

Paper for Schools Forum

Schools Private Finance Initiative (PFI) Funding

The Council's PFI contract with Transform Schools (Rotherham) Limited (TSRL) runs for a period of 30 years from the 1st April 2004. The contract is a standard PFI design, build, finance and operate contract, with TSRL a company specifically set up for the purpose of this contract. All the companies involved in the PFI arrangement are Balfour Beatty group companies. The contract has involved the transfer of all the risks associated with the building and its operation and maintenance to the PFI contractor.

As with all PFI contracts, TSRL borrowed the funds for the construction work from the money market, in our case from the European Investment Bank and AXA. TSRL are responsible for making the payments on this debt. However, TSRL's only income source is the Council, so that we make monthly payments, termed a Unitary Charge (UC), to TSRL, to allow them to repay the debt and to cover the cost of maintaining and operating the buildings. The Council's estimated total UC payment in 2011/12 is £14.04m. Around 50% of the UC payment is fixed, as it relates to the capital element, and the other 50% increases annually in relation to RPI-X inflation.

The annual funding of this UC payment comes from a number of sources, including Central Government Grant of £6.2m, £5.25m from PFI Schools from their school premises budgets and £3.233m from DSG. The estimated income and expenditure for the Schools PFI for 2011/12 is summarised in the table below.

<u>Schools PFI Budget</u> <u>2011/12</u>	£			£
<u>Expenditure</u>			<u>Income</u>	
UC Payment	14,036,000		PFI Grant	6,222,509
Additional Utilities	450,000		School Budget Contributions	5,250,000
Business Rates	940,748		DSG	3,233,000
Additional Cleaning Payment	140,000		Other Contributions	159,693
Additional Lifecycle Costs	85,595		Insurance Refund	388,922
Additional FM Costs	25,000		EIB Refund	334,500
Vandalism Costs	47,500			
Vending (lost income)	147,108			
Free Meals Expenditure	580,000			
Total Expenditure	16,451,951		Total Income	15,588,624

The Council is responsible for paying utility bills at the PFI schools, and takes the risk on price changes. However, the amount within the PFI contractor's model for utilities has always been significantly lower than the actual utility costs, so an additional amount has been built into the Budget for this. In addition, the Council receives the free school meals budgets from the PFI

schools, which it uses to fund actual free meal expenditure. The Council's Facilities Services provide the cleaning services to the PFI schools via a sub-contract to BBW, as this contract is running at a loss, there is an additional contribution from the PFI Budget to this Service. The Council is also responsible for paying all the additional lifecycle and FM costs associated with the Council and school variations that have been incorporated into the Contract since its commencement. The Council receives all payment mechanism deductions in respect of the contract, however, historically these have averaged only around £15k-£20k per annum.

Future DSG Contribution Assumptions

The table below shows the future assumptions for the contribution from DSG to support the PFI UC payments.

2012/13	2014/15	2015/16
£m	£m	£m
3.445	3.639	3.729

In addition, schools premises budgetary contributions are assumed to increase by 2.5% annually in line with the long term assumption on RPI-X inflation within the model. The PFI grant is fixed over the life of the contract, as it is supporting the capital element of the PFI payment.

Implications of Academy Conversions

Any PFI schools that convert to academies will remain in the PFI contract and the Council will continue to make payments to the PFI contractor in respect of these schools. So far no PFI schools are Academy convertors, so this has not been an issue.

If we were to change how the funding is allocated and instead of top-slicing DSG for the premises funding, it was allocated to schools on an individual basis, then this would be included in the Total Schools Budget amount that the Council notifies the DFE that the Academy would have received had it still been an LA Maintained School. This then would be deemed to be included in the amount the DFE pay over to Academies.

However, separate legal agreements would be required with any PFI academy school to ensure that they continue to pay their premises budgets to the Council, to enable it to fund its payments to the PFI contractor on their behalf.