

NORTH LINCOLNSHIRE COUNCIL

CABINET

**BUILDING SCHOOLS FOR THE FUTURE (BSF)
FINAL BUSINESS CASE
(for procurement of Local Education Partnership (LEP))**

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To consider the financial implications of BSF that arise on the submission of the Final Business Case (FBC) to Partnerships for Schools (PfS).
- 1.2 To authorise the Service Director Finance to give a written commitment to PfS that the council will underwrite any additional capital spending needed to achieve BSF's objectives, and to set out the commitments given by the Schools Forum and schools themselves to underwrite revenue costs, as required by PfS if the scheme is to proceed' (see Appendix)
- 1.3 To authorise the Cabinet Member (Children's Services) to approve the final award of contract following recommendation of the project board as per standing orders relevant to the BSF scheme.
- 1.4 The FBC is a key stage in the process of securing the first phase of approximately £90.795m of government and Council funding for BSF.
- 1.5 The FBC summarises the scope of construction for two sample schools, and Information. Communication Technology(ICT) and Facilities Management (FM) offer to all Wave 3 BSF schools agreed with the LEP as reflected in the final contracts.

2. BACKGROUND INFORMATION

- 2.1 BSF is a national programme to raise standards in secondary schools. It is managed by PfS an agent appointed by Government to lead procurement. The government has allocated approximately £89.28m to the North Lincolnshire BSF programme. That amount has increased significantly from the original allocation, following detailed negotiations on a range of issues. This investment is intended to transform learning and teaching in our secondary schools. New and refurbished buildings will provide adaptable spaces to support innovative approaches to education. One tenth of the investment will be in ICT, to tailor individual programmes of learning for pupils and share resources across schools. Construction commences for two sample schemes in July 2009. It is important to recognise that the aim of BSF is far more than just to improve the environment in secondary schools. This means that the government has applied new expectations and responsibilities upon those benefiting from this investment. These will become requirements before funding is released.

2.2 An overview of the capital funding package for BSF is set out below:

- £81.83m for the construction comes as direct capital grant from the government(including carbon grant).
- £0.913m funding for ICT at St Lawrence Academy, is also direct capital grant as the school is funded as an academy.
- £6.547m for the ICT investment comes in the form of 'supported borrowing').
- £1.5m from the council to contribute additional capital for the programme as a commitment to the design & construction of these schools, mainly to cover the costs of sprinklers in new build. There will also be some costs for access improvements
- The council has also funded the set up and procurement costs of the scheme: £3.15m to the end of 2008/9. The gross project costs are met from capital and revenue sources
- In addition there is an approved project budget (of £685,350 in 2009/10) to embed phase projects, develop Business Cases for phases 2 and 3 schools and for future waves. The council's three year financial plan also includes BSF funding at similar levels.
- Separate from this is the council's £55,000 investment towards the equity of the LEP, the body that will deliver the capital investments following procurement.

2.3 In return for its investment in BSF the government expects that secondary education will be transformed Before releasing its capital grant to begin the building of BSF schools, PfS has to be satisfied that our plans will achieve genuine transformation in educational approaches and standards. This involves the council's overall vision for education and each school's vision being reflected in our plans for the new schools.

2.4 The PfS funding for the BSF programme is fixed. It has been calculated according to a standard formula. The government is aware that cost over-runs can occur in major capital projects. However, it has been made clear that PfS will not agree to any cost over-runs being contained by 'watering-down' the designs, either for buildings or for ICT, if this would jeopardise the achievement of transformation in education delivery and performance. Therefore, it is a standard requirement of all BSF schemes that the local authority underwrites any rise in costs, that cannot be contained, in delivering the original vision for the project. Cost overruns will be minimised and mitigated by strong controls during the procurement and contract management process.

2.5 The second issue relates to the upkeep and maintenance of the assets created by BSF. Again with a focus on the transformation agenda, the government's view is that the assets have to be properly maintained and updated if they are to be effective. This will require a higher level of asset maintenance than previously. School governing bodies have been given indicative costs for a 25 year programme of upkeep and re-investment. This requires schools to review their budget management processes to ensure they can meet their new contractual fixed costs. The council will provide ongoing support to BSF schools to ensure that they can make necessary efficiencies and implement the transformational changes necessary to re-align their budgets. There is a review of the schools funding formula currently ongoing to ensure that the funding for all schools can meet the needs of ever changing demands.

2.6 There are emerging potential risks regarding the total capital commitment that could pressure the contingency available to support the project. In summary these are;

- The Funding Allocation Model (FAM) budget for future schools is indicative and dependant on final adjustments by PFS. This will directly impact on capital sums available to achieve national design standards which are becoming increasingly stringent. This could need a drawdown against contingency to meet standards before PFS funding drawdown is approved.
- Certain costs identified during the competitive dialogue process with bidders and PFS that are not funded by existing sources include, LEP set up costs over the PFS allocation, fees in excess of sums allocated which became apparent after the cash allocations were fixed by PFS and advised to bidders for the two sample schemes.
- The drawing down of resources to part meet Brumby temporary accommodation and serious Mechanical and Electrical issues to reduce phasing, time on site and disruption to learning during building was also made from contingencies. The temporary accommodation at Brumby will be reused at a later phase BSF school to save decanting costs later in the programme. This was not covered by PFS grant.
- It is assumed for future phases these fees and new project development costs will be top sliced before allocating a target cost to the LEP, however it will not be known until later FAMs are approved whether PFS will permit this practice. If PFS do not permit this action, such costs will be a call on contingencies.

Mitigating actions already taken by the BSF team has been to negotiate the cost of sprinklers to new the build within the total target cash sum available for the two sample schools. As this was originally a contingency allocation (£1.5m), this budget has been allocated to meet known pressures at this time and contribute to the costs of the sample schemes. There is therefore a significant possibility that the existing £1.5m contingency will be insufficient and further capital resources from the council may be required. For example a 5% increase in costs is £4.5m.

- 2.7 Parallel to the requirement for the capital to be underwritten, the Department for Children and Schools(DCSF) requires that revenue costs are underwritten. The Schools Forum has agreed to do so from the Dedicated Schools Grant(DSG).
- 2.8 All of these matters have to be covered in a letter from the Council's Section 151 officer (Service Director Finance). The letter is a highly significant document, as it accompanies the Final Business Case and is a requirement for the scheme to progress.
- 2.9 The FBC summarises the project overview, objectives, outcome of competitive dialogue with the bidders and the financial implications of the agreed BSF offer. The FBC has been drafted in consultation with PfS and has to be approved to release the Government funding.(A draft copy is available for inspection in group offices). The Project Board will shortly be asked to recommend approval to the Cabinet Member Children's Services to award the final contract to the preferred bid consortium based on the FBC. The letting of the contracts is subject to PfS approval of the FBC.

3. OPTIONS FOR CONSIDERATION

- 3.1 The first option is to provide PfS with the necessary undertaking that the council will underwrite the capital cost of the BSF scheme. This includes an agreement to meet the net cost of supported borrowing for ICT. The underwriting of revenue implications has already been provided via the Schools Forum.
- 3.2 The alternative option is not to provide any undertaking in relation to the cost of the capital schemes and ICT within BSF. This would also encompass the supported borrowing issue with regard to ICT.

4. ANALYSIS OF OPTIONS

- 4.1 Option 1 above would provide the PfS with the assurances it requires that the capital element of the BSF scheme will be underwritten. This is to ensure that the transformational aspect of BSF is not lost should there be cost over-runs in delivering the project.
- 4.2 The alternative option, to not provide the underwriting of the capital costs, would lead to the Final Business Case not being approved by PfS. This would lead to the scheme being unable to progress and the £89.25m of grant and supported borrowing consents would be forfeited. Any delay to financial close risks contract prices rising.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY,IT)

5.1 Financial

- 5.1.1 The capital costs to the council of implementing the BSF proposals are set out in this report. The potential costs of providing the underwriting of the capital element are not known. However, as an example, a 5% over-run could be over £4.5m.

5.1.2 The costs of the project management arrangements and North Lincolnshire Council's contribution to the LEP have already been included in council budgets.

5.2 Staffing

5.2.1 There are no direct staffing implications arising from this report.

5.3 Property

5.3.1 There are no direct property implications arising from this report.

5.4 ICT

4.4.1 There are no ICT implications directly associated with this report.

6. **OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 – CRIME AND DISORDER, RISK AND OTHER)**

6.1 The main implication under this section would be the risk of the BSF scheme not progressing if the necessary undertakings and guarantees are not provided to PfS.

6.2 If there is no significant capital investment in the BSF schools there is an increased risk of closure of poor quality buildings and ICT failing to meet demands.

7. **OUTCOMES OF CONSULTATION**

7.1 In developing the FBC, the council has undertaken extensive consultations with the Schools Forum, schools, headteachers, governors and their communities, the DCSF and PfS. There has also been an extensive period of competitive dialogue with private sector bidders, who have invested significant resources to bid for the BSF project. The financial arrangements set out in this report reflect the outcomes of those consultations.

8. **RECOMMENDATIONS**

8.1 That the council confirms its underwriting of the capital building investment element of BSF, as set out in this report, and accordingly approves this undertaking to be included in the letter drawn up by the Service Director – Finance.

8.2 That the council notes the agreement of the Schools Forum to underwrite the revenue costs of ongoing asset maintenance and renewal and receives further reports on the outcome of any school funding review.

8.3 That the Cabinet Member (Children's Services) consider and approve

the final award of contract following a recommendation of the project board as per standing orders relevant to the BSF scheme

SERVICE DIRECTOR LEARNING SCHOOLS AND COMMUNITIES
AND SERVICE DIRECTOR FINANCE

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Date: 22 May 2009.

Background Papers used in the preparation of this report

Partnerships for Schools: Guidance on the Final Business Case

Appendix 1 – Section 151 letter

DRAFT

To: Mr T Byles
Partnerships for Schools

Dear Mr Byles,

North Lincolnshire Council Building Schools for the Future

Section 151 Letter for Final Business Case – Phase 1 to Procure a Local Education Partnership (LEP)

I write to advise Partnerships for Schools of the financial arrangements in place with regard to phase 1 of North Lincolnshire Council's Building Schools for the future (BSF) programme. Having selected a preferred bidder on 24 March 2009, the council is now in a position to proceed with the procurement of a LEP and confirm the investment in the two sample schemes that comprise phase 1 of the BSF programme. Financial close, when all the following arrangements are confirmed, is expected on or before 15 July 2009.

The council has undertaken a thorough review of the funding arrangements for BSF, in conjunction with its technical advisers. This is based on the initial analysis completed for the Outline Business Case(OBC), and maintains the position that the vast majority of funding is being met from the Funding Allocation Model (FAM) allocation provided by PfS. The original position on revenue funding for ongoing maintenance and services has also been confirmed, updated with actual figures contained in the proposals from our preferred bidder.

Conventionally Funded Design & Build Schools

The latest approved FAM (excluding Melior carbon grant) for North Lincolnshire BSF is £88,815,154 of which £7,461,700 is allocated to Information and Communication Technology(ICT). In addition to this, the council has allocated a sum of £1.5m to supplement the allocations across wave 3 schools, and this has been used to optimise the investment value of the proposals from our preferred bidder. This affordability position was maintained throughout the procurement process, aiming to deliver core requirements whilst focussing on the transformational agenda. The allocations from these funding sources across all wave 3 schools is summarised in the following table:

School	FBC Construction
Melior Community College	£17,950,000
Brumby Engineering College	£11,867,000
St Lawrence Academy	£11,652,000*
Foxhills Technical college	£11,748,000*
St Bede's	£9,852,454*
Frederick Gough	£17,110,000*
St Hughs special	£1,174,000*

TOTAL	£81,353,454
ICT Campus - FAM	£7,461,700
TOTAL FAM	£88,815,154
Council Contribution	£1,500,000
Carbon Grant (Melior)**	£480,000
Total Funding Envelope	£90,795,154

*Indicative PFS FAM allocations to be adjusted for phase 2 & 3 schools for inflation and location factors.

**Carbon grant for Melior has been provisionally assessed at £480,000. There is an expectation of a similar carbon grant value for the St Lawrence Academy based on agreed floor area to be included in a later business case.

The phase 1 schools and those developed later in wave 3 under the new project approvals procedure will be delivered within the funding envelopes set out above. However, the council will meet any affordability gap that cannot be resolved when delivering new schools to the agreed output specifications under the new project approvals process.

ICT - Capital

The element of funding for ICT, amounting to £7.46 million, will be provided through £6.547m supported borrowing and £0.9135m capital grant (Academy). The preferred bidder's solution delivers the specified ICT investment within this funding envelope plus ICT refresh contributions from schools. The council commits to underwriting the cost of delivering the ICT solution as set out in the agreed output specification to meet the authority requirements.

Revenue

The council and its BSF schools are committed to maintaining the value and impact of the initial capital investment through a programme of facilities management and maintenance services provided by the LEP. The Schools Forum has agreed to underwrite schools affordability provided BSF schools act in a reasonable and responsible way in planning to meet their commitments. The schools will be able to re-direct elements of their current premises, ICT & grounds budgets but in addition will have to make efficiency savings to ensure that the full costs of the programme can be met. To ensure that funding for all schools can meet changing needs the Local Authority is currently reviewing the funding formula.

The governing bodies of both phase 1 schools have agreed to fund the following commitments:

- LEP Business and overheads
- Lifecycle renewal of buildings
- Facilities Management(FM), Planned and reactive buildings maintenance
- Reinvestment in fixed furniture and fittings
- Reinvestment in ICT equipment
- Managed service for ICT
- Grounds maintenance

This commitment is reflected in governing body agreements (GBAs), signed on behalf of Melior Community College and Brumby Engineering College. At the same time, the council has secured 'in principal' signatures to GBAs from all other wave 3

mainstream secondary schools, on the proviso that cost elements not yet identified (e.g. lifecycle renewals) will be presented for further approval at the appropriate time. The indicative level of funding per annum for all the above services, reflected in the GBAs, is as follows:

	Years 1 to 5	Years 6 to 25	Status
Melior Community College	£364,825	£565,631	agreed**
Brumby Engineering College	£322,631	£487,885	agreed**
St Lawrence Academy	£279,130	£428,721	in principle**
Foxhills Technical College	£319,822	£497,138	in principle**
St Bede's	£262,903	£408,798	in principle**
Frederick Gough	£440,090	£698,554	in principle**

**note these figures do not include reactive maintenance, which will be a call off service funded by schools.

School contributions will be managed through the creation of a sinking fund, so that annual expenditure variations can be smoothed and also ensuring sufficient funding will be available in future years to meet major lifecycle commitments

With regard to the costs of an ICT managed service, the preferred bidder has offered to provide the specified services at a rate of £120 per pupil, per annum. This is within the range of likely costs accepted by school governing bodies at OBC stage and their acceptance of this has recently been confirmed (see above). Recognising the importance of this aspect of BSF, the council commits to ensuring that the funding stream to enable schools to maintain these payments will be in place for the life of the contract from Dedicated Schools Grant and school budgets.

St Hughs special school is a minor works programme and as the majority of the existing building remains with the Council's property and asset management programme the LEP will not be required to provide FM and ICT support to the level required by mainstream secondary schools. The ICT offer to the special school will be primarily choice fund led as the ICT needs of children with complex learning difficulties are significantly different from mainstream pupils.

Asset Management

The LEP will be responsible for producing an asset management plan that delivers a building maintenance programme over the useful life of the new schools. The schools, using existing funding streams and also an element of other budgets that will need to be re-prioritised towards infrastructure maintenance, will finance this. Recognising that this reallocation of current priorities cannot be achieved overnight, schools' contributions towards a maintenance sinking funded have been stepped at five years, with an increased rate for the following 20 years. A support programme will accompany this from finance and school improvement colleagues, sharing ideas and good practice as to how this will be managed. The overall funding requirement, and total amounts set aside by schools, is not changed as a result of this approach. A further advantage of this arrangement is that the underwriting guarantee provided by the Local Schools Forum at OBC stage will not be invoked before a fully transparent and tested regime has been tried by the schools. However, the council confirms its approach to meeting any revenue affordability gap via the Dedicated Schools Grant.

LEP Investment

The council has agreed to make an investment of £55,000 in the North Lincolnshire LEP. This will be used to fund the 10% shareholding in the LEP (£5,000) and contribute towards its working capital (£50,000 loan)

Conclusion

As the Section 151 officer for North Lincolnshire Council, I can confirm that the authority's approach to managing and meeting the affordability implications for the design & build schemes in phase 1 of the BSF project as set out above, and the necessary contributions required from the Council including Schools Budgets to meet these commitments, have been factored into the council's financial plans.

Yours Sincerely

M Wedgewood
Service Director Finance
North Lincolnshire Council