

NORTH YORKSHIRE COUNTY COUNCIL

THE EXECUTIVE

2 March 2010

BUILDING SCHOOLS FOR THE FUTURE**1. PURPOSE OF REPORT**

To report on progress towards entry into the Building Schools for the Future (BSF) programme and to seek approval from the Executive to defer the County Council's submission of a Readiness to Deliver statement.

2. EXECUTIVE SUMMARY

- 2.1. In January 2010 the Authority was asked by DCSF to indicate a timescale for entry into the Building Schools for the Future programme.
- 2.2. One of the criteria for entry is that the authority has undertaken an assessment of the affordability of the initial project and has a clear commitment from Members and senior officers to the Councils involvement in the programme. This commitment includes providing an assurance that resources are available to deliver the programme.
- 2.3. An assessment of affordability relating both to the revenue and capital implications of entering the programme has been undertaken by officers within CYPS. This report summarises the findings and conclusions drawn from that work.
- 2.4. The BSF programme as it currently operates might offer the opportunity to invest about £790M in the County's secondary school estate which could allow the authority to transform its facilities for children, young people and the wider community.
- 2.5. It is clear that there are significant financial issues for the Council in relation to both capital and revenue, some of which is inherent in the programme and some which reflects needs relating to local educational provision. In capital terms, based on current assumptions, the shortfall could be as much as £90M over the duration of the programme. A revenue cost in the region of £2M per annum is likely to be required to support the programme, in addition to revenue costs associated with PFI contracts.
- 2.6. Packaging the projects in a different way, changing the priority order and/or adjusting the scale of capital investment may help to narrow the gap but will not resolve the funding issue altogether.
- 2.7. The Authority would need to give a clear commitment to bring other resources alongside the programme to support it in respect of both revenue and capital costs before DCSF's 'Readiness to Deliver' criteria could be met.
- 2.8. Whilst the affordability gap for the Council Council is significant, there are significant risks associated with delaying entry, notably the increasing scale of backlog maintenance and the absence of alternative funding streams to address major investment needs.
- 2.9. Taking into account all the information available about costs and the current financial forecasts for the County Council it is considered unrealistic for North Yorkshire County Council to make a firm commitment to bringing forward its entry to the scheme immediately. It has been indicated to DCSF that subject to

consideration by members the authority does not intend to submit a Readiness to Deliver statement early in 2010. This decision would need to be reviewed once the future of the BSF programme is clearer nationally and the financial prospects for the Council beyond 2010/11 are more certain.

3. BACKGROUND

- 3.1. In 2003 when the national BSF programme was established, North Yorkshire was placed amongst the last of the Local Authorities to benefit from the programme. This was because prioritisation was based on comparative deprivation and the performance of pupils. The County would not have expected, therefore, to be planning for BSF implementation for another four or five years. However, DCSF undertook a review of priorities in 2008 in the light of national progress, and Authorities were asked to submit revised BSF proposals based on tackling their more deprived and less successful areas first. This brought NYCC ahead of some other authorities as a priority for entry.
- 3.2. In March 2009 NYCC was invited to submit a Readiness to Deliver (RtD) statement expressing the Authority's intention and state of readiness for entry into the BSF programme. To reflect DCSF criteria our revised priority list was different from our original submission. It focussed on the Scarborough area which would involve a large proportion of new build and potentially significant reorganisation of provision, as is often required for BSF. It was clear that substantial work was required before the Authority would be in a position to meet the RtD criteria and on that basis we indicated to DCSF that we did not intend to make a submission before early to mid 2010.
- 3.3. In April 2009 a series of briefings were undertaken for Children and Young People's Leadership Team, Executive Members, and Management Board by 4Ps (now known as Local Partnerships) who are responsible for providing pre-engagement support for DCSF. The key area of concern for both Members and officers which emerged from those briefings surrounded the affordability of the initial and subsequent projects and the scale of the financial commitment required to provide the capacity for procuring the Local Education Partnership (LEP), the delivery vehicle for the BSF programme. Affordability is one of the key Readiness to Deliver criteria.
- 3.4. Officers within Children and Young People's Service subsequently undertook a detailed assessment of the financial risks associated with entering the programme. This was seen as an essential pre-cursor to more detailed planning and preparation. It was aimed at ensuring that the Authority had a clear understanding of the financial and other implications of entry before committing itself to do so. The commitment of members and senior officers to the programme is another key criterion within the Readiness to Deliver assessment.

4. SCOPE OF FINANCIAL ASSESSMENT

- 4.1. The scope of the financial assessment covered the following areas:
 - The development of a more detailed understanding of the Funding Allocation Model (FAM) and the assumptions which underpin it.
 - An assessment of the potential affordability gap which may be created by the difference between the £ per m² allocation assumed by the FAM and actual

costs of construction, based on our own experience and the National Audit Office's (NAO's) assessment.

- Modelling of the initial and follow on packages to identify potential affordability gaps based on current assumptions against a number of other alternatives which may have the potential to render a more affordable position. The alternatives included:
 - Looking at the potential for re-packaging the projects in a different way
 - Looking at the impact of making more radical assumptions about future patterns of provision
 - Considering the impact of restricting the scope of BSF investment to the available funding envelope
 - Identifying alternative sources of funding to support the BSF programme e.g. land sales, corporate resources, grant funding
- Undertaking an assessment of the likely costs of the pre-engagement and procurement phases and giving consideration to how these may be resourced.
- Developing a more detailed understanding of the financial costs and risks to the Authority of the establishment and running of the LEP.
- Exploring with Local Partnerships and/or Partnerships for Schools (PfS) whether there is any flexibility to front-load the programme to allow earlier projects to be cross funded from the funding allocation available for later projects. It was acknowledged that there may be experience from other authorities which would inform this understanding.

5. THE 'AFFORDABILITY GAP'

5.1. There are a number of potential funding issues inherent in the Building Schools for the Future programme. They can be divided broadly into six categories:

- The difference between the capital cost of investment required in the schools and the capital funding provided by the FAM;
- Incidental costs not funded by the BSF programme. These include items such as off site highways works to create pupil crossings, site access and excessive "abnormals";
- The revenue affordability gap for schools delivered by PFI (the Private Finance Initiative). Guidance indicates that schools where more than 80% of the project will be new build, should be delivered via PFI;
- Affordability gaps between the funding provided for ICT (currently £1,450 per pupil) and the actual cost of a fully managed service;
- LEP development and running costs:
 - The development costs are those associated with the development of the BSF scheme both prior to and during procurement of the preferred private sector partner and the Local Education Partnership (LEP). These include fees for advisers to the authority, internal staffing costs, including a project director. It also includes the bid costs which the private sector will recover through the unitary charge for any PFI schools in the initial project. Finally

there are private sector LEP development costs, some of which may be recharged on a phased basis as new projects reach financial close;

- Once the LEP has been procured it would be in place for at least ten years to develop the projects for the rest of the secondary school estate. During this period the running costs incurred by the LEP would be recharged to the Authority. The Authority would also need its own staff to work closely with the LEP to approve new projects and monitor existing ones. Dedicated support would continue to be required from the project director, with support from project management and administrative resource as well as supplementary input from legal, finance and external advisers;
- Investment in the LEP. The LEP will be a legal entity to which the Authority will be expected to contribute 10% of the equity invested. The LEP then provides onward investment in the Special Purpose Vehicle (SPV) limited company used to fund PFI projects.

Each of these six areas is investigated in more detail below.

6. THE FUNDING ALLOCATION MODEL (FAM)

6.1. The Funding Allocation Model is a formula for the allocation of capital resources by the DCSF for BSF based on pupil numbers. It uses these to project the required floor area and then calculates the funding allocation based on a pre-determined cost per square metre and other assumptions around a basic allowance for “abnormals” and ICT. Officers have worked in detail with the Funding Allocation Model and gained an understanding of the assumptions on which it is based. This has allowed a more detailed modelling of potential options to take place. This is covered in section 11.

6.2. Difference Between the Capital Cost and FAM Funding

- 6.2.1. The FAM currently assumes a cost of new build of £1,260/m² for new build. This figure is then uplifted for inflation to take account of the expected start on site date of the project. The National Audit Office report published in February 2009 indicates that in reality it has cost nearer to £1,600/m² per square metre for the first projects. PFS’ response to this is that some of this gap relates to uplifts for inflation that will be factored into the funding allocation as the programme advances over time, but there is a clear concern that the funding allocation is unlikely to be sufficient to meet the actual costs of construction, particularly given the aspirational nature of the programme and constraints around carbon reduction/sustainability, which we know significantly add to costs. This is something that has been experienced in relation to our only BSF project to date, the One School Pathfinder Project at Richmond School, which has experienced significant funding issues for these reasons.
- 6.2.2. The response of a number of authorities has been to ‘cut their cloth according to their means’ and only commit to invest based on the indicative amounts identified by the FAM. For projects beyond the initial project the LEP is advocated as the mechanism to achieve this as it would be tasked with developing proposals within the affordability envelope provided. This has been the approach adopted successfully by three of the councils interviewed as part of this assessment, with additional funding being provided only for particular initiatives such as SEN and Behaviour developments, whilst the fourth recognised that this would not achieve their desired level of educational transformation and supported their initial project by significant extra capital of around £6M.
- 6.2.3. The main challenge is that the FAM is based on an assumption that only 50% of the floor area of schools will be new build, 35% major refurbishment and 15% minor refurbishment. In order to fulfil the educational transformational aims of the

programme and change the pattern of provision in some areas where it is needed there is a requirement for totally new schools which will outstrip the funding available.

- 6.2.4. This is the case with the initial Scarborough project where considerable new build will be required to combine the facilities for the federated Graham and Raincliffe Schools, to rationalise two special schools into a single site as part of the rollout of the SEN and Behaviour Review and to undertake the required redevelopment of George Pindar School which is on a very constrained site.
- 6.2.5. Based on the Expression of Interest submitted to DCSF in November 2008, our initial project, which will address educational provision in the Scarborough area, would cost £62.5M (using our own assumptions of the proportion of the works that would be new build compared with the capital cost assumptions in the FAM). Based on the FAM, incorporating the assumptions that only 50% would be new build, 35% major and 15% minor refurbishment, the DCSF funding would be £50.3M. This creates a potential funding gap of £12.2M (subject to agreement with Partnerships for Schools of our pupil forecasts for these schools). This position is replicated throughout the programme to a greater or lesser extent depending on the envisaged proportion of new build. This, of course, takes no account of the actual construction costs that might be experienced as projects advance.
- 6.2.6. This may require the Authority to take some difficult decisions about where and how we can deliver educational transformation within the available funding envelope.
- 6.2.7. An analysis of the potential funding gap for each project based on our current assumption of investment needs is attached at Appendix 1. This shows that across the whole programme, if we were to undertake the investment we have indicated that we require, there would be a funding gap in the region of £90M (this reduces to £76M if VAT for VA schools and the additional funding for carbon reduction is taken into account). This is against an £886M programme. It represents an affordability gap of around 10%.

6.3. Incidental Capital Costs Not Funded by the FAM

One significant element of the potential affordability gap is that there is a cap in the funding model on abnormals of 5% which cannot be varied. This creates issues for some sites where there are constraints around ground conditions, asbestos, listed buildings and so on which increase abnormal costs significantly. Incidental works associated with adaptations to highways such as extra roundabouts, site access routes and pedestrian crossings are also not funded by the FAM but may be required to achieve planning and/or sustainability targets.

6.4. Potential Solutions

- 6.4.1. Any funding gap could be met in part from capital receipts from surplus sites (Note that only half of these could be retained by the Authority under BSF regulations, with the balance retained by the DCSF). Alternatively it could be supported from other LA capital funding streams. Making a commitment on this scale would exceed current CYPS funding streams and would significantly restrict the investment that could then be made in other parts of the school estate and the wider CYPS service. The concern is that, given the number of school buildings we have and the potential duration of our involvement in BSF this could restrict the County Council's ability to maintain and develop other provision for children and young people in the County. This impact could be felt for many years to come.
- 6.4.2. Another alternative would be to seek corporate capital funding to support the BSF programme. This is in keeping with the government's aim that BSF is to be seen as a corporate, not just a schools, programme as its aspirations extend beyond simply addressing school building needs. However, at a time when both revenue and capital

resources are under pressure and significant savings have to be achieved, it seems unlikely that the Council would regard it as financially safe or reasonable to incur additional expenditure and risk on this scale. It is known that some Authorities have proceeded in previous rounds despite a significant affordability gap in order to access the significant capital resources available through BSF, and some will do so now despite the worsening financial position.

- 6.4.3. The FAM indicates that the funding that would be available for the whole secondary estate is over £750M (see Appendix 1), representing a significant investment opportunity. We would also expect this increased investment of capital in BSF to be followed by a reduced call on capital funding by CYPS as a result of having a renewed secondary school estate, at least in the short to medium term.
- 6.4.4. It is important to acknowledge, however, that it is not known whether investment on this scale could be secured for North Yorkshire given the major changes in the country's economic position and the future uncertainties affecting public expenditure. It must also be stressed that, if against current speculation the programme does continue on the present scale, it will still be open to the County to enter later, and closer to the time at which it originally envisaged being involved.
- 6.4.5. Key to the success of BSF is ensuring that available funding is maximised. This includes getting a clear and upfront agreement from schools to contribute the maximum amount of Devolved Formula Capital, to agree contributions to any managed equipment service for ICT and to seek contributions from the Dioceses for Voluntary Aided Schools (although they are not required to make the usual 10% contribution).
- 6.4.6. The authorities that have taken the approach of developing projects within the constraints of the funding provided by the FAM have indicated anecdotally that they have still been able to achieve real educational transformation. As well as maximising the available funding corporately and through school contributions, they have worked hard to manage the expectations of schools. Clear messages are needed about the constraints of the funding.
- 6.4.7. As the FAM allocates funding based on pupil number projections BSF may also provide an opportunity to plan and secure funding for basic need capital requirements arising from the current increase in the birth rate.

7. THE REVENUE FUNDING GAP

- 7.1. As set out earlier, guidance indicates that schools where more than 80% of the project will be new build, should be delivered via PFI. In this case the Authority will receive PFI credits to support the project, instead of a capital grant. Whilst there is a multiplier applied within the FAM so that the PFI credits exceed the value of the alternative capital grant, feedback from all of the authorities with whom we held discussions, and based on our own experience with the primary schools PFI, these PFI credits do not provide sufficient revenue funding to cover the full cost of the PFI unitary charge.
- 7.2. Indications were provided by the authorities interviewed of the level of additional revenue funding required; for example £3.5M per year for four PFI schools or £1M per year for each PFI school (half of which may be funded by revenue contributions from the schools). This is a significant issue which would have to be planned for.

8. COSTS OF ICT MANAGED SERVICE

- 8.1. Funding is allocated at £1,450 per pupil for ICT but this is required to fund a managed service for more than 5 years. Schools need to make significant

contributions to the managed equipment service (MES) to supplement the upfront funding in order to meet the costs of the initial purchase, ongoing maintenance and a sinking fund to allow the equipment to be refreshed later.

8.2. Other authorities have told us that care is needed with the introduction of the ICT managed service to ensure that schools are left with an affordable service long term and properly funded arrangements for the refresh of hardware after the initial investment. There is no data available currently to help us to assess this impact but it is something that will have to be monitored carefully as we proceed. There is evidence that schools in a number of Authorities have had significant reservations about this aspect of the programme.

9. REVENUE AND CAPITAL COSTS ASSOCIATED WITH SETTING UP AND RUNNING THE LEP

9.1. Setting Up the LEP

- 9.1.1. The Local Education Partnership is a public private partnership and is the government's delivery model for BSF. Authorities are required to establish one unless they can demonstrate they have other arrangements in place which would achieve best value. In practice it is mandatory for authorities with multiple waves of projects like North Yorkshire. There is uncertainty over whether the LEP model will survive if there is a change of government in 2010.
- 9.1.2. PfS guidance advises authorities to assume pre-engagement and procurement costs of up to 3% of the capital value of the initial project, although the relationship between such procurement costs is not typically linear as a large element is fixed regardless of the capital value of the project procured. Clearly once the LEP is in place the procurement costs will reduce for future projects but there are significant ongoing costs associated with delivering the programme and servicing the LEP which will continue throughout the programme (see section 9.2 below).
- 9.1.3. The National Audit Office has undertaken a study on actual costs experienced by local authorities already in the programme. A summary is attached at Appendix 4. This demonstrates that an authority like North Yorkshire might be expected to need at least £6M available to meet these costs over the course of the procurement. Although experience from some authorities indicates that this is a conservative estimate, feedback was mixed with others feeling that it was "about right" or more than required.
- 9.1.4. North Yorkshire has experience of major procurements both with the existing primary schools PFI, now fully operational, and the current procurement of waste treatment facilities. Although there will be some variations in the level of support required from advisers according to the particular expertise requirement (for example, it is likely that the waste project requires a higher level of input from technical advisers), overall we can expect the costs associated with such procurements to be broadly similar. The budget for this 2009/10 for the waste procurement is approximately £1.5M.
- 9.1.5. It may be possible to fund a proportion of these costs from capital, although typically they tend to be funded as a revenue budget, which is the approach adopted for the waste scheme. It may also be more prudent to secure recurring revenue funding to ensure that the budget is then available for the ongoing commitment associated with running the LEP (see section 9.2 below).
- 9.1.6. The costs to be funded will not just comprise external adviser costs, but also the costs of a project director, which we will be required to have in place immediately we are admitted to the programme and other internal resource, whether provided on a dedicated basis or taken from existing staff with backfilling as required. The project

director is likely to command a salary at Assistant Director level, although PfS will provide 50% of the funding (based on a project manager rather than director) for the first two years up to a maximum of £50K pa.

9.2. Running the LEP

- 9.2.1. Discussions with other authorities have indicated that the costs of BSF outside of the capital costs of the projects themselves is running at around £2M pa although there is little good evidence on this as authorities have absorbed some of the work within existing internal resources. The NAO have said they intend to do more work on this.
- 9.2.2. It must be noted that once the LEP has been procured it will have an exclusivity period (during which it has first rights on delivering new school projects providing it meets certain KPI's and efficiency measures) for ten years with the intention that the entire secondary estate is fully modernised. Significant input will be required from the authority to project manage, monitor and work with the LEP to work up the new projects for all of the Authority's secondary schools and monitor the projects already being delivered.
- 9.2.3. Feedback from other authorities indicates that the Authority's project director will be required for the full ten years with other officers providing project management, finance, technical, legal and admin support. In addition to this the LEP will incur ongoing running costs for which the Authority must pay, either through the unitary charge for PFI projects or as a separate fee for those delivered through design and build contracts.
- 9.2.4. Aside from a contribution towards the costs of a project manager for the first two years there is no additional funding provided by DCSF to meet these costs. Authorities are expected to find this from within their own resources. In the current financial climate this is a significant issue associated with entry into the programme.
- 9.2.5. Whilst potential solutions for managing the capital affordability gap are set out in section 11 onwards, the revenue affordability gap presents a different type of issue. A summary of the potential overall revenue affordability gap is set out in Appendix 3. Finding this funding from base budget would be difficult for CYPS, given that it is a heavily grant funded service and therefore its base budget allocation is a relatively low proportion of its overall funding. The solution to this will be to seek corporate support, which again fits with the intention that BSF is to be seen as a corporate, not simply a schools, programme.

10. INVESTMENT IN THE LEP

The Authority will have a financial stake in the LEP. This typically amounts to approximately 0.1% of the capital value of the projects delivered through PFI. This reflects the required 10% investment in the LEP and the ongoing investment by the LEP in the SPV's as set out in "The Economics of the LEP" guidance. This could be of the order of £0.5M based on the schools set out in the original work to scope the initial and follow on projects where more than 80% is new build. This one-off funding will need to be available for investment on financial close of the initial project when the LEP is formed.

11. ALTERNATIVE OPTIONS FOR INITIAL PROJECT

- 11.1. Some modelling of alternative options for delivering the initial and first follow on projects has been undertaken so that we may understand the financial implications of each and determine if there is an option which delivers the required educational transformation, provides a pattern of provision which serves the community appropriately and can be delivered within the available funding.

- 11.2. The preferred option contained in our Expression of Interest (EoI) is to provide a single site for the Graham and Raincliffe federation which would require more than 70% new build, to rationalise two special schools (Springhead and Woodlands) onto a single site via a new build, to rebuild George Pindar School given the existing site constraints and to undertake minor refurbishments at Welburn Hall Special School. The remaining schools in the Scarborough and Filey areas (Scalby, St Augustine's, Filey and Brompton Hall Special School) would be addressed through the first follow-on project which also indicates a funding gap, mainly due to the assumption we have made of 100% new build for Scalby School.
- 11.3. An assessment has been made of the potential for seeking alternative funding for the special schools rationalisation and the impact of removing them from the BSF programme on the affordability gap. However, there is currently no other source of central Government funding available to remodel these schools and as funding would have to be found by NYCC to deliver the promises made in the SEN/BESD review, there is no incentive to forgo the opportunity to secure at least partial funding through the BSF programme.
- 11.4. The preferred option and two alternative options are presented in Appendix 2. The first alternative (option 2) could be to replace the Graham and Raincliffe schools as a single large school. Appendix 2 shows even though the new provision has been assumed to be 100% new build, there is a reduction in the affordability gap of £1.4M. Option 3 develops this further to also provide for Scalby School as part of a single enlarged school with Graham and Raincliffe. This would reduce the affordability gap by £5.4M compared to the EoI preferred option, although there is still an affordability gap of £6.2M to be met. Whilst organisational solutions are expected to be considered as a way of bridging the affordability gap, however, none of them close the gap completely, and Option 3 is not one which officers would recommend as it would produce an 11-16 school with well over 2000 students. This would be a much larger school than NYCC would normally seek to create in any circumstances, and particularly in an area with significant deprivation which requires schools to have strong community links and personalised approaches to students.
- 11.5. In practice, PfS will expect each project to have a capital value of no more than £80M and comprise no more than 7 schools (five in the first package). Whilst the packages shown in Appendix 2 may exceed this, this could be addressed by moving one or more schools between the initial and follow on projects. Other than minimal effects derived from the effect of inflation up to the project start dates, this has no impact on the overall affordability position, merely changing the timing of the affordability gaps arising.
- 11.6. A further alternative is to take £50.3M as the base funding and work within it as set out in section 6.1. This would allow a lesser refurbishment of Graham School with elements of new build to allow for the Raincliffe pupils to be accommodated and/or refurbishment of George Pindar rather than new build. Consideration could also be given as to whether a new build special school is required or whether a development of one or other of the existing two special schools would achieve what was required for this provision.
- 11.7. As no feasibility work has yet been carried out in relation to any of these options it is impossible at this stage to know what the true cost of these options would be. However, whilst it is possible to model any permutation of new build versus refurbishment on the basis of the FAM, it is unlikely to allow for the educational transformation which is at the heart of the BSF programme.

11.8. It is difficult to judge the impact of lower costs in the construction market as this is only now starting to feed through to tender prices and, depending on the economic climate at the time of procurement, may no longer be the case by the time the projects are ready for delivery.

12. FLEXIBILITY TO FRONT LOAD THE PROGRAMME

12.1. Officers have explored with 4Ps and PfS what flexibility there is to front load the programme to allow our highest priority project to receive a higher level of funding than the FAM allows, on the basis that subsequent projects would require a lower level of funding.

12.2. The messages are somewhat mixed, in that PfS have said that 'there may be some flexibility to do more new build in the first project' and have advised the authority to indicate on the RtD submission if we wish to discuss this with 4Ps at the time of entry. This has previously been highlighted as an issue in our Expression of Interest document. Advice from 4Ps however is that PfS is unlikely to alter the funding allocation and there are few examples nationally of this happening, particularly more recently. This is also supported by evidence from our discussions with other authorities.

12.3. On this advice it is unlikely that NYCC would be allowed to proceed with a project which could not be afforded on its own. Although there may be some scope to negotiate for some additional funding on an exceptional basis planning must be undertaken on the assumption that none will be forthcoming and that each project will have to sustain itself. An assessment of affordability is a key element of RtD and the most recent message from PfS this month is that this is an area which will be scrutinised in some detail.

13. CAPITAL RECEIPTS

13.1. Combining the provision for Graham and Raincliffe and/or Scalby Schools would free up some site area which could potentially be disposed of to create a capital receipt. Combining the two special schools onto a single site could also release site area. The rebuilding of George Pindar, however, may involve the acquisition and/or disposal of land.

13.2. The potential for site disposals is limited by the fact that the whole of the Woodlands Drive and Lady Edith's drive sites are needed to provide secondary and special school capacity for the future, whatever school organisational pattern is finally agreed. The sites associated with Scalby and Springhead Schools would not have sufficient capital value to close the affordability gap, and relocation of Scalby School would incur major capital costs which would simply add to the financial challenges in the first group of BSF projects.

14. FINANCIAL AND LEGAL IMPLICATIONS

The report considers in detail the financial implications of entry into the programme. There are no additional financial or legal implications which members need to be aware of.

15. CONCLUSIONS

15.1. There is a potentially significant affordability gap associated with our initial and follow-on projects. These would have to be addressed before NYCC could enter the BSF programme.

15.2. Whilst BSF represents a risk to the Authority, there are also clear risks associated with deferring entry to the programme. The capital plan for 2008-2011 being delivered currently was predicated on an assumption that NYCC

would enter the BSF programme at some stage. A number of significant developments were postponed to be delivered through BSF. Some of these are now becoming more urgent, with the condition surveys of the schools in the first package indicating that the maintenance requirement for these schools have increased from £0.5M to over £1M in recent years. Significant capital investment in some of these schools will be required, whether through BSF or otherwise.

- 15.3. BSF also represents a “once in a generation” opportunity to benefit from major central government funding to significantly enhance and update the secondary school estate and this is the only route currently available to secure funding of this scale for secondary school infrastructure. Whilst there is a possibility that there will be a change in government in 2010, indications are that BSF will continue in some form albeit that there may be a change in spending priorities which may affect the level at which support is provided.
- 15.4. The size of the potential affordability gap reflects the assumptions we have made about required patterns of provision. These assumptions have not as yet been subject to any consultation or overall strategic visioning exercise which would form part of the initial Readiness to Deliver preparations.
- 15.5. The gap may be reduced by adjusting the scale of investment in each package and changing the assumptions about patterns of provision. Notwithstanding the adjustments to the packages, however, we are likely to be faced with having either to reduce our investment plans or to identify alternative funding to support the programme as the affordability gap appears inherent in the programme on account of the tension between aspirations for educational transformation and the scale of available funding.
- 15.6. Decisions need to be taken either to secure Member commitment to significant additional capital (and revenue) resources, to reduce our aspirations for investment or some combination of both. Members would need to accept that entering the programme would require an upfront commitment to significant resources associated with pre-engagement and procurement, and more generally on a long-term, ongoing basis.
- 15.7. Any change to the proposed packages would need to be discussed and agreed with PfS as part of our RtD assessment.

16. RECOMMENDATIONS

Members are recommended to:

- 16.1. Note the conclusions drawn from the financial assessment which has been undertaken in relation to the BSF programme
- 16.2. Agree to defer submission of a Readiness to Deliver statement until the future funding levels and criteria for the programme are clearer.
- 16.3. Agree that the position should be reviewed when the next Comprehensive Spending Review has taken place in Autumn 2010.

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Background Documents

Building Schools for the Future Readiness to Deliver Guidance – Available at www.pfs.co.uk

National Audit Office Report - The Building Schools for the Future Programme: Renewing the secondary school estate, February 2009. Available at www.nao.org.uk

Summary of Affordability Gap based on Funding Allocation Model

BSF Projects	Schools	Assumed % new build	Total funding available £	Estimated cost £	Capital shortfall £
Initial Priority Project			55,781,561	61,589,921	-5,808,360
School 1	Raincliffe School	100%			
School 2	Graham School	70%			
School 3	New Special School	100%			
School 4	George Pindar College	100%			
School 5	Welburn Hall Special School	10%			
1st Follow-on Priority Project			43,856,400	49,707,029	-5,850,629
School 1	Scalby School	100%			
School 2	Filey School	25%			
School 3	St Augustine's School	70%			
School 4	Brompton Hall Special School	25%			
2nd Follow-on Priority Project			43,168,309	55,450,804	-12,282,495
School 1	Allertonshire School	100%			
School 2	Northallerton College	100%			
School 3	Risedale College	100%			
School 4	New Special School	25%			
3rd Follow-on Priority Project			51,236,118	68,183,988	-16,947,870
School 1	Eskdale School	50%			
School 2	Caedmon School	100%			
School 3	Whitby Community College	100%			
School 4	Settle College	100%			
School 5	Settle Middle School	100%			
School 6	Ingleton Middle School	100%			
4th Follow-on Priority Project			78,928,136	99,373,849	-20,445,713
School 1	Selby High School	100%			
School 2	Brayton College	100%			
School 3	Barlby High School	10%			
School 4	Sherburn High School	100%			
School 5	Holy Family Sec School	65%			
5th Follow-on Priority Project			87,992,117	88,990,480	-998,363
School 1	South Craven School	10%			
School 2	Ermystead's School	0%			
School 3	Skipton Girl's High School	100%			
School 4	Aireville School	20%			
School 5	Upper Wharfedale School	5%			
School 6	Brooklands Special School	0%			
6th Follow-on Priority Project			62,337,888	63,246,844	-908,956
School 1	Malton School	100%			
School 2	Norton School	100%			

School 3	Ryedale School	20%			
School 4	Lady Lumley's School	10%			
7th Follow-on Priority Project			149,854,232	166,383,166	-16,528,934
School 1	Harrogate High School	0%			
School 2	New Special School	100%			
School 3	Harrogate Grammar School	5%			
School 4	Rossett High School	100%			
School 5	St Aiden's School	15%			
School 6	St John Fisher School	100%			
8th Follow-on Priority Project			102,694,317	114,006,958	-11,312,640
School 1	Knarborough King James	10%			
School 2	Bedale High School	100%			
School 3	Wensleydale School	100%			
School 4	Nidderdale High School	15%			
School 5	Ripon College	100%			
School 6	Ripon Grammar School	15%			
9th Follow-on Priority Project			120,455,180	118,896,727	1,558,454
School 1	Boroughbridge High School	10%			
School 2	Easingwold High School	15%			
School 3	Thirsk School	100%			
School 4	Stokesley High School	0%			
School 5	Tadcaster Grammar School	5%			
			796,304,259	885,829,767	-89,525,508

Note:

The table sets out the potential affordability gap associated with each of the projects to deliver the transformation of the entire NYCC secondary school estate through BSF. The available funding represents the funding calculated by the FAM assuming that 50% of all floor area is new build, 35% substantial refurbishment and 15% minor refurbishment. The actual cost of the projects is estimated as the value calculated by the FAM using the assumed % new build in the third column. It should be noted that this will not necessarily reflect the actual price charged by the market which will ultimately depend on the designs, any abnormal site conditions and other factors.

Summary of Options Analysis Affordability Using Funding Allocation Model

BSF Projects	Schools	Assumed % new build	Total funding available £	Estimated cost £	Capital shortfall £
OPTION 1 – Preferred option as per Expression of Interest					
Initial Priority Project			55,781,561	61,589,921	-5,808,360
School 1	Raincliffe School	100%			
School 2	Graham School	70%			
School 3	New Special School	100%			
School 4	George Pindar College	100%			
School 5	Welburn Hall Special School	10%			
1st Follow-on Priority Project			43,856,400	49,707,029	-5,850,629
School 1	Scalby School	100%			
School 2	Filey School	25%			
School 3	St Augustine's School	70%			
School 4	Brompton Hall Special School	25%			
TOTAL					-11,658,989
OPTION 2 – As per option 1 but re-provide Graham and Raincliffe as one school					
Initial Priority Project			55,781,561	60,174,233	-4,392,671
School 1	Graham/Raincliffe/Scalby School	100%			
School 2	New Special School	100%			
School 3	George Pindar College	100%			
School 4	Welburn Hall Special School	10%			
1st Follow-on Priority Project			43,856,400	49,707,029	-5,850,629
School 1	Scalby School	100%			
School 2	Filey School	25%			
School 3	St Augustine's School	70%			
School 4	Brompton Hall Special School	25%			
TOTAL					-10,201,031
OPTION 3 – As per option 1 but re-provide Graham, Raincliffe and Scalby as one school					
Initial Priority Project			69,933,345	74,482,688	-4,549,343
School 1	Graham/Raincliffe/Scalby School	100%			
School 2	New Special School	100%			
School 3	George Pindar College	100%			
School 4	Welburn Hall Special School	10%			
1st Follow-on Priority Project			29,704,616	31,403,690	-1,699,074
School 1	Filey School	25%			
School 2	St Augustine's School	70%			
School 3	Brompton Hall Special School	25%			
TOTAL					-6,248,417

Revenue Affordability Gap Assuming Submission of Readiness to Deliver in 2010

Description	2010/2011 £'000	2011/2012 £'000	2012/2013 £'000	2013/2014 £'000	2014 onwards £'000	Assumptions
Project director incl. salary oncosts	40	80	80	80	80	AD1, mid point scale, 6 months in first year
Pre-procurement preparation		250				Allowance for advisers and some back-fill
Procurement costs			2,000	2,000		
PFI unitary charge					1,000	- Affordability gap of £500kpa per school not funded by schools/DSG - 2 schools delivered by PFI on financial close - If 20% ultimately PFI then rises to a maximum of £5mpa
Project team ongoing costs					2,000	To cover project management, admin and external adviser support. It is assumed that internal legal and financial support will be provided within the scope of existing officer posts.
Subtotal	40	330	2,080	2,080	3,080	
Less DCSF Funding	-11	-22	-11			DCSF will fund 50% of a project manager (not director) at project manager level for 2 years
Total	29	308	2,069	2,080	3,080	

Administration Costs of Procuring BSF Schools - Audit Commission Findings - February 2009

<u>Internal Costs (4Ps' assessment of minimum staffing requirements)</u>	£000s
Project Director x 1	320
Project Manager x 1	240
Administrative Document Manager x 0.75	90
School organisation & education capital teams x 1	240
Property and Asset Manager x 1	75
ICT Advisor x 1	50
Corporate Finance Advisor x 0.6	240
Legal Advisor x 0.6	200
Planning Advisor x 1	70
Stakeholder Management team x 3	150
Training	50
Estimated minimum total internal cost of procurement	1725
<u>External Costs (4Ps' assessment of minimum staffing requirements)</u>	
Legal	400
Finance	300
Technical	350
Insurance	50
Design	75
Property Surveys	100
Estimated minimum total external cost of procurement	1275
<u>Bidders cost (PwC assessment of cost post procurement review)</u>	
Winner's bidding costs charged to Local Authority	3,000
<u>Cost of setting up the LEP</u>	
LEP set up costs charged to Local Authority	500
Total cost to Local Authority across three years of establishing a LEP (including designs of first schools)	6,500