

## School Funding and PFI

- a Westminster Advisers briefing

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### Introduction

This week, Education Secretary Michael Gove announced School Funding Reform, changing the way students and buildings receive Government funding. This follows the James Review and the end of Building Schools for the Future. In addition to funding for student places, changes to revenue funding and new consultations, Gove announced a £2bn PFI school building scheme. This comes on top of HM Treasury plans to achieve £1.5bn in savings from 495 PFI projects. As a result, future PFI projects will need to adhere to the new requirements.

This briefing provides an overview of the School Funding Reform, changes to PFI, implications for the private sector and media and stakeholder responses.

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### School Funding Reform

School Funding Reform plans to make school funding fairer, simpler and more efficient by increasing funds for school places and buildings and reforming how schools receive these funds:

#### **£500m for new school places**

*£500m for extra school places in England.*

Local authorities can use these funds for September 2012 to build primary schools to respond to increased demand for school places caused by increased birth rates.

#### **Priority School Building Programme**

*BSF is replaced with a new PFI scheme to target schools in the worst conditions.*

Worth around £2bn in upfront construction costs, this PFI scheme will improve conditions for nearly all types of schools. Applicants will be assessed on building condition, as well as basic need and other priorities. Local authorities and schools that were promised, but did not receive BSF funding, are eligible. Contract negotiations for this programme could fall under DfE or the Funding Agency for Schools, with up to 300 schools being covered by programme. The first are due to open in September 2014.

The scheme could free up funds for other Government priorities, such as free schools.

#### **James Review Consultation**

*Recommendations from the James Review will be accepted pursuant to a consultation.*

School rebuilding projects were halted while Sebastian James reviewed how the Department for Education funded capital projects. The James Review found that schools in the worst condition were not prioritised and that procurement was not cost-effective. Recommendations for standardised contracts and centralised procurement will be accepted subject to review. Recommendations also include a full survey of the school estate and a single, clear set of building regulations for all schools. Building design will also be standardised, with allowances for special schools.

More than 600 projects in advanced planning stages can resume.

#### **Revenue Funding**

*National formula to allocate revenue funds.*

Subject to consultation, a national funding formula could be used as early as September 2013 to allocate revenue funding. A basic amount per pupil could be topped up to reflect needs of poor students, small schools and higher living costs. The formula seeks to ensure similar schools receive similar funds.

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## Savings in Operational Private Finance Contracts

The HMT report combines findings of hospital and defence PFI contract pilot reviews. 5% savings of annual unitary charges were realised by identifying effective practices and cost-reduction opportunities. Findings will be used to update existing savings recommendations.

Recommendations are classed as: effective management of existing contract terms, optimising use of asset capacity and reviewing soft services specifications. Specific measures include:

- Effective management of existing cost/gain share provisions in relation to insurance;
- Reducing energy consumption, i.e. through increasing energy use awareness;
- Regular reviews of soft services specification against service requirement;
- Aligning market testing dates between sites with the same soft services provider;
- Accessing agency energy purchasing discounts;
- Transferring certain services to department-wide programmes that were not established at PFI contract signing;
- Reviewing opportunities to co-locate, sublet or mothball unused building space and dispose of surplus land

These recommendations build on recent Government activity on PFI. Click [here](#) for Westminster Advisers briefings on the March 2011 NAO PFI report and June 2011 Westminster PFI debate.

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## Private Sector Implications

Gove clarified the Priority School Building Programme will not have the same excessive costs incurred by past PFI schemes as they will be subject to HMT and James Review saving measures.

Companies involved with the Priority School Building Programme will see standardised building design and contracts and a redesigned procurement process that seeks to use central purchasing and minimise lengthy pre-procurement times. While these measures will likely reduce costs, there are concerns that smaller, local contractors will miss contract opportunities.

All operational PFI contracts will likely be subject to a contract savings review, strengthened transparency obligations, new mechanisms allowing the Government to get better value and financial rebates from insurance arrangements, relaxed standard performance requirements, regular reviews of soft service requirements and specifications, soft and ancillary services procured outside of the PFI contract and sharing change in law risk with authorities. Some of these measures will increase transparency and reduce revenue for contractors.

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## Media and Stakeholder Reaction

- [Financial Times](#): *“Gove unveils £2bn PFI schools scheme”*
  - [Financial Times](#): *“Ministers see PFI savings of £1.5bn”*
  - [Telegraph](#): *“Coalition turns to ‘discredited’ PFI scheme to build schools”*
  - [Times](#): *“Gove turns to private finance to re-start school building programme”*
  - [National Association of Head Teachers](#): *“Funding consultation could be turning point”*
  - [Association of School and College Leaders](#): *“Formula could lead to different set of inequities”*
  - [British Council for School Environments](#): *“We need to learn from past mistakes”*
  - [Public Service](#): *“Treasury to save ‘at least’ £1.5bn on PFI”*
  - [Public Finance](#): *“Gove gives £500m to fund extra school places in England”*
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## Contact

For further information on sector-specific analysis and implications, or to learn about our timely MP opinion survey on PFI, contact Gary Sargent, Director on +44 (0) 20 7222 9500 or at [gary@westminsteradvisers.co.uk](mailto:gary@westminsteradvisers.co.uk) to discuss how we can support you at this significant time of change.