



Report of the Deputy Chief Executive

Executive Board

Date: 16th May 2007

Subject: Leeds Building Schools for the Future – Phase 1 – Financial Summary at Financial Close on 3rd April 2007

Electoral Wards Affected:

All

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In

1. EXECUTIVE SUMMARY

- 1.1 Officers of the City Council and Education Leeds were successful in reaching Financial Close on Phase 1 of the City Council's Wave 1 BSF Programme with the Environments for Learning Consortium on 3rd April 2007.
- 1.2 This report summarises the financial position agreed by the parties at Financial Close and compares this position to the various approvals and authority given by Executive Board on 24th January and 14th March respectively.
- 1.3 In summary, the Unitary Charge agreed was below the level agreed by Executive Board on 24th January 2007 and with regard to the Design and Build Schools, there was an unexpected but welcome additional funding from DfES amounting to £900,000 above the level previously notified to the City Council.

2. FINANCIAL ISSUES

Introduction

2.1 This report seeks to provide Members of Executive Board with the final negotiated financial position relating to Phase 1 of the City Council's Wave 1 BSF Programme. The detail provides an update on the agreed affordability position agreed with the E4L Consortium on 3rd April 2007, compared to the affordability thresholds authorised by Executive Board on 24th January and 14th March 2007 respectively.

2.2 The main issues are:

- Value for Money and
- Affordability
- Compliance with Regulation 40 of the Local Authorities (Capital Finance) Regulations (as amended)

Value for Money (VFM) for the Public Sector

2.3 The procurement process has delivered a better VFM position for the City Council and the Public Sector than envisaged in the Final Business Case reported to Members on 24th January 2007. Table 1, below, illustrates the relative VFM position of the PFI element of the procurement at Financial Close on 3rd April 2007, compared to the positions set out in both the Outline and Final Business Cases.

Table 1	Outline Business Case	Final Business Case	Position at Financial Close
Unitary Charge First Full Year 2010/2011	£13.479m	£12.919m	£12.900m
Total Unitary Charge over the Life of the Project	£406.171m	£381.568m	£379.929m
Net Present Value of Total Unitary Charge payable over the life of the Contract	£189.051m	£176.903m	£175.645m

2.4 The VFM result for the City Council and the Public Sector is an improvement by a margin of over 7% of the comparative Net Present Value of the Unitary Charge cash-flows over the life of the Contract from the time the Outline Business Case was approved in May 2005 to that achieved at Financial Close on 3rd April 2007.

Affordability of the PFI element of the Project to the City Council

2.5 At its meeting on 24th January 2007, Members of Executive Board affirmed the PFI affordability threshold of £12.952m as the first full year Unitary Charge in 2010/11. Members of Executive Board, at their meeting on 14th March 2007 further approved a revised PFI affordability threshold of £13.148m, being the first full year Unitary Charge in 2010/11 to protect the programme against adverse upward pressure in interest rates up to the date of Financial Close.

Table 2	£000
Headline Unitary Charge at Final Business Case, reported to Executive Board on 24th January 2007	12,919
Headline Unitary Charge at Financial Close on 3rd April 2007	12,900
Affordability Threshold approved by Executive Board on 24th January 2007	12,952
Revised Affordability Threshold approved by Executive Board on 14th March 2004	13,148

- 2.6 Members of Executive Board are requested to note, that whilst the interest SWAP rate rose considerably from 4.87% on 20th March to 5.05% at Financial Close on 3rd April, the final headline Unitary Charge was within the Affordability Threshold affirmed by Members on 24th January 2007.
- 2.7 The full cash-flow analysis for the PFI element of Phase 1 of Wave 1 of the City Council's BSF Project over the life of the Contract is contained in Appendix 1 to this report. The first full financial year will occur in 2010/2011 after the programmed handover of Allerton Grange at the end of August 2009. A summary of the estimated cash-flows for that year and over the life of the Contract are summarised in tables 3 and 4, below.

TABLE 3	
First Full Year of the Contract (2010/2011)	
	£000
Unitary Charge	12,900
Financed from:	
PFI Revenue Support Grant (£143.5m of PFI Credits)	(11,376)
School Governor Contributions	(1,541)
Other Service User Contributions	(39)
Total Funding	(12,956)
Total (Surplus) for 2010/2011	(56)
Increase in the value of the Sinking Fund required for meeting future years deficits	874
Interest earned on Sinking Fund Balances	(151)
Annualised Sinking Fund Contribution in 2010/2011 for Future Years Deficits.	667

TABLE 4	
Over the full term of the of the Contract	
	£000
Unitary Charge	379,929
Financed from:	
PFI Revenue Support Grant	(294,823)
School Governor Contributions	(52,717)
Other Service User Contributions	(1,332)
Total Funding	(348,872)
Interest earned on Sinking Fund Balances	(6,995)
	(355,867)
Total City Council Equalised Contributions	(24,062)
Total Funding of the Unitary Charge	(379,929)

- 2.8 This commitment from the Council will be offset by the benefits the Council will receive from not having to meet significant repayment costs associated with the Council itself taking on a borrowing commitment of £101.78m. In addition the PFI Contractor will be responsible for all building and furniture lifecycle maintenance and replacement during the life of the Contract, estimated to amount to £19m over the life of the Contract. Under a conventional procurement, the Council would have to meet these costs from within its own capital resources.
- 2.9 The most significant source of funding for this Project is derived from the PFI Revenue Support Grant arising from the notional credit approval afforded by PFI Credits. Based upon £143.5m of PFI credits the annual grant will amount to £11.376m in a full financial year.
- 2.10 After taking into account the receipt of PFI Revenue Support Grant and the resultant School Governor and Early Years contributions there will be annual deficits (referred to as the "Affordability Gap") to be financed by the City Council. In order to ensure that these deficits are financed in an equitable manner over the life of the contract, Executive Board, at its meeting on 12th November 2003, agreed to the principle of establishing Sinking Funds for PFI Projects. This is in line with accepted accounting practice for PFI and comparable schemes. During the early and mid years of the contract, these contributions accrue, earn interest, and are available for the financing of deficits in later years of the contract. This is a prudent accounting measure adopted by the City Council for all of its PFI Projects.
- 2.11 The annual revenue contribution to be made to the Sinking Fund is assessed at £635k at April 2008 prices some £60k lower than the estimated £695k reported to Members on 24th January 2007, at the time Members approved the Final Business Case.

Summary of the Affordability Position for the City Council – Design and Build

- 2.12 The Capital Programme approved by Members of Executive Board on 9th February contained provision for the cost of the refurbishment of Cockburn and Temple Moor High Schools, amounting to £30.934m. Final negotiations resulted in a slightly higher figure than the approved sums and this was reported to Members on 14th March and Members approved additional capital expenditure above the Capital Programme Provision of £30.934m, amounting to £947,192 on Cockburn and Temple Moor High Schools. This, Members will recall, was primarily due to the requirement by Education Leeds for additional temporary accommodation at Cockburn High School over that previously provided for and compliance with Planning requirements for perimeter fencing surrounding both of the schools.
- 2.13 Just prior to Financial Close, officers of the Council requested sight of the draft Promissory note, which is issued by the Department for Education and Skills. This was sent to Council officers on Friday 30th March. An unexpected but welcome inclusion within the Promissory Note was an increase in the level of Capital Grant provided to fund the majority of the cost of the two Design and Build Schools, an increase of £900,000 from £26.18m to £27.08m. This in effect provides all but £47,000 for the financing of the additional capital expenditure approved by Members of Executive Board on 14th March, and will be factored into the funding of the Capital Programme.
- 2.14 The revised Capital Programme position for the two Design and Build schools is summarised in Table 5, below

Table 5 Conventional Design and Build Schools	Approved by Executive Board on 14th March 2007	Position at Financial Close on 3rd April 2007
	£000	£000
Cockburn High School	16,351	16,351
Temple Moor High School	15,530	15,530
Total	31,881	31,881
BSF Funding Allocation (Specific Capital Grant)	(26,180)	(27,080)
Balance met by the City Council	5,701	4,801

Balance Sheet Treatment

- 2.15 Regulations under the Local Government Act 2003 require that, based on proper practice, if an authority determines that the liabilities arising from the PFI transaction do not require the Authority to recognise a fixed asset in the Balance Sheet, then it is not a qualifying liability and is therefore excluded from the definition of a credit agreement. The Local Authority Code of Practice defines proper practice as Financial Reporting Standard 5 (FRS 5) – “Reporting the substance of transactions - Application Note F” and the Statement of Standard Accounting Practice 21 (SSAP 21) “Accounting for leases and hire purchase contracts”.
- 2.16 The Director of Corporate Services having received advice from the City Council’s Financial Adviser, PWC, has undertaken a review of the relative property risks

associated with the Contract, and this review has led to his assessment that, based on the information and advice provided to him, and in accordance with proper practices, no liabilities will arise which will result in the City Council being required to recognise a fixed asset in any balance sheet required to be prepared by the Authority in accordance with such proper practices for the financial year in which the agreement will be entered for the purposes of Regulation 3 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

3. RECOMMENDATIONS

- 3.1 Members of Executive Board are requested to note this report, summarising the financial issues at Financial Close of Phase 1 of the Council's Wave 1 BSF Programme.