



# RESOURCES AND COMMUNITY SERVICES SCRUTINY PANEL

## *INTERIM REPORT ON THE PANEL'S SCRUTINY REVIEW OF PRIVATE FINANCE INITIATIVES IN TAMESIDE*

7<sup>th</sup> August 2003

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## 1. INTRODUCTION BY THE CHAIR

I am very pleased to introduce this first report of the Resources & Community Services Scrutiny Panel in the 2003/04 Municipal Year.



The Panel undertook a very comprehensive review into the procurement of new educational facilities through the Government's Private Finance Initiative.

In particular we looked in some depth at the Council's current PFI initiative to build two new primary schools in Hattersley and a new secondary school in southern Hyde, as well as looking at the success and failings of PFI throughout the country. At the time of the review, the Council was also preparing a bid to the Government for additional PFI secondary schools in Tameside.

Clearly, events have moved things on quite significantly since the review was undertaken by the Panel and this report must now be read in the context of the Council's unsuccessful bid for another round of schools to be built under the PFI scheme. Given this factor, we welcome the decision of the Lifelong Learning and Cultural Services Scrutiny Panel to look at the options now available to the Council. We hope that the findings in this report will provide a good starting point for that particular review.

We also intend to look again at how the PFI schools in Tameside are operating, by visiting the two Hattersley primary schools and Alder High School again later in the year. We will report back to the Council on this.

Finally, thanks must go to all the Members of the Panel and to the Scrutiny Support Unit for the hard work put into producing this report. In particular, I would like to thank Councillor Arthur Grundy, the previous Chair, and his deputy, Councillor Ann Holland for the work they both put in to this review during the previous Municipal Year.

A handwritten signature in black ink, appearing to read 'Andrew Gwynne', written over a horizontal line.

**COUNCILLOR ANDREW GWYNNE**  
**Chair of the Resources and Community Services Scrutiny Panel**

## **2. SUMMARY**

- 2.1 At its meeting held on 22nd August 2002, the Resources and Community Services Scrutiny Panel decided to undertake a scrutiny exercise on Private Finance Initiatives. This was subsequently extended to include Public/Private Partnerships and in particular, strategic partnerships. The Scrutiny Panel published an interim report on Public/Private Partnerships in February 2003.
- 2.2 The report outlines the Scrutiny Panel's findings with regard to the PFI contract for the design, build, finance and operation of two primary schools and one secondary school in Tameside.
- 2.3 Whilst the panel has learned about the experiences of other PFI contracts by visiting PFI schools in other areas and meeting with key stakeholders the panel accepts that it is still very early days in the life of the new Tameside schools. It is therefore too early to make an informed judgment about how far the design and build of the schools meet the needs of the pupils and staff at the schools.
- 2.4 Tameside Council has recently been unsuccessful in its submission to the DfES for a second PFI scheme. The proposed scheme was for the replacement of six high schools with five new high schools, continued maintenance and management of non-teaching services. The proposal also included the possibility of co-locating special schools with high schools.
- 2.5 The Council is still committed to improving schools and is examining further funding alternatives. The Scrutiny Panel welcomes the statement from the Chief Education Officer and looks forward along with the Lifelong Learning and Cultural Services Scrutiny Panel to continued involvement in the development of school provision in the borough.
- 2.6 This is an interim report on Tameside's PFI schools. The Scrutiny Panel will monitor progress and carry out a further review in six months time based on the views of parents and pupils, governors, teaching and non-teaching staff, council officers and contractor representatives.

## **3. MEMBERSHIP OF PANEL**

The following Panel members participated in the compilation and approval of this report:

Councillor Gwynne (Chair), Councillors Downs\*, Duffy, Grundy\*, A Holland, S Quinn\*\*, M J Smith\*\*, Sweeton\* Wareing\*\*, Welsh and K Wright

\* 2002/03 only

\*\* 2003/04 only

#### **4. TERMS OF REFERENCE**

The following Terms of Reference were approved at the meeting of the Panel held on 22<sup>nd</sup> August 2002.

- 4.1 **“To consider whether there are benefits and value for money from the Council entering into PFI and PPP Schemes compared to more traditional methods of funding and operating services”.**

#### **5. METHODOLOGY**

- 5.1 The Panel received information from representatives of the Borough Treasurer and Borough Solicitor in relation to the procurement method of PFI schemes together with contractual information.
- 5.2 The Panel undertook visits to a PFI refurbishment scheme of a secondary school and a newly built PFI primary school in Sheffield. The Panel met with both headteachers and representatives of Education Services. Panel members were informed of experiences of PFI schemes in Sheffield.
- 5.3 Panel members undertook visits to newly built Tameside PFI schools, both primary and secondary, and newly built primary schools in the borough built under more traditional funding methods. Members met with headteachers and facilities management representatives of the Tameside PFI company.
- 5.4 The Panel met with the Chief Education Officer who outlined the responsibilities of the Local Education Authority.
- 5.5 The Panel received the views, locally and nationally, of UNISON, GMB and the Tameside Teachers Consultative Committee in relation to PFI schemes.
- 5.6 At its meeting held on 13<sup>th</sup> March 2003, the Panel met with the Associate Director of Building Operations, Regional Manager of Facilities Management and Head of Finance and Buildings, Education and Cultural Services (TMBC).

- 5.7 The Panel met with the First Deputy and Cabinet Deputy, Lifelong Learning Services.

## **6. PRIVATE FINANCE INITIATIVES**

- 6.1 Private Finance Initiatives have been used by Government as a procurement option for designing, financing, constructing and managing new public buildings. Schemes completed so far have included schools, hospitals, prisons, roads, buildings, Ministry of Defence buildings, laboratories and magistrates' courts.
- 6.2 Currently, there are over 500 PFI schools in England covered by 67 contracts with a total value of £2.4billion.

## **7. PFI SCHOOLS IN TAMESIDE**

- 7.1 The Council issued an OJEC (Official Journal for the European Community) notice in 1999 for the design, build, finance and operation (DBFO) of three schools in Tameside. This involved the rebuilding of two Tameside primary schools, the establishment of one high school, and the continued maintenance and facilities management of these schools for a period of thirty years.
- 7.2 Following a lengthy selection process Interserve plc were awarded the contract. Interserve established Pyramid Schools Tameside with the Bank of Scotland as the Special Purpose Vehicle to implement the project. Building work on the three schools commenced in November 2001. The two primary schools opened in September 2002 and the high school opened in April 2003.
- 7.3 The value of this contract is £29m over thirty years at today's prices, or £90m in real cash terms given the estimated devaluation of the pound over thirty years (information on the financial implications of the PFI scheme are discussed in section 2.2).
- 7.4 The contract involves the transfer under TUPE (Transfer of Undertakings – Protection of Employment) of just under 30 non-teaching staff to the private contractor (implications for employees are discussed in section 8.3).
- 7.5 Tameside Council has recently been unsuccessful in its submission to the DfES for a second PFI scheme. The proposed scheme was for the replacement of six high schools with five new high schools, including maintenance and facilities

management. The proposal also included the possibility of co-locating special schools with high schools.

- 7.6 The Government has announced that there will be no PFI rounds in 2003/04 but there is still a commitment to replace or renew secondary school buildings over the next 10 to 15 years. Funding for improving primary schools will also increase by 2005/06. Schools will continue to receive funding to repair and improve schools.
- 7.7 The Scrutiny Panel has received a statement from the Chief Education Officer which includes the development of an alternative funding strategy. Consultation with stakeholders, including the Scrutiny Panel, will begin in the near future.

### **Conclusion**

The Scrutiny Panel welcomes the statement from the Chief Education Officer and looks forward along with the Lifelong Learning and Cultural Services Scrutiny Panel to continued involvement in the development of school provision in the borough.

## **8. REVIEW FINDINGS**

### **8.1 Design and Build**

- 8.1.1 The Panel received information about the design process for Tameside PFI schools and PFI schemes in other areas.
- 8.1.2 In all schemes key stakeholders were involved in the design of the school, including pupils, teaching staff, governors, parents head teachers, local communities and Sure Start.
- 8.1.3 Elected members in Tameside were involved in the design of the new schools and were part of the selection and evaluation Project Board in their capacity as local members and in some cases as Governors. Governors and elected members received presentations on the designs from all short listed PFI companies. The Panel also met with the Tameside Teachers Consultative Committee (TCC) which will request more involvement in future PFI schemes.
- 8.1.4 In Tameside, consultation for the reorganisation of school provision in Hattersley and the PFI scheme included:
- 1998 Initial consultation on Outline Business Case with governing bodies
  - 1999 Consultation on school reorganisation (closure of 2 primary schools, rebuilding of 2 remaining primary

schools and one high school) with parents, staff, governors

- 1999 public consultation for recording any objections and support for the statutory proposals to close Hurstclough and Harehill primary schools, the Hattersley High School and establish the new high school.
- 1999 outcome focused consultation on new school buildings with all school staff, governors etc
- April 2000 to opening: ongoing consultation with head teachers, staff and governing bodies including parents regarding design and construction

- 8.1.5 The Scrutiny Panel compared the design of the three Tameside PFI schools with two Tameside schools recently built under traditional funding schemes.
- 8.1.6 Overall, the Panel was more impressed by the design and build of the traditionally funded schools.
- 8.1.7 The PFI schools were very modern in design and very different from the traditional image of a school building.
- 8.1.8 Some panel members felt that the modern design of the PFI schools made them look unfinished, particularly the high ceilings, unplastered walls and visible pipes.
- 8.1.9 The Panel felt that the design and 'finish' of the PFI secondary school was superior to that of the PFI primary schools.
- 8.1.10 All schools (PFI and traditionally funded) had a fully equipped computer suite.
- 8.1.11 The new PFI schools had provided the users with an opportunity to redesign facilities – for example, a large nursery was built as part of the new school building whereas previously it had been in a separate building on the school site.
- 8.1.12 The PFI schools had substantial sports facilities.
- 8.1.13 The Scrutiny Panel also visited a PFI refurbishment scheme in Sheffield and a newly built PFI primary school in Sheffield and made similar observations about the PFI schools.
- 8.1.14 The Scrutiny Panel considered the findings of a recent Audit Commission report into the design and build of early PFI schemes. The report examined 17 of the 25 earliest PFI schemes in the country completed by the end of 2001 and compared the schemes to a sample of traditionally funded schools in England and Wales.

**Hattersley High School- closed April 2003**



**Alder Community High School (PFI) – opened April 2003**





- 8.1.15 In the report the schools were judged against agreed standards to assess quality, temperature, lighting, acoustics, materials, furnishings and maintenance costs. The report concluded that the quality of schools (both PFI and traditionally funded) fell below best practice, however on average PFI schools were statistically worse than traditionally funded schools against the applied standards.
- 8.1.16 The Audit Commission also found that users were pleased with their new schools, although this is not surprising given the condition of the previous school buildings. This view did not differ between users of PFI or traditionally funded schools. This mirrors the findings of the Scrutiny Panel for both PFI and traditionally funded schools and also in consultation with the TCC.
- 8.1.17 The Scrutiny Panel shares the observations of the Audit Commission report in that users had the same issues regardless of the type of school. Providing a positive image and being easy to clean and maintain were the most common areas of satisfaction whilst acoustics were a particular problem.
- 8.1.18 The Scrutiny Panel found that poor acoustics was a problem in all the schools the panel visited to a greater or lesser extent and in both Tameside and Sheffield schools the contractors were attempting to improve the acoustics.
- 8.1.19 On a tour of a Sheffield school the Panel was informed by the head teacher of what she considered to be evidence of poor quality work (extractor fan in science lab was noisy and condensation dripped on to the class below). Although it was requested that the sport hall be built to also provide space for conducting exams, the acoustics, however meant that it was, at the time of the visit, not suitable for exams.
- 8.1.20 The head teacher of one of the Tameside PFI schools, whose predecessor was involved in the design of the scheme, stated that more storage space would have been preferable, although it was still more than a traditionally built school with the same admittance number.
- 8.1.21 The Panel received information from the Acting Borough Architect, which stated that whilst the PFI schools may have different finishes to previously built schools, the means of construction must still comply with current building standards and regulations. The Acting Borough Architect concluded that the PFI schools have a life cycle at least as long as those built under traditional funding.

- 8.1.22 A 'snagging' period is built in to PFI schemes for fine tuning as issues arise in the initial operating period. The Panel has heard how the contractors have worked closely with head teachers at the Tameside primary schools to resolve early problems.
- 8.1.23 The cost of modifications identified during the snagging period have been absorbed by the contractor. Those that are clearly extras have been financed by the Council or the school.
- 8.1.24 A great deal of this cooperation has depended on the positive relationship between the contractor, council and school. The importance of this relationship is highlighted by the reported early difficulties experienced at Sheffield in the first PFI scheme in which an allegedly poor relationship was accompanied by inadequate service delivery. This relationship has greatly improved, as has service delivery and lessons have been learned which have benefited subsequent PFI schemes in Sheffield.
- 8.1.25 The Panel observed in Sheffield that difficulties over contractual agreements arose in Sheffield's first PFI scheme because contracts were not sufficiently specific and used terminology that could be interpreted in different ways, for example 'adequate', 'best practice', and 'appropriate'. This was also found to be the case in the majority of early PFI schemes reviewed by the Audit Commission.
- 8.1.26 Tameside has a project agreement in place which guards against problems. No problems have been reported at Tameside schools and head teachers felt advice was easily available from the LEA. Moreover, the contractor accommodated changes that became evident after the Tameside Primary schools had opened.

### **Conclusion**

The Scrutiny Panel accepts that it is still very early days in the life of the new schools, and at the time of writing the high school had yet to be opened. Therefore it is still too early to make an informed judgment about how far the design and build of the schools are meeting the needs of the pupils and staff at the schools.

### **Recommendation**

That members of the Lifelong Learning and Cultural Services Scrutiny Panel be invited to join this Panel in monitoring and reviewing the operation of the PFI schools at the end of 2003.

**Parochial Primary School, Ashton-under-Lyne, Opened March 2001**  
**(traditionally funded)**



**Moorside Primary School, Droylsden, Opened May 1998**  
**(traditionally funded)**



**Arundale Primary School, Hattersley (PFI), Opened September 2002**



## **8.2 Finance**

- 8.2.1 Under PFI, local authorities apply to the DfES for PFI credits. These credits cover the cost of construction and lifecycle costs for the building. Credits are awarded according to a criteria which includes capital cost of the building. The LEA may also include other sources of funding to increase the size of the contract and available facilities, for example a school may work with Sure Start to include an additional space.
- 8.2.2 The DfES provides the local authority with a grant on a quarterly basis over the lifetime of the contract. This grant makes up part of the Unitary Charge paid monthly by the Council to the contractor in accordance with the project agreement. In effect the local authority does not pay for the building itself, just for the services that go in to that building.
- 8.2.3 Under a traditional scheme of the size of the first PFI scheme in Tameside, the Council would be given borrowing allocation and would itself have to borrow funds for construction. Whilst government provides a grant to meet the cost of debt repayment and interest, in the past this has often been reduced to around 97% of these costs. There is also no additional grant for repair and maintenance. TMBC Education Finance estimates that under PFI the Council will receive £5m more support than it would under traditional procurement for the Hattersley PFI scheme.
- 8.2.4 In applying for PFI credits, local authorities must submit a comparison between the cost of procuring funds through PFI and through traditional sources, known as the Public Sector Comparator (PSC). The PSC estimates construction costs, running costs and the value of the risks transferred over the length of the scheme.
- 8.2.5 The Scrutiny Panel has received information about the construction costs of the two PFI Primary schools and two similar primary schools built using traditional funding sources and has found the latter to be less expensive. This is a very crude comparison given that the buildings are very different in design. Furthermore construction costs for the PFI schools include furniture, extensive sports facilities and external works which would not be included in a traditional project.
- 8.2.6 The Audit Commission report found that in the majority of schemes the facilities management costs were greater under PFI than the PSC. This did not however seem to be the case in Tameside's PFI project.

- 8.2.7 Information from TMBC Education Finance explains that repair and maintenance costs are theoretically reduced under PFI because equipment and finishes are designed to last longer since the construction company have a longer term interest in the building. However, some elements for example cleaning, portage and waste management are more expensive. This is because the contractor needs to ensure that a standard of service is maintained in order to avoid performance deductions and will for example have a cleaner present on site all day rather than only in the evenings or mornings as in traditional schools.
- 8.2.8 Whilst it is not within the remit of the Scrutiny Review to enter the debate on PFI and the PSC, the Panel feels it is appropriate to at least comment on the evidence it has received.
- 8.2.9 A significant concern is that since local authorities are not awarded PFI credits unless it is shown to be less costly than the PSC alternative councils are inclined to overestimate the PSC often by overestimating the level of risk retained by the authority. The difference between PFI and PSC is the anticipated cost of risks transferred, therefore whilst PSC construction costs would be cheaper than PFI, risk transfer makes up this difference.
- 8.2.10 The cost of risk transfer in PFI has been evaluated by the DfES as part of the final Business Case approval process.
- 8.2.11 The payment process for PFI commits the LEA to regular payments to the contractor over the life of the scheme. This should ensure that schools receive services to the standard agreed in the contract. This can be regarded as helpful for long-term financial planning, but it can be seen as restricting the Council's ability to respond to spending needs elsewhere. It is a common concern of PFI commentators that councils who are committed to PFI contracts will allocate budgets at the expense of other service areas and perhaps other non-PFI schools.
- 8.2.12 Under PFI a school's delegated budget for services that fall under the PFI contract is returned to the LEA and put towards the PFI payments. This is felt to reduce the flexibility of the school for assigning budgets, for example between cleaning or teaching staff. Information received from teachers' unions shows a concern that if financial difficulties arise the only option governors may have is to reduce the number of teaching staff.

## **Conclusion**

Although the national debate about the financial aspects of PFI and the validity of the PSC continues the Council is committed to the PFI scheme for the next 30 years.

## **Recommendation**

- 1) That the Scrutiny Panel continues to monitor progress of the funding of the PFI scheme.
- 2) That lessons learned in the progress of this contract be put into place in future school redevelopment schemes.
- 3) That the Council should ensure that in a future situation of falling rolls, funding for other schools should not suffer in order to service the PFI contract.

## **8.3 Operation**

- 8.3.1 The Tameside PFI contract included provision of facilities management (FM) services in the three schools This includes catering, cleaning, maintenance and security. The contract specifies a standard of service to be received by the school and if this is not reached to the extent that the school cannot operate then deductions are made from the payments made by the LEA to the contractor.
- 8.3.2 At the time of writing there had been very few reported problems with the FM services although it is acknowledged on all sides that it is still early very days in the life of the schools. There had been some problems with the catering service at Arundale Primary School but this was quickly resolved.
- 8.3.3 The Panel has received information about other PFI schemes where deductions have been made for not meeting service delivery standards. A common concern from schools and teachers unions has been that whilst the contractor is penalised financially the children and teaching staff still suffer. It is arguably more disrupting for children, parents and teachers for the school to be closed than for the contractor to be financially penalised. It should be acknowledged, however that traditionally built schools can also suffer a breakdown in service delivery and contractors called in to carry out repairs would not have incentives to have them completed as quickly as possible.
- 8.3.4 The Panel was keen to learn from the experience of one Sheffield school with regard to FM services. Initially, the relationship that the school had with the FM contractor was poor. It had not helped matters that the FM team had changed

frequently before the school had opened therefore preventing relationships being built between the FM team and the school.

- 8.3.5 The Panel also visited a PFI school in Sheffield where facilities management at the school was good. Communications with the FM were very good and there seemed to be no problems with quality of maintenance.
- 8.3.6 The Panel is keen to ensure that the contractors have systems in place to enable an immediate response to emergency repairs having received information about the experiences of a school in Glasgow. After major structural damage was caused to the roof of the school the contractor for the school was unable to rectify this situation at short notice and the school felt that the children were put in danger. Emergency provision is now in place.
- 8.3.7 A PFI contractor generates income by making parts of the building available for public use, for example the school hall, sports hall and gym. For reasons of corporate confidentiality the contractor was unable to provide the Scrutiny Panel with exact figures for the income generated from the use of the building outside teaching hours.
- 8.3.8 The Panel received information from the NASUWT regarding use of the building outside teaching hours. The NASUWT believes the contracts with the private sector make it difficult for governing bodies in PFI schools to exercise flexibility to provide a wide range of family and community facilities and services as envisaged in the White Paper 'Schools Achieving Success: A Modernised Framework for School Governance, 2001'.
- 8.3.9 A further issue over community use of buildings is around access and security. For example a library could be brought into the school building but there would be implications for ensuring access to the school itself is controlled.
- 8.3.10 Under a PFI contract a school can plan to use the building for a certain number of hours. Contractual difficulties may arise if this amount of time later proves to be insufficient or is unused and the school needs to access the building for additional hours or would be able to reduce payments for unused time.
- 8.3.11 TMBC Education Finance provided information about use of the building by the school outside teaching hours. Schools were extensively consulted over their intended use of the buildings outside normal teaching hours. Schedules of use are included in the contract and can be modified through the variation procedure for permanent significant changes or on an ad hoc

basis for short-term changes of use. There may be an additional cost for increase in overall usage.

- 8.3.12 The Panel was keen to explore the implications for employees under PFI. Staff providing non-teaching services are offered the opportunity to transfer to the private company and to continue to provide these services. In the Tameside PFI scheme just under 30 auxiliary staff were transferred to the contractor under a TUPE agreement.
- 8.3.13 During a visit to a Sheffield PFI school, members of the Scrutiny Panel spoke to the caretaker who had happily moved to her new contractor and felt communications within the FM team were good.
- 8.3.14 The Scrutiny Panel received evidence from a number of teachers' unions and public sector trade unions. Concerns from teachers' unions for their members included:
- Restrictions on budget allocation and management of school by governors and bursars which affects staff budgets.
  - Reduced representation of stakeholders in the management of the school
  - Changes to working environment and arrangements (e.g. office space, staffrooms etc).
  - Lack of mechanism for teaching staff to raise concerns with the private contractor
- 8.3.15 The TCC reported that they will request more involvement in future school schemes that impact upon teaching arrangements.
- 8.3.16 Concerns from public sector trade unions for their members included:
- TUPE does not cover pensions and a 'comparable' pension is offered
  - PFI contracts should not create a two-tier workforce – there is evidence to suggest that this is happening in previous staff transfers where new starters have less favourable terms and conditions than ex-council employees
  - Job losses – private companies are open about their plans to introduce their own management structures
- 8.3.17 The head teacher and bursar at one Sheffield school said that they spent around 20% of their time on PFI issues despite the fact that PFI is claimed to take FM problems away from teachers.



- 8.3.18 It is still too early to tell if Tameside head teachers will have a similar experience; it is acknowledged that during the 'snagging period' head teachers are expected to be more involved but it is hoped that demands on their time will lessen.
- 8.3.19 On the visit to a traditionally funded primary school in Tameside, the Panel heard how the head teacher was planning to come into the school at the weekends to decorate some of the rooms. In a PFI scheme this would be unnecessary as it is part of the contract. The head teacher at a larger primary school benefited greatly from having a full-time site manager, which due to funding would not be the normal situation for smaller schools. A similar situation existed with facilities management arrangements for the Tameside PFI schools.
- 8.3.20 The Scrutiny Panel received evidence about the implications of changes in pupil numbers for the operation of PFI schools and was concerned that PFI reduces the LEAs ability to react to demographic change. The Chief Education Officer did inform members that the PFI contractor was obliged to deal with changes in the law relating to space and had variation procedures were included in the contract. The PFI schools could be extended in response to any significant local housing changes.

#### **Conclusion**

It is too early to come to a view on the operation of the three PFI school but this will be monitored as shown in 2.1

#### **Recommendation**

The Scrutiny Panel will monitor the views of governors, teaching and non-teaching staff, parents and pupils to review operation.

## **9. BOROUGH SOLICITOR'S COMMENTS**

- 9.1 Factual amendments received from the Borough Solicitor have been incorporated into this report and the following observations are made:
- 9.2 Whatever views are concluded either nationally or locally about the merits of PFI in procuring improved schools facilities, without the Hattersley Schools PFI project credits being approved and awarded by the DfES Tameside Council would not at the time have been able to finance the construction of two new primary schools and a new high school in southern Hyde.

- 9.3 With respect to paragraph 8.1.21, one of the advantages PFI has over traditional built schools is that the contract provides for the standard of condition, appearance and maintenance that the building must achieve over the 30 years that the Contractor provides the services, and the condition the building must be in when handed back to the Council after 30 years. This is not a guarantee that traditionally built schools have had, where it has been necessary in some cases to replace a roof after only five years (Oakdale) or replace faulty cladding on a science block (Droylsden) where the contractor was unable to rectify as had gone into liquidation.

## **10. BOROUGH TREASURERS' OBSERVATIONS**

- 10.1 Under the current capital control regime, PFI is just about the only route to substantially increase the size of capital investment in schools above that allowed by credit approvals.
- 10.2 The method of central government funding through PFI credits leading to specific grant is also more generous than that in operation through Revenue Support Grant to support borrowing justified by credit approvals.
- 10.3 Specifically in the case of the Hattersley schools PFI contract, the public sector comparator demonstrated that the PFI route was more cost effective.
- 10.4 Under the proposed new capital control regime of "prudential guidelines" due to commence on 1<sup>st</sup> April 2004, the Council's ability to borrow will be freed up with credit approvals ceasing to be given. The control of borrowing will be entirely in the hands of the Council with considerations of affordability being uppermost. However, there would be no extra revenue support for increases in borrowing so that PFI with its specific grant would continue to be far more attractive than Council borrowing.

## **11. OBSERVATIONS OF THE HEAD OF BUILDINGS AND FINANCE, EDUCATION AND CULTURAL SERVICES**

- 11.1 Factual amendments received from the Head of Buildings and Finance, Education and Cultural Services, have been incorporated in the report. She has also made the following general observations:-
- 11.2 The co-operation between the Council, school and contractor has depended on the Council taking a very strong lead in the

development of the project and the willingness of the schools and contractor to work co-operatively together from day one. This is extremely important for future similar projects. The contractor selected must show a willingness to work with the LEA and schools co-operatively; the governors and staff must expect to do so too.

- 11.3 There has been significant investment in Tameside in recent years including new schools for Oakdale, Poplar, Parochial, Moorside, Leigh and Greenfield Primary Schools. The PSC was based on evidence gathered as a result of these projects in terms of cost overrun (5-8%) residual additional costs caused by land and planning issues which caused delays and cost increases, post occupation problems including ventilation, landscaping etc and the ongoing maintenance e.g. the cost of replacing Oakdale roof after 5 years.
- 11.4 300 surplus high school places and 350 surplus primary places were removed as a result of this PFI project.
- 11.5 Third part income is subject to an annual review by the council and contractor. The Council receives 50% of the net income over an agreed threshold.
- 11.6 All three PFI schools are designated as model extended schools and have been visited and approved by the DfES. In addition, both primary schools are part of the Hattersley Childrens Centre, one of the first in the country. This is clear evidence that there is more than adequate flexibility in the Tameside contract to provide for community services.

## **12. RECOMMENDATIONS**

- 12.1 That members of the Lifelong Learning and Cultural Services Scrutiny Panel be invited to join this Panel in monitoring and reviewing the operation of the PFI schools at the end of 2003.
- 12.2 That the Scrutiny Panel continues to monitor progress of the funding of the PFI scheme.
- 12.3 That lessons learned in the progress of this contract be put into place in future school redevelopment schemes.
- 12.4 That the Council should ensure that in a future situation of falling rolls, funding for other schools should not suffer in order to service the PFI contract.
- 12.5 The Scrutiny Panel will monitor the views of governors, teaching and non-teaching staff, parents and pupils to review operation.