

**Item 6****TITLE OF REPORT: Schools PFI Update**

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**Purpose of the Report**

1. The purpose of this report is to request Schools Forums approval on the clarified Gateshead Schools PFI position.

**Background**

2. In February 2006 the Schools' PFI Project achieved Financial Close with a consortium led by Pinnacle Schools. The Project resulted in the building of seven new schools, five primary and two secondaries, by Sir Robert McAlpine. The schools within the project are: -
  - Lord Lawson of Beamish Comprehensive School
  - Kingsmeadow Community Comprehensive School
  - Harlow Green Infant and Junior Schools amalgamated into Harlow Green Community Primary School
  - Rowlands Gill Infant and Junior Schools amalgamated into Rowlands Gill Community Primary School
  - Dunston Hill Community Primary School
  - Highfield Community Primary School and Highfield St Joseph's RC Primary School co-located on a shared site.
3. Originally PFI schools were funded for their PFI costs, and elements of funding to cover service areas provided under the PFI contracts were withheld from the PFI schools in the Gateshead mainstream schools funding formula (e.g. repairs and maintenance, building cleaning, and grounds maintenance etc.).
4. In 2011 Schools Forum gave approval for the PFI funding gap previously funded by Gateshead Council to be passed to the dedicated schools grant (DSG). This was to facilitate the conversion of Lord Lawson of Beamish school to an academy, as the regulations at the time did not permit a local authority to "maintain" (fund) an academy.

5. Due to the conversion process of St Joseph's Highfield all the PFI models and payment mechanisms were reviewed, as this was the first PFI school since Lord Lawson of Beamish to go through the academy conversion process.
6. As part of this process, it was noted that there is a significant short fall in funding for the final year of the PFI contract. If no action is taken, it is forecast (under the current DSG funding mechanisms) that there would be a significant charge to PFI schools in the final year of the contract which would have a significant one-off impact on the Schools Block of the DSG. This would be detrimental to all mainstream schools as it would reduce funding available for all other formula factors.
7. The briefing note in appendix 1 gives the background and detail of the work undertaken and the proposed way forward.

## Proposal

8. To remedy this issue, it is proposed that the PFI charge to schools calculation be slightly amended to ensure that sufficient funding is placed in the schools PFI reserve to fund the final year charges over the remainder of the PFI contract.
9. If this proposal was agreed, there will not be a negative impact on the 2024/25 funding of mainstream schools as the PFI funding received by Gateshead in the Schools Block is greater than the proposed funding to PFI schools for 2024/25. This is due to the indexation received in the Schools Block being greater than the increased funding to PFI schools.
10. The Department for Education (DfE) calculate PFI funding in the Schools Block of the DSG based on the previous year's funding in the authority proforma tool (APT), uplifted by the retail price index, excluding mortgages (RPIX). For 2024/25 this was an increase of 10.4%.

This has been estimated at:-

2023/24 PFI funding in the APT	£3,178,475
Indexation at 10.4%	£ 330,561
Total funding PFI 2024/25	£3,509,036
2024/25 PFI funding in the APT	£3,477,460
Surplus PFI funding	£ 31,576

11. A PFI update report will be brought to Schools Forum each year to provide an update on the estimated final year funding gap, and the funding in the schools PFI.

## **Recommendations**

12. It is recommended that Schools Forum approves the proposal to ensure that the PFI funding shortfall in the final year of the PFI contract is covered by the schools PFI reserve, and notes that a schools PFI report will be brought to Schools Forum every year (until the end of the PFI contract) with an update on the estimated funding gap and the funding held in the Schools PFI reserve.

### **For the following reasons:**

13. To ensure that all Gateshead mainstream schools are not exposed to a drop in funding in the final year of the Gateshead Schools PFI contract, due to the increased charges to PFI schools in the final year of the contract.

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## Appendix 1



<b>TITLE OF BRIEFING NOTE:</b>	Schools PFI update
<b>REPORT OF:</b>	Terence Appleby, Finance Business Partner, Children's Social Care and Lifelong Learning
<b>DATE OF REPORT:</b>	18 December 2023

### **Purpose of the Report**

1. To provide an update on the latest position on the Schools Private Finance Initiative (PFI), future year forecasts and how the final year deficit will be tackled.

### **Background**

2. In February 2006 the Schools' PFI Project achieved Financial Close with a consortium led by Pinnacle Schools. The Project resulted in the building of seven new schools, five primary and two secondaries, by Sir Robert McAlpine. The schools within the project are: -
  - Lord Lawson of Beamish Comprehensive School
  - Kingsmeadow Community Comprehensive School
  - Harlow Green Infant and Junior Schools amalgamated into Harlow Green Community Primary School
  - Rowlands Gill Infant and Junior Schools amalgamated into Rowlands Gill Community Primary School
  - Dunston Hill Community Primary School
  - Highfield Community Primary School and Highfield St Joseph's RC Primary School co-located on a shared site.
3. The overall project is co-ordinated by Pinnacle Schools (Gateshead) Limited who are responsible for maintaining the sites for 25 years before handing control to the local authority on 8 August 2033. The local authority pay a monthly unitary charge to Pinnacle which includes a fixed and indexed element which is uplifted annually by RPIX as at January.
4. The Department for Education provide a PFI grant to the local authority as well as a grant directly to the diocese in relation to St Joseph's which offsets part of the unitary charge. However, a funding gap remains and Schools Forum agreed that this would be met from schools via Dedicated Schools Grant (DSG) from September 2011 onwards. This funding was only requested and agreed for former community schools, but not for St. Josephs.

## **Charges**

5. The unitary charge and funding gap is split between the seven schools based on floor areas and plot sizes. Schools are also charged a contract management fee based on school places capacity that pays for a co-ordination role within the council as well as finance and legal oversight. The contract management element of the charge should be uplifted by the Green Book pay award each year from a base cost of £13 for each place available for a pupil as per the original contract.
6. Charges from Pinnacle in 2023/24 were uplifted by January 2023 RPIX of 12.61% following an 8.01% increase in the previous year. The increase in 2022/23 was not passed onto schools whilst the charging mechanism was being reviewed which is explained further in the next section. Due to the further significant increase in 2023/24 there was no choice but to pass the additional cost onto schools. These uplifts, as with all construction costs in recent years, have been driven upwards by Brexit, covid and the war in Ukraine.
7. Once the charge to the schools has been calculated this is used as the basis for calculating the PFI funding provided for PFI schools to cover most of the PFI charge. This is to ensure that the PFI schools do not have a financial advantage or disadvantage compared to other Gateshead schools. The PFI DSG funding to schools is reduced for services that PFI schools receive as part of their PFI contracts that other mainstream schools fund from their mainstream funding allocation, e.g. grounds maintenance and caretaking etc.
8. The top slice is created when the charge to schools is greater than the cost to the LA of the PFI contract. This will be cost neutral to the PFI schools as they will be funded via the DSG for these costs, but it could be an overall funding pressure on the schools block of the DSG as this means there is less funding for other areas of the formula to be allocated out to all mainstream schools.

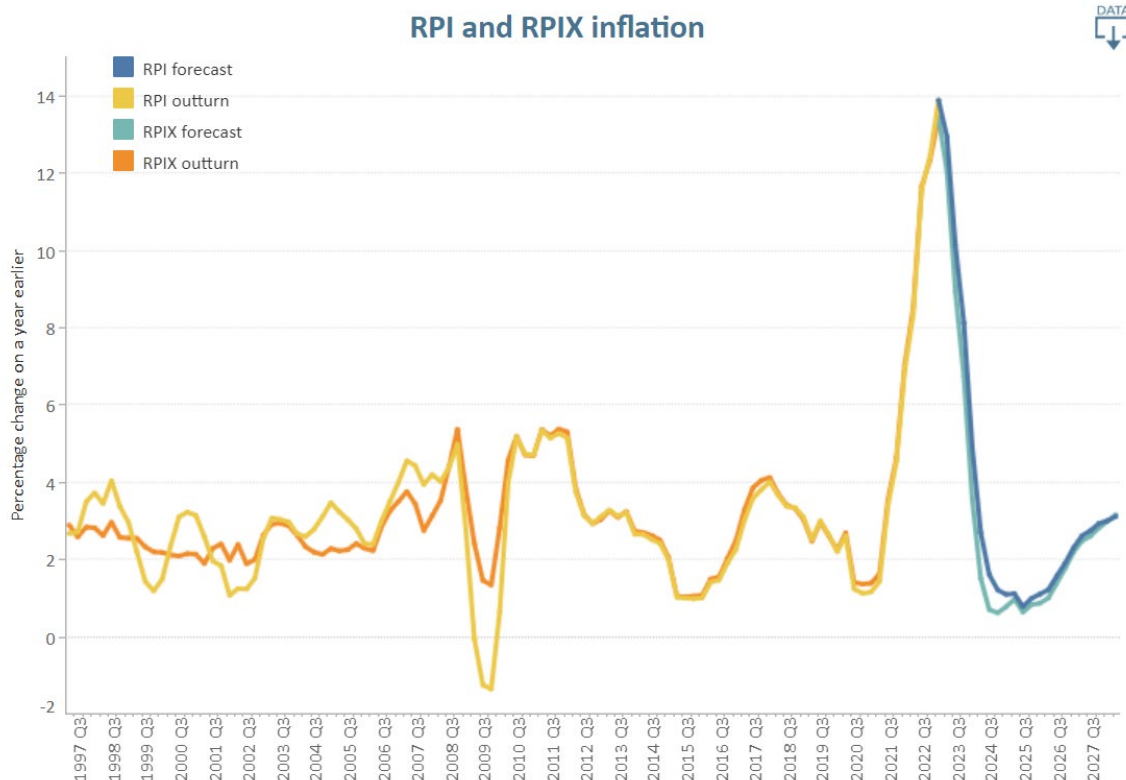
## **Findings**

9. A review of the payment mechanism has identified that the fixed element of the unitary charge is set to increase from £3.941m in the penultimate year to £9.958m in the final year. Adjusting for a part year indexed element and PFI grant results in an overall expected additional shortfall of £5.877m in this year. DSG cannot fund this level of increase in a single year and a plan is required as to how to meet the significant funding gap.
10. St Joseph's are currently converting to an academy as part of the Bishop Wilkinson Catholic Education Trust which has been further complicated due to the shared site with Highfield Primary School. Shared site issues have now been resolved and it is just the PFI finance issues holding up the academy conversion.
11. A full review of payments made to Pinnacle and corresponding payments made by schools has been undertaken from September 2011 to the present. The council has set aside PFI reserves to the value of £3.774m as at 31 March 2023 which has been recovered from PFI schools via the DSG towards the final year shortfall since September 2011.

12. Pinnacle are holding a further £0.415m of joint insurance cost refunds between 2018 and 2022 on behalf of the local authority for the PFI schools. This will contribute to reducing the final year shortfall once received by the council and added to the reserve. This will take place during the 2023/24 financial year.
13. The contract management charges have been set incorrectly in recent years as the uplifts have been based on RPIX rather than the Green Book pay award. As schools are fully funded for all PFI charges as per paragraph 8, it is proposed that schools continue to pay these charges in the current year and a full reconciliation exercise will be carried out at year end to ensure any differences between actual charges and correct charges is added to the PFI reserve, reducing the final year shortfall. As it stands, since 2011 it is estimated that £0.106m has been incorrectly charged across all PFI schools.

### **Going forward**

14. Taking all of the above into account, the current remaining estimated shortfall of £1.475m will need to be met from PFI schools between April 2024 and the end of the contract in July 2034. It is proposed that this is achieved by charging schools an additional element towards the final year spike in costs smoothed over the 10 year period by top slicing DSG, essentially the same approach taken to date. The charges will be set in December of each year to be used in the calculation of the schools funding allocation for the following financial year prior to submission to the DfE in January. Going forward, an annual update report will be shared with Schools Forum prior to this happening.
15. In relation to the proposed charges for 2024/25 the following has been taken into consideration for the calculations:
  - [RPIX](#) as at October 2023, the latest data available at the time of writing this report. This represents a 4.00% increase in the 12 months since January 2022.
  - Office for Budget Responsibility [RPIX forecasts](#) until 2028 and assumptions thereafter.
16. Actual and forecast RPIX over time is shown in the following graph. Whilst annual RPIX uplifts have been relatively stable between the start of the project and 2021/22, averaging around 3%, it is clear to see the impact of the pandemic, Brexit and the war in Ukraine and why PFI charges increased so dramatically in 2023/24. Future year forecasts are predicted to return to levels seen prior to the pandemic.



17. Proposed charges for 2024/25 for each school and a comparison to the current year is shown in appendix 1. There is an overall proposed charge of £4.322m; an increase of £0.314m or 7.8% on the current year. This takes into account RPIX changes and a contribution to the final year deficit. This increase will be top sliced from DSG as part of the mainstream schools funding formula.

### Recommendations

18. It is recommended that:

- Charges for 2024/25 are set and agreed in accordance with the methodology set out in this report.
- An annual PFI position update is brought to Schools Forum prior to the Authority Proforma Tool (APT) being submitted to the DfE.
- The PFI reserve continues to be monitored and future year contributions are set in accordance with the estimated remaining shortfall for the final year deficit.
- The PFI reserve is utilised for all PFI schools at the end of the contract.

### Consultees

The following people have been consulted in the preparation of this report:

Carole Smith, Finance Business Partner, Schools  
Victoria Lamb, Commercial Manager





School	PFI Unitary and Funding Gap Charge (£)	PFI Contract Management (£)	Contribution towards final year deficit (£)	Total 2024/25 PFI charge (£)
St Josephs	18,787	1,925	4,501	25,213
Dunston Hill	330,593	8,251	11,554	350,397
Harlow Green	393,763	8,251	13,767	415,781
Rowlands Gill	391,237	8,251	13,679	413,166
Highfield	154,557	2,200	5,401	162,158
Lord Lawson	1,675,705	27,503	58,920	1,762,128
Kingsmeadow	1,136,650	16,502	39,737	1,192,889
	<b>4,101,292</b>	<b>72,883</b>	<b>147,557</b>	<b>4,321,732</b>

2023/24 charge (£)	Variance (£)	Variance (%)
15,501	9,712	62.7%
326,712	23,685	7.2%
386,975	28,806	7.4%
384,565	28,601	7.4%
150,467	11,692	7.8%
1,636,365	125,762	7.7%
1,107,006	85,882	7.8%
<b>4,007,592</b>	<b>314,141</b>	<b>7.8%</b>