

NORTH WILTSHIRE SCHOOLS PPP/PFI PROJECT
TREATMENT OF THE PROJECT AFFORDABILITY GAP

1. In considering the Annual Service Report last year this Committee requested further information relating to the charging of the 'affordability gap' associated with the North Wiltshire Schools PPP/PFI project to the central schools budget. This Appendix updates Members on this matter.
2. The revenue shortfall arising out of the North Wiltshire Schools PFI Contract ("the Gap") has been charged to the Dedicated Schools Budget (formerly Schools Block) since the contract commenced in 2001. As a principle, this was and still is considered to be the most equitable approach, because this expenditure clearly relates to schools and not to the County Council's other services. However, this is a high level view, which can be discussed further.
3. It has been a mute point, on this scheme and many others, as to whether the Revenue Support Grant flowing from the PFI Credit given by the Government is sufficient to cover the capital build element of PFI schemes. Given the complexity of PFI schemes and the funding models involved, it has never been possible (or necessary) to allocate the Gap between the revenue and capital elements of the contract, although it could be argued that the Gap does at least partially relate to the capital element and therefore could be partly charged to the Council's Capital Financing Budget.
4. The Facilities Management (FM) elements will feature quite largely in the Gap, because the three schools are contributing to the scheme based broadly on their then-current expenditure levels at the start of the scheme in 1999-2000. It is a fact that the maintenance costs of the new schools over the long run will be higher under the PFI than what existed in those budgets at the time, because the contractor will maintain the new schools "properly" for the 25 year term, rather than just addressing the most pressing priorities.
5. Another element of the Gap is the cost of risk. One of the principal arguments put forward in favour of PFI is the transfer of risks to the private sector (both initial capital risks and on-going FM risks) as they are better able to manage them than public authorities. However, this is not done at nil cost and these risks would not typically be budgeted for in the same way on a traditional non-PFI scheme, particularly the FM maintenance risks, meaning that the budgeted cost of PFI will usually be higher than a traditional scheme, even though the value for money of the PFI has been proven.
6. To summarise, the Gap relates to both FM and capital elements of the scheme. To the extent that the Gap relates to the FM costs of the three schools, these are clearly revenue costs of schools and cannot be charged to the non-Schools revenue account without breaching correct accounting practice. To the extent that any of the Gap is capital, it cannot be effectively argued that it should be charged to the non-Schools revenue account, because:
 - (i) An extensive and expensive analysis would be required to attempt to analyse the Gap between its capital and revenue elements, as only the former could be correctly charged to the non-Schools budget under current accounting regulations. This does not seem like an effective use of the Council's resources.

- (ii) There is no precedent for the revenue effect of schools' capital expenditure impacting upon the non-Schools revenue account, because schools' capital expenditure has traditionally been funded by the Government, either through Capital Grant or Revenue Support Grant (which has been effectively ring-fenced) to fund borrowing. Even the element of the central Direct Revenue Financing that relates to schools is charged back to the Dedicated Schools Grant.
 - (iii) Given the Authority's current financial situation and difficulties balancing the revenue budget, it would make little sense to increase the pressure on the non-Schools element of the revenue account, where the Revenue Support Grant is only increasing by inflation or less each year, when the increases in the Dedicated Schools Grant are significantly above inflation.
- 7. The existing policy of charging the Gap to the Dedicated Schools Grant should be maintained.