

BRIEFING/INFORMATION NOTE

NORTH WILTSHIRE SCHOOLS PPP/PFI PROJECT – AFFORDABILITY GAP

Background

As a major procurement exercise the North Wiltshire Schools PFI Project was supported by a robust business and investment appraisal. This took the form of two structured documents, the Outline Business Case (OBC) and the Full Business Case (FBC). The prime purpose of these documents was to provide Members, the Department for Education and Science and HM Treasury with key details of the project including the service implications, the business justification for the approach being taken and the cost of the project to the County Council. It also included full options appraisals aimed at ensuring Value For Money over the life of the Contract and evaluation of whether the project was affordable for the County Council.

Value For Money

PFI schemes are required to demonstrate value for money by means of a comparison of their costs with that of traditional procurement. The County compared the cost of the provision of the three secondary schools under the PFI contract with the cost under a traditional procurement process or the Public Sector Comparator (PSC).

The PSC was based on whole life costings and reflects the Council's past experience of traditional procurement route including for example, cost and time overruns, variations and the true long-term cost of maintaining operational standards at the required performance level. It also included estimated costs of risks to be transferred to WHEP. Comparative costings were prepared in Net Present Value terms and the PFI option showed a saving of £1.7m compared with the PSC.

However, taking value for money as something more than just beating the PSC the scheme achieved building three new schools at a lower NPV than the PSC achieved based on one new and two refurbished schools.

Funding of the Project

Funding for the Basic Annual Payment (BAP) of the project comes from three sources:

- PFI Credit which generates revenue support from the Government;
- A contribution from Governing Bodies of the three schools;
- The remaining balance, or affordability gap, which is funded from County Council resources.

The PFI credit is allocated using a calculation approved by HM Treasury. This resulted in project funding less than the BAP.

The second source of funding, from the Governing Bodies, reflects a contribution from locally managed schools budgets. A contribution rate of 10% of delegated budgets was set at the start of the Contract period.

This left the additional revenue budget contribution as the basis for the County Council's affordability decision.

Affordability

The balance required (the Affordability Gap) to pay the remainder of the BAP was agreed by the Policy and Resources Committee in July 2000 and was revised by the same committee at the meeting of the 17 October 2000.

It was recognised that the BAP covers both the cost of financing the new buildings and the running (lifecycle) costs of the new facilities. The PFI Credit covered the capital costs but not all of the lifecycle costs of the project. The committee agreed to charge the gap to the Education Committee.

The lifecycle costs cover the ongoing provision of services included within the scope of the project and the associated operating, facilities management and utilities costs as well as some maintenance costs to ensure that the buildings continue to meet operating requirements and have the required useful life at the end of the concession period. The costs also included some transitional and change management resources. Therefore these costs are attributable to more than just Building Maintenance.

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