

Formula Funding – Application for a “PFI Factor”

Executive Summary

The mid-Bedfordshire Schools PFI Project was designed to provide additional school places based on demographic projections. The failure to meet these projections, and the lower-than-expected growth in the number of pupils from within catchment area who attend Harlington Upper School, have caused a structural imbalance in funding the School to meet its PFI obligations.

The actions that Governors need to take to address the budget deficit cannot be targeted at the occupation costs that have brought about the problem. The financial measures that can be taken will target people costs instead and will affect class sizes and the high standards which now define Harlington’s success. Any decline in standards will be reflected in future pupil numbers and the ability to retain and attract outstanding staff. A downward spiral could ensue. Irrespective, the PFI contract, to which CBC is a party, remains in place until 2035.

The School has many suggestions for addressing the project imbalance in the medium term, but in the short term there is an urgent need to address the budget and the existence of a PFI factor in the Formula Funding will help.

Recommendation

That the Schools Forum asks the Technical Sub-Group to review the case for a PFI factor and to revert to the next meeting of the Schools Forum.

Background

Following a detailed review of school places and demographic projections at the end of the 1990s, Bedfordshire County Council identified a deficit of 1200 Upper School places in mid-Bedfordshire. In order to address the sufficiency, condition and suitability needs, the Authority negotiated a PFI Scheme to deliver 200 additional places at Harlington Upper School and 600 additional places at Samuel Whitbread Community College. Although additional places were identified at Redborne Upper School, there were insufficient PFI credits available to deliver all three schools.

The two-school scheme went ahead, the PFI contract was signed in December 2003 and the works completed during 2006.

Operation of the Scheme

Under the scheme, the Provider (a consortium incorporated as Bedford Education Partnership Limited) financed the construction of new buildings and the refurbishment of existing facilities. The facilities will be operated and maintained by the Provider until 31 December 2035, when the contract expires and the facilities are returned to the Authority.

During the contract the Authority pays an annual unitary charge on a monthly basis to the Provider and recovers a proportion from each of the two schools. In the schools’ budgets, this charge covers all occupation costs, including business rates and “soft services”, namely catering, cleaning, caretaking and grounds maintenance. Energy costs are charged separately by the Provider.

Outcomes at Harlington

The educational outcomes for Harlington Upper School have been hugely positive. Standards at the School have risen significantly and in step changes, and the recently published CVA figures show measures of 1016.8 (KS2 to KS4) and 1020 (KS4 to KSA5), proving consistency as well as quality.

However the demographic projections at the heart of the decision (please see Table 1) have not materialised and the School will continue to have surplus places in catchment. By 2012 the failure to meet projected pupil numbers will have cost the School £800,000 in income that did not materialise.

Not surprisingly, the financial outcome has been worsening as a result of increasing PFI-related costs of occupation and the situation is now clearly unsustainable. Without corrective action, the cumulative budget deficit will exceed £1 million in 2014.

CFR benchmarking against other CBC upper schools for each cost heading (please see Table 2) shows that Harlington scores below average almost across the piece with the exception of rates, which are almost double the average and Occupation Costs which are a staggering 5½ times the average cost per pupil in the Authority.

As a responsible school, the Governing Body will take action to balance its budget. However it can only take action that will affect people costs (which are not far out of line in benchmarking terms), whilst it is powerless to act alone on the occupation costs that have caused the imbalance.

Ongoing PFI Cost Issues

The PFI contract will run for a further 26 years. In the first 6 years of operation, additional costs outside the original contract have become a regular feature, with the following impact at Harlington:

1. Energy costs were originally built into the contract but were subsequently taken out due to their unpredictability. An additional £55,000 charge has been levied for retrospective energy costs to date.
2. Changes to the requirements of school catering (the Jamie Oliver effect) have been interpreted as a legislative change and the Provider is claiming a one-off sum of £49,000 and a further £13,000 per annum in compensation. The claim is being challenged but precedent is with the Provider.
3. The new buildings have triggered a full revaluation of the site and increased its rateable value by £71,000, a rise of 17%.

Within the terms of the contract, a comprehensive exercise in market-testing the “soft services” will take place every five years and the first such review is imminent. Indications are that charges will rise by up to 25%, adding a further £84,000 per annum. It has been impossible for Governors to make provision for this, even though some increase was predictable.

Conclusion

Governors have various suggestions for addressing the medium and long term solution to this structural imbalance. A PFI factor within Formula Funding is one short term aid to help the budget to play its part in maintaining standards at the School.