Paper 5 - for information

PFI Expiry Project – Phase I, August 2026

Key Messages

Forum members are asked to note the briefing below on PFI expiry and on the potential risks involved in effectively managing the expiry process.

1. Introduction/background

1.1. Sheffield had a total of 16 schools rebuilt using PFI contracts. The first of these contracts (Phase I) was signed in 2001; the final (Phase 5) school was completed in 2012.

1.2. Each PFI contract was for a duration of 25 years and so, the first phase of PFI contracts is due to expire at the end of August in 2026.

1.3. The six schools in PFI Phase I, due for expiry August 2026, are Tapton School (Tapton Academy Trust); Ecclesfield School (Minerva Academy Trust); King Edward VII Lower School (LA Maintained); Fir Vale School (joining United Learning Trust); Owler Brook Primary (Cascade Academy Trust); and Mosborough Primary (LA Maintained).

1.4. Under their PFI contracts, the school buildings, grounds, facilities management (FM) services etc are all provided or maintained by the PFI Co or by MiTIE as FM contractor. On expiry, all of this will revert to either the academy trust associated with each school, or to the Local Authority, whichever is the Responsible Body for the school.

1.5. Sheffield continues to receive legal advice throughout the expiry process from Bevan Brittan; technical support from external surveyors RLB; and guidance and advice from DFE PFI colleagues as required to help ensure our successful expiry.

2. Handback of Assets

2.1. As in 1.4 above, the responsibility for the school asset, i.e. the physical buildings and their associated grounds revert to the relevant Responsible Body for the school. Each will then become responsible for their continued upkeep, maintenance and management.

2.2. Under the PFI Contracts, each of these schools is due to be returned to their Responsible Body in broadly similar condition to the point at which they were where new built, but subject to “fair wear and tear” over the intervening period.

2.3. All schools have been, and continue to be, subject to lifecycle expenditure by the PFI Co over the term of their contract to ensure that the condition has been maintained in line with contractual obligations. The PFI Co is required to inform Sheffield City Council (SCC) of their overall Asset Management Plan and their proposed lifecycle works on an annual basis, and we have their plans through to the expiry date. Ensuring these plans are fulfilled is therefore critical.

2.4. In line with contractual expectations, it is imperative to the success of the expiry programme that the buildings are returned in the appropriate condition. This means, in practice, that all lifecycle conditions should have been fully met and that there are no outstanding elements at hand back which would cause detriment to the school and the Responsible Body post-expiry.

2.5. To fully understand in our own minds the condition of the assets to be returned, SCC has undertaken its own condition surveys across the six schools in Phase I expiry and compared and contrasted these with the information supplied to us by the PFI Co, together with their plans over the remaining lifecycle period. This comparison has been undertaken by an external, professional firm of surveyors – Rider Levett Bucknall (RLB) - on behalf of SCC.

2.6. The comparison has highlighted areas whereby data from the PFI Co and RLB on behalf of SCC have differences and these will be the main area of focus as we move towards handback.

2.7. For note, at this stage, PFI Co propose to spend £8.5M across the six schools between now and contract expiry in 2026, with £5.6M of those works being proposed in this financial year. That leaves approximately £900k in the lifecycle "pot" for any outstanding works required before expiry. Any unspent lifecycle is contractually due for return to the LA although it is our view that all lifecycle should be expended as required, and therefore we do not expect any funds returned at contract expiry.

2.8. The major risks highlighted from the remaining lifecycle are therefore twofold at this moment in time: 1) The amount of works (£5.6M) programmed for this financial year and the achievability of that spend in a single financial year, and 2) Whether the total remaining lifecycle "pot" is wholly sufficient to meet the contractual obligations for return of assets.

2.9. We continue to work directly with PFI Co and with the support of our technical advisors (RLB) and our external legal support (Bevan Brittan) to hold the PFI Co to their contractual obligations to return the school assets in the contractually agreed condition.

2.10. Were the assets not to be returned in contractually obliged condition, this would create risks to the LA in that any remaining works at LA maintained schools would then have to be included in our own capital programmes thus adding to our own financial exposure. Furthermore, it is possible that if any of the academy trusts involved were to have returned their assets outside of contractually obliged condition, that opens the risk of SCC receiving legal actions for failing to meet our obligations to those Trusts.

3. Return of Services

3.1. In addition to the physical assets, FM services across the schools are currently provided by MiTIE as the FM contractor for the PFI Co. These services cover maintenance staff, groundskeeping, cleaning, catering etc.

3.2. At expiry, similar to the physical assets, these services will also revert to the Responsible Body for each of the school, and there is liable to be the need to TuPE staff from service providers into schools as appropriate for the desired staffing structures and arrangements required by each school post expiry.

3.3. Work has begun with PFI Co and with MiTIE to understand the likely numbers of roles and staff that will be liable to transfer and the associated staffing costs that these will bring with them.

3.4. At present, whilst we begin to understand the numbers, roles and costs of staffing to be transferred, there is at least some evidence that this is impeding MiTIE being able to recruit new staff through the uncertainty and that also, anecdotally, this may lead to existing MiTIE staff leaving to secure their own future in advance.

3.5. Ensuring we retain, and are able, to transfer the required people, and that schools do not suffer by losing key staff because of uncertainty is therefore another key risk to successful expiry.

4. Financial

4.1. Across all the five phases of PFI in Sheffield, PFI charges amount to approximately £45M. Of that £45M, 14.4M is attributable to the PFI Phase I school involved in this initial expiry project.

4.2. Further breaking down the £14.4M - £8.2M is provided in the form of PFI credits directly from the Department for Education (DfE), and a further £3.2M collected from the six schools in contract.

4.3. This leaves the “affordability gap” of approximately £3M. This affordability gap is collected by means of in effect, top-slicing school budgets across the city.

4.4. PFI funding is received as part of the National Funding Formula allocation and is based on the previous year’s allocations, uplifted by retail price index (RPIX) at September. The year following PFI expiry the £3m will no longer form part of the allocation we receive, as we will no longer allocate it to the six schools on the school budgets pro-forma. Therefore, Sheffield will not receive it as part of the following financial year’s PFI funding allocation. It will have no detrimental impact on school budgets as PFI Funding is an in-out element of funding. Sheffield will, however, benefit the 7/12ths element of the Phase 1 funding as a one-off, covering the September to March period in the year of expiry. This currently amounts to £1.75m.

4.5. The £3.2M collected from the six schools in PFI expiry will remain in their budgets and thus be required to fund their ongoing obligations post-expiry such as additional staffing TuPE ’d in, and purchase, if required, of replacement services for those currently provided by MiTIE etc.

4.6. There will be a technical adjustment carried out within the Minimum Funding Guarantee to ensure no school is disadvantaged or receives unnecessary levels of protection due to the loss of the PFI Affordability Gap funding.

5. Recommendations

Forum members are asked to:

- Note the contents of this paper and the risks detailed within.