



Leicester
City Council

WARDS AFFECTED
All Wards

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Cabinet
Council

29th May 2007
31st May 2007

Building Schools for the Future

Report of the Corporate Director of Children and Young People's Services

1. Purpose of the Report

- 1.1 Building Schools for the Future (BSF) is a substantial, Government sponsored investment programme intended to transform secondary education. Leicester was asked to submit a proposed scheme to secure potential funding and £232m has been earmarked for Leicester. This will be made available in tranches upon the submission of a satisfactory Final Business Case for each phase. Our proposal will be split into four phases, the first of which will consist of the following schools:
- a) Soar Valley
 - b) Judgemeanow
 - c) Beaumont Leys
 - d) Fullhurst
- 1.2 Cabinet approved a report on 7th March 2005 setting out the implications of entering into the BSF programme, approving the original Business Case and authorising the then Corporate Director of Education and Lifelong Learning, to commence work. This involved advertising for a private sector partner to carry out the works and provide services to the remodelled schools.
- 1.3 Cabinet approved a further report to select a Preferred Bidder in July 2006 although no final commitment will be made until detailed work has been completed.
- 1.4 This report sets out a summary of the scheme, its overall objectives and expected benefits, together with issues which still need to be resolved before the Council formally commits to BSF.

2. Recommendations

2.1 Cabinet is recommended to:

- a) Confirm support for the scheme in principle and request Council to add the appropriate provision to the capital programme;
- b) Authorise the Director of Children and Young People's Services and Service Director (Legal Services) to continue to negotiate the commercial agreement with the Preferred Bidder to deliver phase one of the BSF programme and to establish the Local Education Partnership (LEP).

2.2 Council is recommended to:

- a) Add £60.790m to the capital programme, to be funded by Private Finance Initiative (PFI) credits and capital grants, in respect of the first phase of schools.
- b) Require a further detailed report to Cabinet before expenditure on phase one can be committed (other than the project development fees) or contracts can be let.
- c) Authorise Cabinet to vary the above capital programme provision, with any additional sums to be funded from external sources or prudential borrowing, subject to Cabinet being satisfied that the additional cost of any borrowing is affordable in the context of all costs associated with the BSF scheme.
- d) Authorise Cabinet to enter into commitments arising from BSF which will impact future years' revenue budgets.

3. Summary of the Scheme

3.1 The Government's BSF programme is a 'once in a generation opportunity'. Leicester was selected to be one of 12 Authorities in Wave 1 of the programme. Government funding of £232m has been made available to transform secondary provision in the City and deal with the maintenance of the estate in a sustained approach over a 25-year cycle. The programme is being managed by Partnerships for Schools (PfS), an organisation created by the DfES and Partnerships UK.

3.2 The Authority is seeking to radically transform the secondary estate in the city as part of a global strategy to raise standards through school improvement, promoting inclusion, and streamlining admissions. Seeking to utilise the transformational potential of new buildings and 21st century ICT provision, the Council's key objectives are to:

- Improve Education Standards for young people
- Develop personalised learning
- Create inspirational learning environments
- Improve quality and equality in teaching and learning

3.3 The Government has specific requirements about the way BSF is delivered, over which we have no choice. These include:

- (a) the use of standard contracts;
- (b) the use of the private finance initiative (PFI) for some schools;
- (c) the setting up of a local education partnership (LEP). This will be mainly private sector owned with the Miller Consortium, our preferred bidder, taking up 80% of the shareholding and the Council and PFS taking 10% each. As well as designing new projects and carrying out building work, the LEP will provide ongoing maintenance, cleaning and caretaking services. The LEP will also provide IT to the schools. This will require the transfer of certain City Council staff to a new employer.

3.4 In Leicester, the programme is being run in four phases which will eventually encompass all secondary schools. At this stage, we will (if Cabinet approves the forthcoming detailed report) only be making a commitment to phase one. We will, however, also be setting up the LEP, and contractual agreements which specify how work on future phases will be commissioned. Carrying out work on the first phase does not require us to carry out later phases, but clearly it will be difficult to pull back after this point, and there may be some abortive costs.

Phase One Schools

- Judgemeadow & Soar Valley – New Buildings

3.5 The programme will deliver 100% new build solutions on the existing school sites that will enable the schools to deliver their particular visions in respect of enhanced learning opportunities, embedded in the community and building on the school's individual specialisms. Under Government rules, these will be PFI developments, with a single contract for both the building work and subsequent services.

- Beaumont Leys – New Building

3.6 Originally planned as a refurbishment, the preferred bidder has now offered a new build solution on the existing site that offers an improved school design and enhanced learning opportunities. The rebuild option does cost more than originally envisaged under the refurbishment option, however it delivers a much improved outcome and it is not considered advisable to pursue design changes that will impact on the school's ability to deliver its educational vision. The financial impact of the new build option will be fully explored in the future detailed report to Cabinet. Despite this being a new build solution, the work will be traditional "design and build" with the Council paying for the building using Government grant. There will be a separate contract with the LEP for subsequent services.

- Fullhurst – Remodel and Refurbishment

3.7 The original proposals submitted at the preferred bidder stage did not meet the design aspirations for the college. The preferred bidder has worked with the Council to create a substantially enhanced proposal with a higher proportion of new build than previously envisaged. The new proposal is still however a compromise

between design aspiration and the affordability envelope for the school. After a number of iterations and challenges, the current design is felt to meet the needs of the school and, although more costly than originally envisaged, remain affordable. The financial impact of the new design will be fully explored in the future detailed report to Cabinet. The work will be “design and build”.

Procurement/Competition

- 3.8 The procurement of the private sector partner has been a lengthy process which was set out in detail in a previous report to Cabinet on the 31st of July 2006.
- 3.9 The Miller Consortium were selected as Preferred Bidder in August 2006. There have been substantial tranches of development work, since then, involving both Council staff and the consortium to resolve outstanding issues.

Design Vision

- 3.10 The schools in phase one have been designed and will be built to take account of current needs, but be flexible in design to respond to future developments. The designs will enable:
- Personalised learning, introductory and plenary group work, social space, project areas and other patterns of work and social engagement to take place.
 - Staff to optimise their work output for the benefit of the learner and provide increased job satisfaction for the individual.
 - Dedicated areas to be created for vocational learning.
 - Social and communal areas that are easily overseen and supervised, therefore reducing the incidence of bullying and misbehaviour.
 - Environmental sustainability at the core of the building design. Recent Government announcements have indicated that there may be additional funding available to take this even further in future phases of the BSF programme.
 - Innovative ICT solutions to be brought to bear on the learning needs of the students.
 - All students of whatever ability or disability to learn in appropriate facilities.
 - Schools that have the capacity to deliver integrated services to the communities they serve.
 - Schools to showcase their specialisms and maximise the opportunities in their specialisms across the city.

4. Finance and Affordability

- 4.1 The financial implications of BSF cannot be finalised yet, pending resolution of the outstanding issues described below. A comprehensive analysis will be presented to Cabinet in the forthcoming detailed report.
- 4.2 The key issue, however, is of affordability, and how the scheme will affect future revenue budgets of the Council and schools. The revenue budget is affected in the following ways:

- (a) if the costs of the new schools exceed the amounts provided by the Government, the Council will need to borrow for the excess. This is not presently estimated to be a significant amount of costs;
 - (b) running costs, including the management of the new facilities and their continuing maintenance. This will considerably exceed costs incurred in secondary schools at present, because we will be maintaining new buildings to a much higher standard;
 - (c) the costs of providing a client team at the Council, to work with the LEP.
- 4.3 To the extent that future costs exceed present budgets, they will be shared between the Council and schools.
- 4.4 The following sources of funding have been identified for BSF:
- (a) schools have agreed that they will contribute 11% of their budgets after certain adjustments. This roughly corresponds to the amount they are spending at present on facilities management and caretaking with an uplift to recognise the costs of maintaining the new buildings to a higher standard. Schools will also pay for the costs of ICT, based upon present budget provision. An exercise is taking place at present to assess the impact of these contributions on each school's overall financial position;
 - (b) the Government's Dedicated Schools Grant, to the extent that this is not allocated out to individual schools or to prescribed centrally held budgets (DSG is the main means by which Councils receive funding for schools and school related costs);
 - (c) additional contributions from the Council and schools. In 2005, the Council agreed to split this and meet 70%, with 30% to be met from schools. The original business case assumed a contribution of £2.8m per annum from the Council to the "affordability gap" for all 4 phases, which will be a first call on future budgets for the Council (although the full amount will not be required for some time). The final figure will differ from this, and an estimate will be made in the detailed report.
- 4.5 In addition to the agreed contributions, Members need to be aware that BSF carries with it financial risk. This risk will be fully assessed, and the potential impact quantified, as part of the forthcoming Cabinet report.

Contract & Payment Mechanism

- 4.6 The Council is following the full suite of standard contractual documents developed by Partnerships for Schools (PfS) for this national programme to enable an appropriate balance of risk to be achieved between the public and private sector. The Council has however agreed certain (limited) changes with the government.
- 4.7 The Council will be entering into the following contracts at financial close assuming

Cabinet gives the go ahead:

- i. A Strategic Partnering Agreement to create a 10 year strategic partnership with the Miller Consortium through the contractual framework of a Local Education Partnership
- ii. A Shareholders Agreement to take a minority (10%) stake in the Local Education Partnership
- iii. A 25 year PFI agreement to cover the design, build, finance and operation of the new Judgemeanow and Soar Valley schools
- iv. Design and build contracts for the construction of Beaumont Leys and the rebuild/refurbishment of Fullhurst.
- v. An FM agreement to provide caretaking and cleaning maintenance services to the schools delivered through design and build contracts.
- vi. A 10 year ICT managed service contract

4.8 The Council is following the PfS standard form payment mechanisms for the FM and ICT services, which have been calibrated to ensure an appropriate balance of incentivisation is achieved.

Residual issues

4.9 It is not possible at present to ask the Cabinet to formally commit to phase one of the scheme. Whilst much work has been done since the selection of the Preferred Bidder, there is complex negotiation still taking place over detailed terms and a number of other issues. Members will also be aware that the Miller consortium's original ICT provider has withdrawn from the national BSF programme, necessitating a replacement provider. This has required considerable additional assessment to ensure the new provider meets the Council's stated requirements. There are also formal documents which need to be submitted to the Government for approval. When these matters are resolved, a comprehensive report describing all aspects of phase one and the contractual documentation will be presented to Cabinet.

Risks

4.10 Whilst the BSF programme brings considerable potential benefit to the Council, it also brings with it risks. These will be assessed in detail and presented to Cabinet with the eventual detailed report. However, the key ones Members need to be aware of are:

- (a) potential increase in costs – whilst legal agreements set out whether the Council or the private sector fund increased costs in any given circumstance, there are circumstances in which the Council could face increased costs. The detailed risks of these will be spelt out to Cabinet together with measures we will take to control them;
- (b) the impact of BSF on the capacity of the CYPS Department to deliver other strategic change projects;

- (c) the impact of being locked into long-term contracts, if circumstances on the ground change (e.g. major changes in pupil numbers, or schools opting for Trust status).

Mark Noble (Chief Finance Officer – Tel: 29 7401)

5. Legal Issue

- 5.1. There are significant legal issues in relation to the BSF programme as a whole and the phase one construction programme in particular. Legal Services has a senior lawyer dedicated to this project, supported by both internal and external legal advisors. The legal issues will be fully addressed in the detailed Cabinet report which will set out the detail of the FBC.

Peter Nichols (Head of Legal Services – Tel: 29 6302)

6. Consultation

- 6.1 As there is a TUPE staff transfer envisaged within the project, full consultation is taking place with trade unions.
- 6.2 There is extensive consultation throughout the programme with schools, pupils, parents and school governors. This includes those involved in all phases of the BSF programme although the main focus at present is on the phase one schools.

7. Report Author/Officer to contact:

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