools and major refurbishment of others.
58. Further reports and decisions will be required in due course setting out recommendations for decisions relating to particular sites and the overall structure of Southampton's BSF proposals.

Other

59. None.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

60. The Council's powers and duties in relation to the provision of adequate and efficient education and pupil places are set out in the Education Act 1996 as amended, together with the provisions of the Schools Standards & framework Act 1998, the Education Act 2002 and the Education and Inspections Act 2006 together with general powers contained in s.2 Local Government Act 2000 as the improvement of school facilities meets the requirements of the community strategy to improve the economic, social and environmental well

being of pupils and families in Southampton.

Other Legal Implications:

61. Participation in Building Schools for the Future will be subject to compliance with the UK procurement legislation and the Council's Constitution in relation to procurement and decision making in relation to this project. Clear governance and accountability mechanisms will need to be established to ensure the project is managed to deliver the best possible outcomes for the Council in accordance with its statutory duties, together with appropriate and timely assessment of the impact of the project on all communities living, working and learning in Southampton.
62. Additional detailed legal investigation will be required in relation to all aspects of the project, together with evaluation of how the proposals affect existing contractual relationships (e.g. with PFI contractors in existing schools), existing frameworks for the provision of schools in light of potential LEP exclusivity Agreements that may be required as part of the BSF process and the effect of the proposals on future provision of education and diversity in school provision, particularly in relation to new school or Academy proposals and proposals for schools to change from Community to Foundation status.

POLICY FRAMEWORK IMPLICATIONS

63. Building Schools for the Future will help achieve the outcomes set out in the Children's and Young People's Plan, by providing improved buildings and ICT infrastructure for secondary pupils in Southampton. It will facilitate closer joint working between schools and other services and thereby enable a range of strategic objectives to be met.
64. BSF will contribute directly to the achievement of the objectives set out in the City of Southampton Strategy and the city's statutory Children and Young People's Plan.

SUPPORTING DOCUMENTATION

Appendices

1.	Appendix A – Estimated costs of implementing BSF
2.	

Documents In Members' Rooms

1.	Letter from Sally Brooks (DCSF) and Tim Byles (PfS) inviting applications for Expressions of Interest in the interim wave of BSF
2.	“Readiness to Deliver: Guidance for Local Authorities in BSF Waves 4-6” (June 2006), DCSF and Partnership for Schools

Background Documents

Title of Background Paper(s)

None

Relevant Paragraph of the
Access to Information
Procedure Rules / Schedule
12A allowing document to be
Exempt/Confidential (if
applicable)

FORWARD PLAN No: N/A

KEY DECISION YES

WARDS/COMMUNITIES AFFECTED: