Priority School Building Programme

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United Kingdom
Department for Education
Context

• Tight fiscal climate - £17.1 billion over four years of Comprehensive Spending Review period.

• Settlement resulted in 55% reduction in available capital overall by 2014-15 compared to 2010-11.

• Cancellation of all major capital investment programmes.

• Continuing issues with the condition of schools.

• Growing birth rate – increasing basic need pressure for school places and particular gaps at primary level.

• Significant changes in the school system.

• Wider cross-Government developments – HMT review of PFI.
Capital Review

Review highlighted three principle issues:

- Current prioritisation of spend for capital was not evidence-based.

- Current procurement model focused on the money available, rather than starting with the output wanted (e.g. quality, scale, timing etc). Didn’t make best use of the limited resources.

- A more centralised approach could yield rapid savings over time and an enormous amount of learning from one project to the next to feed improvement and efficiency.
Overview of the Programme

• A programme to cover the equivalent of building 100 secondary schools (overall capital value £2.69 billion) through private finance
• A mix of primary, secondary, special and alternative provision maintained schools, sixth form colleges and Academies
• Divided into ‘Groups’ - c.20% to be delivered each year over 5 year period
• First schools to open in academic year 2014-15
• Procurement of Group 1 to commence in Q2 2012 and reach Financial Close by Q2 2013
• Central procurement
Need for the Programme

- 21,978 schools in the estate and a number of very poor quality schools still in use
- 80% of school estate is over **20 yrs old**
- Not VfM to keep patching up dilapidated facilities
- Previous strategic programmes (e.g. BSF) were not targeted at condition
- By end August 2011 approx. 330 schools had benefitted from BSF funding
- £11bn will have been invested when BSF programme ends in 2014/15

Age profile of school estate
Objective 1

Schools (primary/secondary/sixth form) in the poorest condition are prioritised for rebuilding via a privately-financed solution (accepting that a privately financed solution requires those schools to pass a value for money test.)

WHY?

The privately-financed option offers a holistic and value for money solution to the delivery of new facilities and ongoing maintenance requirements over a long period, ensuring that schools are handed back to the public sector in good condition thus ensuring preservation of the estate for future generations of students.
**Objective 2**
To build more for less.

**HOW?**

By drawing on learning from BSF and other schools projects and in particular to use the example of the Review pilot project Campsmount Technology College, further details of which can be found at appendix 2.
Objective 3

To improve the future private finance model drawing on learning and experience from recent BSF PFI deals, the HMT review of operational PFI contracts and PAC recommendations in response to the NAO report.

HOW?

By using a central team of experts in private finance with experience of delivering privately financed school projects to work with HMT on updating and honing the project agreement. Also this will be achieved by engaging with the market on the changes to ensure that there is a smooth transition into general acceptance of revised contractual positions.
Objective 4

To use a centralised procurement model for the first group in the programme in order to drive efficiencies in procurement time and ensure that a quality solution is obtained at the lowest cost.

WHY?

Experience with BSF and previous privately financed procurements have demonstrated that procurements by Local Authorities can be inefficient through lack of capacity and capability internally to manage the process efficiently. In addition, individual academies comparatively have little or no covenant strength. Centralised procurement by a team of experts in negotiation and Private financed contracting would ensure an efficient and streamlined procurement with lessons learnt being recycled and acted upon quickly across the programme.
Application and Selection (1)

Applications
• Open to all Primary and Secondary maintained schools (including VA, VC and Foundation), sixth form colleges and academies and may include the building of whole new schools where basic need dictates
• Applications closed 14 October 2011
• Schools must accept conditions for participation including:
  ■ Long-term (c.27 year) PPP Contract (including FM)
  ■ Constrained flexibility over design
  ■ Contribution to annual revenue payments
  ■ Batched procurement
  ■ Proven long-term pupil demand
Application and Selection (2)

Selection

• Applications on the basis of **Condition**
• Shortlisted schools further considered (factors include):
  ■ Site issues
  ■ Re-organisation issues
  ■ Other delivery considerations
  ■ Suitability for batching
Main Benefits

- Preventing poor educational outcomes due to substandard building conditions
- Reduced pressures on the local school system that would otherwise have been created due to uninhabitable premises
- Reduced maintenance costs
- Reduced carbon emissions
- Improved pupils’ health and wellbeing
- Improved working conditions for teachers, leading to higher rates of satisfaction and staff retention
- Wider social benefits that arise from preventing adverse educational outcomes, such as lower crime, truancy and exclusions
Priority School Building Programme

Economic Case
Priority School Building Programme
Economic Case

• Critical Success factors
• Long-Listed Options
• Short-Listed Options
• Value for Money Analysis:
  ■ Qu 1: Does replacing the worst schools with new buildings offer VfM?
    ▪ Qualitative Analysis
    ▪ Quantitative Analysis
  ■ Qu 2: Does PPP offer better VfM than conventional procurement?
    ▪ Theoretical Analysis
    ▪ Qualitative Analysis
    ▪ Quantitative Analysis
Critical Success Factors

1. Business needs – how well are the options likely to deliver schools suitable for delivering education?
2. Strategic fit – how well do the options complement other education infrastructure policies?
3. Benefits optimisation – are the options likely to deliver maximum benefits and will they have potential adverse effects?
4. Potential achievability – what are the likely practical difficulties of each option?
5. Supply side capacity and capability – how likely are suppliers (contractors and advisers) to be willing and able to meet the demands placed on them by each option?
6. Potential affordability – can DfE afford the option?
## Long-Listed Options

<table>
<thead>
<tr>
<th>Option</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Do nothing</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>2 Reassert existing local revenue maintenance responsibilities;</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>5</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>3 Dispose of assets;</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>3</td>
<td>5</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>4 Hold back in local authorities some or all of what currently goes into schools’ dedicated school grants to enable local authorities to increase their school maintenance programmes;</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>5 Hold back in the new capital central body some or all of what currently goes into schools’ dedicated school grants to enable local authorities to increase their school maintenance programmes;</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>6 Extend claw-back of revenue balances from schools to enable local authorities to increase their school maintenance programmes;</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>7 Permit other forms of borrowing by schools;</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>8 Abolish the distinction between revenue and capital without lifting the restriction on borrowing by schools;</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>5</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>9 Procure new/rebuilt schools by conventional design and build contract</td>
<td>5</td>
<td>5</td>
<td>1</td>
<td>5</td>
<td>5</td>
<td>2</td>
<td>23</td>
</tr>
<tr>
<td>10 Procure new/rebuilt schools using a PPP solution with similarities to the conventional PFI model;</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>29</td>
</tr>
<tr>
<td>11 Abolish the distinction between capital and revenue funding and leave schools free to</td>
<td>5</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>19</td>
</tr>
<tr>
<td>12 Procure new/rebuilt schools using another form of PPP, such as framework development financing;</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>27</td>
</tr>
<tr>
<td>13 Use some sets of buildings for two schools of children each day by having two shifts.</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td>5</td>
<td>5</td>
<td>17</td>
</tr>
</tbody>
</table>
Short-Listed Options

- Option 1 (Option 1 in long list) – do nothing;

- Option 2 (Option 9 in long list) – the public sector comparator PSC, conventional design and build procurement; and

- Option 3 (Option 10 in long list) – a PPP arrangement that builds on the conventional PFI model
Value for Money Analyses

Does replacing the worst schools with new buildings offer VfM?
- Qualitative
- Quantitative

Does PPP offer better VfM than conventional procurement?
- Theoretical
- Qualitative
- Quantitative
Qualitative

- Preventing poor educational outcomes due to substandard building conditions.
- Reduced pressures on the local school system that would otherwise have been created due to uninhabitable premises.
- Reduced maintenance costs.
- Reduced carbon emissions.
- Improved pupils’ health and wellbeing.
- Improved working conditions for teachers, leading to higher rates of satisfaction and staff retention.
- Wider social benefits that arise from preventing adverse educational outcomes, such as lower crime, truancy and exclusions.

Conclusion: replacement is value for money
Quantitative

Assuming no new schools, with existing schools remaining open:

<table>
<thead>
<tr>
<th>Attainment increase</th>
<th>1%</th>
<th>5%</th>
<th>10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPV gain per £ spent</td>
<td>£0.22</td>
<td>£0.59</td>
<td>£1.07</td>
</tr>
</tbody>
</table>

Assuming no new schools, with existing schools forced to close:

<table>
<thead>
<tr>
<th>Level of Need</th>
<th>Moderate</th>
<th>High</th>
<th>Severe</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPV gain per £ spent</td>
<td>£0.64</td>
<td>£1.38</td>
<td>£3.52</td>
</tr>
</tbody>
</table>

Conclusion: replacement is value for money
Does PPP offer better VfM?

58 BSF PFI projects were VfM using HMT methodology
PSBP will improve VfM because:

- Centralised procurement
- No new Local Education Partnerships
- Shorter procurement
- Only 1 bid stage, and only 1 school designed by all 3 shortlisted bidders
- Reduced bid costs (less work on education, ICT, sports and leisure)
- Design standardisation
- Common market testing dates for facilities management
- More options for contract management
- No lifecycling of loose furniture and equipment
VfM – Theoretical

Possible Changes to be Tested as Variants
• Improved flexibility
• Other insurance arrangements
• Short term funding
• Exclusion of soft FM services from the contract
• Procuring the swap separately from the debt

Conclusion: PPP is value for money
Q2 Does PPP offer better VfM than conventional procurement? – Qualitative

Conducted according to HMT guidance

- **Viability** – In deciding to proceed with a PPP model that builds on the conventional PFI model, DfE and PfS are satisfied that an operable contract with built-in flexibility can be constructed (by applying enhancements to the previous standard contract documentation), and that any strategic and regulatory issues can be overcome.

- **Desirability** – In deciding to proceed with PPP that builds on the conventional PFI model DfE and PfS are satisfied that the benefits will be sufficient to outweigh the expected higher cost of capital. PfS is confident that any disadvantages identified can be resolved by developing standard schools documentation and through targeted dialogue with bidders to ensure that appropriate flexibility is built in to the solution where appropriate.

- **Achievability** – In deciding to proceed with PPP that builds on the conventional PFI model DfE and PfS are satisfied that the procurement programme is achievable given the attractiveness to the market, private sector capability and the resources that DfE and PfS have committed to the programme.

**Conclusion:** PPP is value for money
Priority School Building Programme

Commercial Case
Procurement

Batching

Schools to be batched for ease of procurement
Scope of each batch is not yet determined:
- Likely to include a mix of primary and secondary
- Batches likely to be based on geography but possibly also school type

Procurement and Contract Structure

Central procurement by DfE
Dedicated team for each batched project, supported by professional advisers
Procurement

Procurement and Contract Structure

- **OJEU**
  - competitive dialogue procedure - targeted and structured dialogue
  - expected to take approx. 12 months from OJEU to contract close
  - expect to take 3 bidders into the dialogue for each Lot
  - may limit number of Lots bidders can bid for.

- Dialogue based on one school – further schools worked up during Selected Bidder period for inclusion pre-close or by pre-agreed contract variation
- Designs for other schools in a batch based on dialogued design.
Procurement

Local Authorities/Schools have a significant role:

- Detailed input into OBC and FBC development
- Local design input (within design constraints)
- Site survey information or access for surveys to be done
- Employee/pensions information
- Planning
- Legacy Equipment/ICT information provision
Savings

Design and Specifications

- Contractors encouraged to use their standard designs across a batch
- Standard project output specification being developed and improved
- Consultation with market. Construction and FM contractors.
- Estimate 20-30% construction cost saving against previous programmes (based on recent Campsmount Technology College rebuild and D&B framework rates)
- Possible GIFA reductions approx 15% on for secondary schools, 5% for primaries

Contract risk allocation

- PfS commercial team is working alongside HMT to consider project risk allocations to deliver optimum VfM.
- Flexibility and transparency
Group 1 Operational Management

- Each school will need to comply with “on-the-ground” obligations in the main contract - to be regulated through a Governing Body Agreement

- Consideration is being given to how the contract is best managed through the construction and operational periods
  - What should be the role of the Local Authority / school?
  - Should the EFA be resourced to deliver this service in full?
  - If a split role, how should any central / local interface work?
Future Groups

- Schools unsuccessful in Group 1 may well be included in future Groups

Improvements going forward

- Learn the lessons from Group 1
- Standardised designs
- Alternative funding models
- Strategic partnering
- Further improved VfM driven out of the contract documentation
Changes to risk allocation

• Drivers for change: VfM, NAO, PAC lessons learned

• Possible changes for Group 1 projects:
  ■ ICT removed
  ■ General Change in Law
  ■ Transparency
  ■ Match indexation to costs better
Other possible changes to risk allocation

- Removal of Soft FM
- Flexibility / partial termination
- Lifecycle risk changes
- Loose furniture and equipment – legacy use or new with no lifecycle responsibility for the contractor
- Warranties approach?
- Construction financing?
Priority School Building Programme

Financial Case
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Financial Case

• The financial modelling
• The first ten years’ unitary charges
• Unitary charges – sensitivity analysis
• Unitary charge modelling assumptions:
  ■ Capital costs;
  ■ On-going costs;
  ■ Financing costs;
  ■ Other
The Financial Modelling

- Full unitary charge model for one project
- Four secondary schools
- Repeated five times in the first year (to give 20 secondary school equivalents)
- First year is repeated four times (to give five years in total; 100 secondary school equivalents)
Scope of the PSBP

- Overall capital value of c.£2bn
- Equivalent of:
  - 100 secondary schools: or
  - 300 primary schools
- Divided into ‘Groups’ - c.20% to be delivered each year
- First schools to open in academic year 2014-15
Contact

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