



Education
Funding
Agency

Education Funding Agency

Memorandum of Information

Funding Advisory Services to provide advice on the structuring of a capital markets or other financing solution to support the delivery of the Priority School Building Programme

2012-125326-F02-EN

13 September 2012

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1. About the Education Funding Agency and the Department

- 1.1. The Department for Education (the Department) is committed to creating a world-class state education system. It works to improve the opportunities and experiences available to children and the education workforce by focusing on the following priorities:
 - Giving greater autonomy to schools;
 - Improving parental choice;
 - Offering more support for the poorest;
 - Whole system improvement; and
 - Great quality provision for children.
- 1.2. The EFA was established on 1 April 2012 as an executive agency of the Department. It brings together work previously carried out by the Young People's Learning Agency, Partnerships for Schools and the maintained schools funding division of the Department.
- 1.3. The EFA is responsible for the operation of the education capital and revenue funding system and the delivery of capital programmes. Responsibility for the development of education funding policy rests with the relevant policy directorates within the Department. The EFA provides advice to policy colleagues to support effective policy making. Decisions on funding policy are ultimately the responsibility of Ministers.
- 1.4. The EFA has four high-level objectives:
 - Allocations: ensuring that revenue and capital allocations are accurate and on time.
 - Payments: ensuring that funding agreements are in place and payments are made accurately and on time.
 - Capital: delivering effective programme management and evaluation of strategic capital programmes that will improve the condition of existing buildings and support the creation of new places for pupils and learners.
 - Financial Assurance: ensuring the proper use of public funds through financial assurance undertaken by the EFA itself, or by others.

2. Priority Schools Building Programme

- 2.1. On 24 May 2012 the Secretary of State for Education announced which schools will have their condition needs addressed through the Priority School Building Programme (PSBP).
- 2.2. The objective of the programme is to rebuild 261 of the most dilapidated schools across the country with a total cost of around £2 billion. This is to be achieved over five years with a number of schemes launched each year. The first schemes are due to be launched at the end of 2012 with financial close a year later in late 2013.

- 2.3. The precise sequencing of investment is yet to be determined by the EFA and the Department but the current expectation is that there will be 18 batches, each of around £55-120 million in capital value, to be procured over a five year period.
- 2.4. Initial estimates of the likely funding requirements, which are subject to change following detailed feasibility work, are:

Year	Estimated Funding Requirement
2014	£300–£350 million
2015	£600–£710 million
2016	£400–£470 million
2017	£400–£470 million

- 2.5. The PSBP is to be centrally procured by the EFA on behalf of the Department. The EFA is procuring and managing the Funding Advisory Services on behalf of the DfE.
- 2.6. The interface between the schools and other local stakeholders and the bidders/contractors will be managed by the EFA; there will be extensive back-to-back arrangements between the Department/EFA and each school, academy and any voluntary-controlled or aided school faith body, and arrangements with the owner of the sites and if necessary the employer of the employees, where these parties are not the school itself.
- 2.7. Each project, comprising around 5 to 15 schools, will be procured under a 25-30 year PPP contract structure, although this will not include the provision of soft services. Each project will have a wholly standardised structure with a set of contractual documentation and a fast-track procurement process to support the utilisation of private finance in delivering the programme.
- 2.8. Further details are available in the ministerial statement published on 24 May 2012 (please see Annex A) and at the following website address:

<http://www.education.gov.uk/schools/adminandfinance/schoolscapital/a00209336/priority-school-building-programme>

3. Objective

- 3.1. The EFA and the Department recognise that long term project finance bank debt markets remain constrained and has taken soundings from a number of financial institutions on potential long term financing options. Although bank debt, private placements and other alternative finance sources

may support the delivery of certain batches the Department believes that a capital markets solution capable of financing the entire £2 billion programme, potentially through an aggregated funding vehicle, is likely to offer increased certainty of deliverability and better value for money.

- 3.2. The EFA is seeking to appoint a funding advisor to provide advice to the EFA and the Department on the structuring of a capital markets funding solution to support the delivery of the PSBP. However Tenderers are free to propose any alternative financing solution which meets the Department's objectives.
- 3.3. It is expected that the appointment will be made in October 2012 to run until May or June 2013. The DfE will have an option to extend the Contract for two periods of 12 months from May/June 2013, making the maximum Contract duration potentially up until May 2015.
- 3.4. The Funding Advisory Services are required urgently as the procurement of the first privately-funded PSBP schools should commence in late 2012. Therefore the successful adviser will need to demonstrate it has sufficient resources and expertise in providing the services required.
- 3.5. In developing a financing structure the EFA and the Department have the following primary objectives and features they consider to be desirable:
 - The timely and efficient investment of capital in the PSPB;
 - Confidence in the provision of long term debt at competitive pricing throughout the PSPB procurement initiative;
 - A funding structure that is easily understood and used by investors and that is based on a standardised approach;
 - The ability to secure debt finance for projects of all anticipated sizes with flexibility of drawdown or some other mechanism to minimise negative carry;
 - No additional operational or financial covenant constraints beyond those required by debt providers in the current PFI debt market;
 - Allows for the potential participation of the European Investment Bank;
 - Accessible by a range of suitable construction and FM sub-contractors for respective projects so as not to discriminate in or constrain the batch bidding process;
 - Enables the Department to use its revenue funding (as opposed to capital funding) for the PSBP;
 - Requires as few amendments to the standardised project documents as possible; and
 - A solution that has proven deliverability in other contexts.
- 3.6. The EFA and the Department are willing to consider any debt solution that is best able to meet these objectives be it bank debt, capital markets or a combination of the two.

- 3.7. The EFA will be seeking assurance that the selected Funding Advisor understands the requirements of the EFA and the Department and has a demonstrable track record of undertaking similar services for other clients on the scale of the PSBP.
- 3.8. The EFA will procure these services through the contract.
- 3.9. The Accelerated Restricted Procedure will be used to procure the funding adviser, in accordance with the rules set out in regulations 16(7) and 16(17) of the Public Contracts Regulations 2006. The justification for using the Accelerated Restricted procurement procedure is the urgent requirement for funding advice to assist with the development of a suitable financing model for the private finance element of PSBP. PSBP is designed to address the needs of schools in the worst condition the procurement of the first privately-financed PSBP schools is scheduled to commence in late 2012, and therefore the funding advisory services are required urgently, rendering the minimum timescales under the Restricted Procedure impractical for this procurement.
- 3.10. In respect of any PSBP privately financed batch for which an OJEU has been issued prior to the end of the period of six months following expiry of the Funding Advisor appointment, a ("Qualifying Project"), the Funding Advisor will, unless agreed otherwise, be precluded from:
- a. acting for or advising any private sector entity in connection with a Qualifying Project; and/or
 - b. investing in, lending money to, either directly or indirectly, a Qualifying Project.
- 3.11. This restriction will continue to apply until financial close of the Qualifying Project. If the Funding Advisor becomes aware of a potential conflict of interest during the period of its appointment, the Funding Advisor will declare this conflict of interest in writing to the EFA immediately. The EFA will consider each potential conflict on a case by case basis and will have absolute discretion in deciding whether an actual conflict of interest exists, but the EFA will behave reasonably in doing so.

4. Requirement

- 4.1. The EFA is seeking to procure the following services to support the development of a financing solution. Specifically the EFA requires the services to comprise:

Phase 1- Development of the preferred financing solution

- a. Advice on the range of financing options available to support the PSPB including pros and cons of each option and a recommendation of the option most likely to meet the EFA and the Department's objectives.
- b. Advice on potential ownership structures including public sector balance sheet treatment.
- c. Identification of similar framework funding structures in the infrastructure or related sectors.

- d. Advice on the likely cost and timing of delivery of the recommended solution, its execution and integration with the EFA's procurement of the Contractor to provide the schools in each batch to the Department (the Contractors).
- e. Identification of potential investors.
- f. Identification of any covenants and/or credit enhancements likely to be required.
- g. Preliminary engagement with legal advisors to identify any legal issues. The sourcing by the Tenderer and the cost of this legal advice should be included as part of the tender, and the cost included for this should be clearly disclosed.
- h. Preliminary engagement with credit rating agencies (including Standard and Poor's and Moody's) to confirm that the structure is likely to deliver the objectives and determine the approach (including costs) of the rating process.
- i. Engagement with the European Investment Bank (EIB) to obtain preliminary support for the financing solution and understand how (EIB) could participate in any proposed structure.
- j. Identification of any other potential issues or constraints on the schools procurement process.
- k. Identification of any potential changes to the PPP contracts required as a result of the financing solution.
- l. Preparation of an indicative term sheet.
- m. A proposed financing solution which the successful tenderer is confident can be delivered.

Phase 2 – Documentation and execution

- n. Structuring, including developing any covenants, of the recommended solution.
 - o. Obtaining a credit rating and managing the credit rating process with rating agencies.
 - p. Engaging with European Investment Bank to consider the structural and documentation requirements for any potential EIB co-lending into or alongside the financing solution.
 - q. Developing the full suite of financing contracts in conjunction with the EFA's legal advisors and its PPP project financial advisors.
 - r. Identifying and developing the amendments to the PPP contracts required as a result of the financing solution.
- 4.2. A separate procurement for the appointment of any bond arranger role may be required as a result of developing a capital markets solution for the PSBP, and the Successful Tenderer selected to deliver financial structuring advice will be free to compete for any bond arranger role. Tenderers should demonstrate an appreciation of the current austerity measures and provide demonstrable value for money for the taxpayer.

5. Duration

- 5.1. The EFA expects the services to be delivered in the period from November 2012 to June 2013, subject to acceptable performance criteria as judged by the EFA, with a final contract expiry date of no later than May 2015.
- 5.2. The EFA reserves the right the right to terminate the Contract prior to the stated expiry date if the performance falls below an acceptable standard as judged by the EFA.

Annex A

Written ministerial statement on the Priority School Building programme

In tackling the challenges we face on school building I have been determined to use the capital funding at my disposal to best effect, seeking value for money and efficiency from every pound spent. Sebastian James' review of capital recommended a complete overhaul of the system for allocating capital investment so that we can focus on the repair and refurbishment of schools in the greatest need alongside meeting the pressure for new, good school places.

Over the past two years we have allocated £2.7 billion to local authorities to support the provision of new school places and £2.8 billion for the maintenance of the school estate to meet the needs of maintained schools and academies. Over the spending review period, total capital investment will be over £17 billion.

In addition, last year I invited bids to a new programme from schools in need of urgent repair. 587 schools applied for the programme on the basis of their condition need. Today I can confirm that 261 schools will be rebuilt, or have their condition needs met through the Priority School Building programme (PSBP) and a copy of the list has been placed in the House Libraries. Officials have today written to all schools who applied for the programme to confirm whether their application has been successful. Work will begin immediately and the first schools will be open in 2014.

I recognise that many of the schools that applied to the PSBP and have been unsuccessful will also have significant condition needs. Some of those will have their needs addressed through the other funding we have made available for maintenance. Where that is not the case, I will use the information from the national programme of surveys we are currently conducting to ensure that, subject to funds available in the next spending review period, those schools which need renovation will have their needs addressed as quickly as possible. By next autumn we will have details about the condition of every school in the country. Information on the condition of all schools was last collated centrally in 2005.

I know that many schools will be disappointed not to be included in the programme. We have had to take difficult decisions in order to target spending on those schools that are in the worst condition. In order to ensure that the process was robust and fair, a qualified surveyor has visited every school for which an eligible application was received to verify the condition of the buildings. This was necessary to make sure the schools being taken forward are those with the greatest overall condition need.

The condition need of some schools is so severe that urgent action is necessary. I have decided to make a limited amount of capital grant available to address the needs of the highest priority schools in the programme. 42 schools – those in the very worst condition and all special schools included within the programme – will be taken forward straight away using capital grant. It is right that the condition needs of special schools – where some of our most vulnerable children are educated – are met as quickly as possible.

This limited capital funding has become available by taking a more disciplined approach to managing my Department's capital budgets. Savings have been made by driving down the cost of new schools, shortening procurement times and challenging contractors to look for savings in all areas. These savings mean that more schools will benefit from the programme.

The PSBP will build on the progress we have already made in delivering a more efficient, faster, less bureaucratic approach to building schools. We are determined to reduce the wasteful processes of the past. That is why we have developed new baseline designs which will speed up the process and increase efficiencies and we are reducing the regulations and guidance governing school premises. This will encourage lower-cost build processes to be designed-in from the start.

I have previously expressed my strong support for the Government's agenda on reforming the PFI model and we are working closely with the Treasury to ensure the PSBP is aligned with this model in providing cost effective and more transparent delivery of services. Schools will have greater flexibility with soft facilities management services, such as cleaning, catering, security and some grounds maintenance being managed and controlled by schools themselves.

In addition to targeting spending on those schools which are in the worst condition, my priority in spending capital has been increasing the number of new school places in order to correct previous failures to meet that need. Since announcing the PSBP last July, the Government has allocated £1.1 billion in additional funding to address the need for new school places.