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SWYDDFA ARCHWILIO CYMRU

## Capital Investment in Schools

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# Capital Investment in Schools

I have prepared this report for presentation to the National Assembly for Wales under the Government of Wales Act 2006.

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**Report presented by the Auditor General for Wales to the  
National Assembly for Wales on 14 July 2010**

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## Summary

- 1** In its first strategic plan, *A Better Wales*<sup>1</sup>, the Welsh Assembly Government (the Assembly Government) reported significant backlogs of maintenance and capital work in schools. This reflected the fact that, following local government reorganisation in 1996, few of the new authorities had begun to invest in their school buildings.
- 2** *A Better Wales* included the ambitious aim that, 'all school buildings must be in good physical shape and properly maintained' by 2010. The Assembly Government expanded on this aim in 2003<sup>2</sup> when it included among its top 10 commitments the aim of 'equipping schools for modern teaching and a wider role in the community' so that 'all are fit for purpose by 2010'. Though loosely defined, this concept of 'fitness for purpose', combining both the condition and suitability of schools, became the Assembly Government's target for 2010.
- 3** With the exception of Voluntary Aided schools, local authorities are responsible for planning and delivering the building of new schools and the refurbishment of existing school buildings in their areas. Responsibility for the provision, repair and maintenance of Voluntary Aided schools is shared between school governors and the local authority.
- 4** To help enable the achievement of its target, the Assembly Government increased its annual funding for school buildings and committed to invest £560 million in total between 2004-05 and 2007-08. It also
- committed to maintaining increased funding levels until the end of the decade. Until 2010, the School Buildings Improvement Grant (SBIG) was the Assembly Government's specific capital grant to local authorities for school buildings, to be used alongside capital resources from other sources, including local authorities themselves.
- 5** In *A Better Wales*, the Assembly Government also set out its intention that, by April 2002, all public bodies in Wales should have asset management plans in place, in order to achieve better value for money from their capital assets. In 2003, the Consortium of Local Authorities in Wales (CLAW) issued guidance to local authorities on the format of property asset management plans, following on from more general guidance on asset management planning issued in 2001.
- 6** In a report commissioned by the Welsh Local Government Association (WLGA) and published in 2006, Pricewaterhouse Coopers noted that nine local authorities in Wales still had no completed asset management plans for schools in place<sup>3</sup>. The Wales Audit Office and Estyn had also found that, although the quality of education asset management planning was improving slowly, there were shortcomings in the process in most local authorities.
- 7** Alongside their responsibility for building and maintaining schools, local authorities are also responsible for ensuring that there are sufficient school places to meet demand,

<sup>1</sup> *A Better Wales*, National Assembly for Wales, 2000

<sup>2</sup> *Wales: A Better Country*, Welsh Assembly Government, 2003

<sup>3</sup> *Managing the Funding Gap*, WLGA, 2006

having due regard to economy and efficiency. In recent years, local authorities in Wales have experienced falls in pupil numbers, some of them significant, presenting opportunities to reorganise schools in a more efficient and affordable manner.

- 8 The SBIG was not the only source of capital finance for local authorities. They also receive, through the revenue support grant, an annual allowance for financing capital expenditure, known as general capital funding. Local authorities may also raise their own capital by, for example, drawing on capital receipts and prudential borrowing. Local authorities take decisions about capital expenditure on schools in the light of competing demands for capital resources. In the four years between 2004-05 and 2007-08 local authorities in Wales spent a total of £680 million on capital projects relating to education.
- 9 We examined whether the schools capital investment programme has been managed to best effect. The study fieldwork was completed during 2008-09. Since then, there have been a number of developments that have the potential to improve the management of the capital investment programme. In particular, the 21st Century Schools Programme, which, amongst other things, has improved the targeting of grant funding, was formally launched in March 2010. The conclusions and recommendations set out in this report take full account of these recent developments.
- 10 Overall, we found that, although improvements have been made to the schools estate, there remains a long way to go before all schools in Wales will be fit for purpose. We concluded that the recent changes introduced by the Assembly Government, some in partnership with the Welsh Local

Government Association (WLGA), have the potential to remedy many of the weaknesses we found in the planning and management of capital expenditure.

## **The Assembly Government and the WLGA have taken steps to strengthen the planning and management of capital investment in schools, which should help to address weaknesses in the arrangements that existed before 2009**

**Before 2009 the Assembly Government's planning of the capital investment programme was based on limited evaluation of the impact of new and refurbished schools and, in respect of most local authorities, on poor quality information about the condition and suitability of the existing estate**

- 11 One of the key aims of the Assembly Government's capital investment programme is to contribute to improving educational standards, in recognition of the link between the quality of the educational environment and pupils' educational outcomes. Local authorities submitted information about the expected impacts of proposed projects. However, we found that there has been little analysis and evaluation at local or national levels of the impact of capital investment in terms of improved educational outcomes, improvements in pupils' and teachers' access to better facilities, reduced surplus capacity or the efficiency of the schools estate. Such evaluations are needed to assess competing priorities, the relative merits of different types of improvement to school buildings, and to inform the nature of future investment.

**12** Early allocations of SBIG funds were used mainly to tackle repairs and maintenance backlogs, and, in some cases, to carry out school building surveys. From 2004-05 the Assembly Government placed a lower limit of £50,000 on the value of projects that could be grant funded. The limit was increased to £100,000 from 2008-09. This helped to ensure that the SBIG funds were not spread too thinly. However, it soon became clear that the amount of publicly-funded capital available to make schools in Wales fit for purpose was insufficient to meet the extent of demand within the planned timescales. In these circumstances, the Assembly Government and local authorities needed to plan and manage the investment programme effectively to ensure that spending was targeted on the most urgent priorities. This required good quality information about local authorities' education service objectives, plans and desired outcomes, as well as information on the capacity, condition, suitability and running costs of the existing schools estate.

**13** We found that, although the Assembly Government had set out its expectations that education asset management plans should be in place by 2003, a significant number of authorities still did not have robust asset management plans in place. The limited action taken by the Assembly Government to encourage local authorities to improve their asset management plans had, for the most part, been ineffective. The quality of data about the condition, suitability and sufficiency of Voluntary Aided schools had similar weaknesses to that relating to schools for which local authorities are wholly responsible.

**14** The Assembly Government, therefore, did not have sufficient reliable information to enable it to target grant on the areas of greatest need, and it continued to allocate grant in part by formula and in part by means of £9 million lump sums allocated equally to all local authorities. The Assembly Government was also unable to assess adequately the progress being made towards meeting its objectives for improvements in school buildings, and there is continuing uncertainty about how much more needs to be spent to achieve the Assembly Government's and individual authorities' objectives across Wales. Estimates from local authority returns in 2007 suggested that £2.2 billion would be required to make all schools in Wales fit for purpose, but this estimate provided only a rough guide.

**The Assembly Government's objective of making all schools 'fit for purpose' was not sufficiently specific to provide a robust basis for planning the capital investment programme**

**15** The Assembly Government had defined only in broad terms what it meant by a school that is 'fit for purpose'. The definition included a range of elements, including:

- a** building condition;
- b** the appropriate amount of space for the number of pupils; and
- c** the suitability of the buildings for delivering the curriculum.

**16** Although it included a comprehensive range of factors, the Assembly Government's definition of 'fit for purpose' was not sufficiently specific, particularly in relation to the suitability of school buildings. As a result, there was uncertainty about the quality of school buildings that local authorities should aim to achieve. Curriculum changes, which mean that some schools that would



previously have been deemed fit for purpose may no longer be suitable, have added to this uncertainty. For example, the Learning and Skills (Wales) Measure 2009 places a duty on local authorities to ensure that students aged between 14 and 19 have access to a much broader curriculum than before. This could have significant implications for the suitability of secondary schools, many of which currently consist of a patchwork of buildings developed over many years. Overall, therefore, the scale of capital investment needed to bring all schools up to an acceptable quality has been unclear.

- 17** The Assembly Government soon realised that its target of making all schools ‘fit for purpose’ by 2010 was unrealistic. In the absence of good quality information, it did not set a new national target. It began to work instead with individual local authorities to establish local targets. Individual authorities have estimated dates by which they expect to achieve the ‘all schools fit for purpose’ objective. These dates range between 2013 and 2030, but continuing uncertainties about the definition of what is required, costs and funding sources make these estimates imprecise.
- 18** Effective planning and delivery of the investment programme require a degree of certainty about future funding levels. The Assembly Government has rebranded the programme of investment in school buildings as the ‘21st Century Schools Capital Programme’. Under this new programme, specific capital funds for school buildings will no longer be allocated to local authorities on the basis of a formula. Instead, the Assembly Government will allocate funds on the basis of local authorities having a good track record of investment, using their own resources as well as Assembly Government grant, and producing robust strategic investment plans targeted on need. However, despite improved

targeting, the continuing uncertainty about the investment needed and the resources available makes it difficult for the Assembly Government and local authorities to plan school capital investment effectively.

### **The Assembly Government, with support from the WLGA, have taken steps to strengthen the planning and management of capital investment in schools**

- 19** The Assembly Government’s policy of improving school buildings and the availability of grant funding through SBIG have improved the working environment for large numbers of pupils and teachers across Wales. Nevertheless, Assembly Government officials recognised that there were weaknesses in the planning and delivery of the Assembly Government’s objectives.
- 20** Working with the WLGA, the Assembly Government has made changes to address these weaknesses. It has improved its own asset management planning processes and is working with local government to develop a more strategic approach to major capital investment. This work has included the development of a new central framework for capital investment across all public services in Wales, the Strategic Capital Investment Framework (SCIF), with a budget of £400 million over three years from 2008-09.
- 21** The Assembly Government’s Department for Children, Education, Lifelong Learning and Skills (DCELLS) has begun to take forward the Assembly Government’s commitment to a more strategic approach to capital investment. The revised approach has been supported by the promotion, under the 2008 School Effectiveness Framework, of increased collaboration between the Assembly Government, local authorities and schools. Internal reorganisation within DCELLS has

brought together the management of capital funding for pre-16 and post 16 education building programmes and added technical expertise to the team of officials. Work is also underway to define more clearly the quality standards the Assembly Government wishes to achieve and to liaise more closely with authorities on the planning of their investment programmes.

**22** Under the 21st Century Schools programme, grant funding is now allocated to specific projects before being released to local authorities, and is targeted on those authorities producing well-considered strategic investment plans. And, in May 2009, the Assembly Government and the WLGA jointly wrote to local authorities offering support in the form of surveying resources to draw together the asset management data needed to plan the capital investment programme effectively. This approach has the potential to improve the quality and consistency of the information available about the condition and suitability of the schools estate across Wales.

**23** It is too early to comment on the outcomes of these changes in terms of improvements to school buildings and more effective capital expenditure. However, the assessment by the Assembly Government of local authority bids prior to the release of funds should make it more likely than before that Assembly Government funding will be targeted strategically, taking account of Assembly Government priorities and the relative needs of different local authorities.

## **There have been improvements to the schools estate, but the quality of planning and the capacity to deliver school capital investment programmes effectively have been inadequate in some local authorities**

**In many local authorities the effective planning of capital investment has been hampered by a lack of sufficiently reliable information about the schools estate and a reluctance to take decisions on school rationalisation**

**24** Although the quality of local authorities' asset management plans was variable, the data held by local authorities about the condition and the capacity of schools has generally been adequate. However, information about the suitability of school buildings has often been less reliable.

**25** A further weakness in many local authorities has been their reluctance to take decisions on school rationalisation as a result of falling pupil numbers. Decisions on school rationalisation will depend on a number of factors, not only falling rolls. However, even in those local authorities that have merged or closed schools, reorganisation has often failed to keep pace with falling pupil numbers. There were 52,000 empty places in primary schools in January 2008, and a further 37,000 unfilled places in secondary schools. In both the primary and secondary school sectors, there were more unfilled places in 2008 (19 per cent and 15 per cent respectively) than there were in 2001 (16 per cent and 12 per cent respectively). And just one out of the 22 local authorities achieved the Assembly Government's recommended level of no more than the 10 per cent surplus places across both sectors.

- 26** Local authorities are wasting resources when they maintain too many surplus places, particularly if this means that they have too many schools. Resources are being wasted if they are used to maintain or improve buildings which may not have a long-term future. Rationalisation can remove the need to invest in buildings that are no longer necessary. It can also generate capital receipts and produce revenue savings to pay for prudential borrowing.
- 27** There are some good examples in Wales, mostly in the primary school sector, where the capital investment programme for schools has been well informed by decisions on the optimum configuration of the schools estate. However, we identified too many authorities where the lack of decisions on reorganisation has delayed the improvement of school buildings or resulted in the waste of limited capital resources. In most authorities, much remains to be done in relation to the rationalisation of secondary provision.

**There are new schools in most parts of Wales, but few authorities have a clear understanding of how they will fund the necessary improvements to the remainder of the schools estate**

- 28** New and improved school buildings have been delivered across most parts of Wales. In the most successful examples, local authorities have integrated capital and school place planning to make the most effective use of resources.
- 29** Most of the authorities we visited in 2008-09 lacked a clear capital strategy for delivering the remaining improvements to their school building stock. In part, this was because of the lack of clarity from the Assembly Government about the quality standards to be achieved and uncertainty about the level

of grant for future years. However, it also reflected in many cases a lack of certainty within the authority about whether or not new schools should be built to replace one or more existing schools.

- 30** The total capital resources per pupil that individual authorities invested in school buildings over the four years to 2007-08 ranged from £820 per pupil in Flintshire to almost £3,000 per pupil in Blaenau Gwent. The contribution made by SBIG varied between 27 per cent and 63 per cent of the total investment.
- 31** Seven local authorities in Wales have built new schools under Private Finance Initiative (PFI) contracts, taking advantage of Assembly Government credits while these were available in the late 1990s. Such contracts cover the building of the schools, and include a number of facilities management services that ensure that, over a typical period of 25 years, the school is maintained in good condition. The costs to a local authority of a PFI contract are spread over the lifetime of the contract. As a result, by using PFI some of these authorities were able to make significant improvements to their schools estate over a far shorter period than would have been possible had they relied on non-PFI procurement methods.

**Inadequate investment in maintenance has contributed to the need for capital investment in some schools**

- 32** From the 1960s through to the end of the 1990s, the level of investment in school buildings was too low to keep them in good repair. Drawing on the lessons from the past, therefore, it is important that local authorities produce good technical assessments of the level of investment in preventive maintenance needed to ensure that the current capital

investment is not wasted. However, with the exception of PFI projects, where maintenance costs are built into the project financing, local authorities have not taken sufficient account of life-cycle costs in planning new buildings. None of the local authorities we visited used a technical assessment of the need for and benefits from repairs and maintenance to help determine the total repairs and maintenance component of its schools budget. Schools are responsible for their own routine (non capital) repairs and maintenance. Some of the local authorities we visited used the existing condition of schools as one of the factors that determined the distribution of the repairs and maintenance budget to each school. However, in most cases the total schools' repairs and maintenance budgets were based on historical amounts that were adjusted annually for inflation.

- 33** The 21st Century Schools programme is beginning to address these issues. The programme's assessment and planning criteria require the determination of lifecycle costs, including the impact of capital investment on future running costs.

### **Some local authorities have insufficient capacity and expertise to deliver effectively a sizeable programme of capital investment**

- 34** Planning and delivering capital investment in schools requires staff skilled in the design and project management of building work. Managing consultation processes effectively, especially as part of school reorganisation programmes, is also staff-intensive.
- 35** Small authorities, in particular, lack the capacity and skills to deliver major programmes of investment by working alone. Even some larger authorities have recognised that they lack sufficient capacity to deliver major programmes of investment. Councils' ability to develop an appropriate human

resource capacity has been inhibited in some cases by uncertainties about the future shape and timing of the capital investment programme, including future funding levels. Some authorities that have clear investment plans have increased their capacity by entering into framework partnering agreements with construction companies. However, there has been only limited collaboration between councils, to share costs and overcome some of the problems of shortage of key skills to manage and deliver the investment programme effectively.

- 36** In 2006, the Assembly Government commissioned Value Wales to help take forward the schools capital programme. Value Wales is working to extend collaboration across the public sector through its procurement strategy for construction and is increasingly promoting other forms of collaboration, including those with the private sector. The Assembly Government's 21st Century Schools programme is also encouraging joint working across the public sector to identify publicly owned land that has the potential for co-development that includes schools.

## **Recommendations**

The recent changes introduced by the Assembly Government, particularly under the 21st Century Schools programme, have the potential to remedy many of the weaknesses we found in the planning and management of capital expenditure in schools. In taking forward the 21st Century Schools Programme, the Assembly Government should give particular consideration to the following recommendations:

- 1** Estyn has provided a general endorsement of the educational benefits of new and refurbished school buildings. However, there has been too little systematic evaluation of the impact of capital investment in terms of



improved educational attainment, better facilities, reduced surplus capacity and improved buildings efficiency. Without such analysis, the Assembly Government is unable to assess the value for money of its investment decisions, and local authorities find it difficult to justify the priority they give to improving school buildings within their wider capital programmes. **We recommend that the Assembly Government should:**

- a develop a framework for evaluating the impact of major school building projects that includes a prescribed core set of evaluation questions;**
- b require local authorities to apply the evaluation framework and to report to the Assembly Government the impact of each major school building project funded wholly or partly by grant; and**
- c analyse the evaluation data received from local authorities to assess the overall impact of grant funding at a national level and to plan future grant allocations.**

- 2** The Assembly Government has defined only in very broad terms what it means by 'fit for purpose', and there is uncertainty about the quality of school buildings, particularly in terms of their suitability, that local authorities should aim to achieve. This uncertainty has been reinforced by recent changes to the curriculum. In the absence of clear quality standards, local authorities do not assess the suitability of their existing schools on a consistent basis. A key aspect of the 21st Century Schools programme is the co-development, by the Assembly Government and the WLGA, of an agreed set of standards for school buildings. In developing these standards, **we recommend that the Assembly Government and the WLGA should:**

- a establish clearer suitability criteria for school buildings and facilities, drawing, where applicable, on existing advice and guidance; and**
- b develop proposals to review the criteria in the light of changing legislation or major changes to the curriculum.**

- 3** The timescale over which the Assembly Government aims to achieve its objective of making all schools 'fit for purpose' is not clear, but it will be determined, at least in part, by the affordability of the associated investment programme. However, the scale of investment needed is also unclear, not least because of the lack of clarity about the quality standards required and the scale of restructuring that will be undertaken in each local authority. **We recommend that, having set clear standards for the quality of school buildings, the Assembly Government should establish the cost of reaching those standards in each local authority, determine its contribution to meeting those costs and set a clear timescale for the delivery of the resulting programme of capital investment.**

- 4** Many local authorities have been hesitant in taking decisions on school rationalisation as a result of falling pupil numbers. This has sometimes resulted in delays in improving school buildings or a waste of limited capital resources. In most authorities, much remains to be done in relation to the rationalisation of secondary provision in particular. The Assembly Government told us that the 21st Century Schools programme will include an agreed national standard on the balance of projected pupil numbers and school places, and that no project will proceed without addressing surplus places. **We recommend that, in targeting its funding under the 21st Century Schools programme, the Assembly Government should ensure**

**that appropriate weighting is given to local authorities' proposals for school building projects that take full account of opportunities to rationalise the schools estate in the light of current or projected imbalances between the number of pupils on the roll and the number of school places.**

- 5 Small local authorities, in particular, can lack the capacity and skills to alone deliver major programmes of investment. The 21st Century Schools programme makes available additional expertise and support for local authorities in developing their investment plans. **We recommend that, in allocating capital funds for school building projects, the Assembly Government should not disadvantage any authority solely on the grounds that it lacks the capacity or skills to manage its proposed programme of capital investment. Where capacity or skills is identified as an issue, the Assembly Government and WLGA should support the authorities concerned to collaborate with other local authorities, or to develop partnerships with other organisations that have the capacity or relevant skills.**
- 6 Inadequate investment in maintenance and repairs over a number of years has contributed to the current need for extensive capital investment in schools. Repairs and maintenance budgets for schools in local authorities are generally based on historical amounts that are adjusted annually for inflation, rather than on a technical assessment of the need for repairs and maintenance. Without adequate investment in maintenance, there is a risk that new school buildings will deteriorate more rapidly than intended, undermining the value for money of the capital investment.

The 21st Century Schools programme requires the determination of lifecycle costs in planning capital investment, including the impact of capital investment on future running costs. **We recommend that local authorities should agree with schools occupying new or significantly refurbished buildings a medium-term programme of preventive maintenance and the means by which the programme will be funded.**

## Part 1 – The Assembly Government and the WLGA have taken steps to strengthen the planning and management of capital investment in schools, which should help to address weaknesses in the arrangements that existed before 2009

- 1.1** In its first strategic plan, one of the Assembly Government's stated commitments was that all schools in Wales should be fit for purpose, well maintained and well equipped by 2010<sup>4</sup>. This commitment recognised that there were significant backlogs of maintenance and capital work in schools and that, following local government reorganisation in 1996, few of the new authorities had begun to invest in their school buildings.
- 1.2** The present Assembly Government is committed to continuing a major capital investment programme to upgrade school buildings through increased spending above the levels previously provided<sup>5</sup>. In contrast to previous plans, 'One Wales' made it explicit that one of the key purposes of the Assembly Government's programme of capital investment in schools is to raise educational standards by providing better facilities for pupils and teachers. The programme also offers opportunities to improve the efficiency of the schools estate by reducing surplus capacity and energy costs.
- 1.3** In the four years between 2004-05 and 2007-08, local authorities in Wales spent £680 million on capital projects relating to education, of which £250 million (more than one third) came from the Assembly Government's School Buildings Improvement Grant (SBIG). Over the period 2001-02 to 2007-08, capital spending by local authorities on schools increased by almost 100 per cent in cash terms, from just under £100 million a year to nearly £200 million a year.
- 1.4** In the early years of comparatively low levels of SBIG funding, local authorities largely used the grant to supplement their repairs and maintenance budgets in order to make buildings weatherproof and safe. The Assembly Government recognised that such an approach was spreading the grant funding too thinly, and imposed a minimum value<sup>6</sup> for SBIG-funded capital projects. However, it soon became clear that the amount of publicly-funded capital available to make schools in Wales fit for purpose was insufficient to meet the extent of demand within the planned timescales<sup>7</sup>. In these circumstances, where all identified needs could not be met from the available resources, the Assembly Government needed to ensure that spending was targeted on the most urgent priorities. This part of the report examines how well the Assembly Government planned its SBIG-funded programme of capital investment in schools in conjunction with its local authority partners, and the actions it has taken recently to improve arrangements.

<sup>4</sup> *A Better Wales*, National Assembly for Wales, 2000; *A Plan for Wales 2001*, National Assembly for Wales, October 2001, page 7

<sup>5</sup> *One Wales*, June 2007

<sup>6</sup> A £50,000 minimum was imposed in 2004-05, and subsequently increased to £100,000 for 2008-09

<sup>7</sup> For example: *Report on School Funding Arrangements*, National Assembly for Wales Committee on School Funding, June 2006; *Managing the Funding Gap*, WLGA and PwC, June 2006

## **Before 2009 the Assembly Government's planning of the capital investment programme was based on limited evaluation of the impact of new and refurbished schools and, in respect of most local authorities, on poor quality information about the condition and suitability of the existing estate**

**There was too little evaluation of the impact of capital investment in terms of improved educational attainment, better facilities, reduced surplus capacity and improved buildings efficiency**

- 1.5** Educational research indicates a relationship between the quality of the educational environment and pupils' educational outcomes. In a report commissioned by the Assembly Government, Estyn found that pupils' educational attainment improved in nearly all schools with new or refurbished buildings, particularly in areas of high deprivation<sup>8</sup>. Estyn's report points to a number of factors, such as improved attendance and behaviour and an enhanced curriculum, that may have raised standards and which may have arisen directly from the improvement in facilities for pupils and teachers. The report also highlights the improvements in the quality of teaching in new and significantly refurbished schools as a result of improved facilities and better morale.
- 1.6** Estyn's work provides a general endorsement of the educational benefits of new and refurbished schools. However, it does not, and was not intended to, offer a sufficiently

detailed evaluation to enable the Assembly Government or individual local authorities to assess the success of individual capital projects and of programmes of capital investment in schools.

- 1.7** Decisions about future investment at both national and local levels have not therefore been informed adequately by an analysis of the impact of the building work already undertaken. Ministers have reported regularly on the level of Assembly Government funding and on the number of building projects this has supported, but there has been no systematic analysis of the impact of this investment in terms of, for example:
- a** improved curriculum access for pupils, for example in relation to information and communications technology and physical education;
  - b** better classroom and preparation facilities for teachers;
  - c** better access for pupils with disabilities;
  - d** reduced maintenance backlogs in schools;
  - e** reduced surplus capacity; and
  - f** improved energy efficiency.
- 1.8** Local authorities included information about planned impacts such as these within their project proposals. However, there has been little analysis of the impact actually delivered by completed projects in terms of improved facilities and better teaching and learning. Without such analysis, the Assembly Government is unable to assess the value for money of its investment. Also, the lessons that may be learned from such analysis cannot be used to improve the quality of decisions about future capital allocations and conditions relating to its use.

<sup>8</sup> *An evaluation of performance of schools before and after moving into new buildings or significantly refurbished premises, Estyn, January 2007*



**1.9** Local authorities also lack evaluative analyses to inform programmes of future school building and to justify the prioritisation of school buildings within their capital programmes. For example, three of the authorities that we visited had undertaken significant reorganisation of their primary schools, including the building of new schools. These authorities had, between them, reduced their total primary capacity by some 1,400 places (about five per cent) since 2003. However, over the same period, the proportion of surplus capacity across the three authorities increased from 12.9 per cent to 16.7 per cent because the scale of rationalisation was too small to keep pace with the fall in pupil numbers. In these authorities, there had been too little evaluation of the impact of capital investment in schools on surplus capacity; as a result, the problem continued to escalate and the inefficiencies associated with surplus capacity increased.

**Information provided to the Assembly Government was not sufficiently reliable to inform effective planning and the allocation of resources according to need**

**1.10** Effective planning, management and evaluation of the Assembly Government's programme of capital investment in schools require good quality information on local authorities' education service objectives, their plans and the outcomes to be achieved. Local authority plans should be supported by reliable data about the capacity, condition, suitability and running costs of the schools estate. This information is required for the Assembly Government to make informed decisions about its allocation of resources to local authorities.

**1.11** In A Better Wales, the Assembly Government set out its intention that, by April 2002, all public bodies in Wales should have asset management plans in place. In conjunction with the WLGA, and assisted by staff from the Assembly Government, the CLAW)<sup>9</sup> issued guidance on asset management planning to local authorities in 2001. The guidance stated that April 2004 represented a realistic target for the production of plans covering all assets other than housing and infrastructure. In 2003, CLAW published supplementary guidance that provided a broad structure for the content of asset management plans and suggested that they should cover a period of five years, with annual updates.

**1.12** The guidance issued by CLAW made it clear that asset management plans should be underpinned by data about:

- a** the sufficiency of buildings – the extent to which the size of the building matches the numbers of those using it;
- b** the condition of buildings – an area-by-area analysis of each building that categorises its condition and sets out how much needs to be spent in order to make good any defects; and
- c** the suitability of buildings – how well they meet the needs of users, and the cost of putting right any deficiencies. For schools, suitability data should relate to how well the school meets the needs of the modern curriculum in terms, for example, of play areas for young children, specialist facilities for subjects such as science and technology, and appropriate facilities for teachers to plan. Suitability data should also address issues such as the building's energy efficiency.

<sup>9</sup> CLAW supports the professional and technical interests of property management in local government in Wales and promotes excellence in the management of property assets

**1.13** The Assembly Government's Department of Children, Education, Lifelong Learning and Skills (DCELLS) and its predecessor departments requested that local authorities should produce education asset management plans by 2003<sup>10</sup>. The Assembly Government received the first four local authority education asset management plans in 2005, with 15 more arriving during 2006 and 2007. As at the beginning of 2008, three local authorities had still not submitted education asset management plans.

**1.14** The slow pace at which local authorities produced education asset management plans severely limited the effectiveness of the Assembly Government's planning and management of the SBIG-funded programme of capital investment in schools. Furthermore, our fieldwork and a significant number of Estyn inspections found that the data underpinning asset management plans were incomplete or unreliable in one or more of the key domains in a substantial number of authorities. For example, in 2007 Estyn reported that, in Anglesey,

*'Officers have detailed information about the condition of school buildings and the cost of putting right any defects, which they collected in 2005-06. However, the information is not updated routinely to take account of maintenance work completed at each school, and is not therefore always as up-to-date as it should be. Schools have recently completed questionnaires about the suitability of their buildings for delivering the modern curriculum, but these responses have not yet been moderated to ensure that schools have interpreted the requirements consistently.'*<sup>11</sup>

**1.15** While the Assembly Government set out its expectations that local authorities should produce education asset management plans, it was not sufficiently robust in requiring them to do so within the required timescale, and in ensuring that the plans that were produced met specific standards in terms of their content and quality. The approach in Wales contrasts with that taken in England, where the UK Government adopted a process of intensive scrutiny of the quality of education asset management plans. Officials there graded the quality of plans and the information they contained, and allocated capital resources first to authorities that were considered to have higher quality plans. This approach substantially improved the quality of information available for planning the overall capital investment programme in England.

**1.16** In 2007, in the absence of reliable asset management plans in a consistent format, the Assembly Government required local authorities to complete returns which set out their estimates of the cost of maintaining and improving all school buildings in their areas and the date by which they might expect to achieve this. The quality of the information provided by local authorities varied considerably in terms of its completeness and reliability, and three authorities failed to submit any cost estimates.

**1.17** We found significant weaknesses in the quality of the information underlying asset management plans in a number of authorities. Most authorities had reasonably accurate, up-to-date information about the capacity of their schools - they had used the Assembly Government's formula<sup>12</sup> to calculate how many pupils each school can accommodate and were therefore aware of the extent and location of surplus capacity and over-subscription across the authority.

<sup>10</sup> *The Learning Country*, National Assembly for Wales, 2001

<sup>11</sup> A Report on the Quality of Ynys Môn Local Education Authority, Access and school organisation, Estyn, June 2007

<sup>12</sup> The Assembly Government issued a revised formula for the calculation of the capacity of schools in 2006. Circular 09/2006 provides the details

Most authorities also had reasonable information on the condition of school buildings and estimates of how much they needed to spend in order to rectify condition defects in their stock. However, the quality of information about the 'suitability' or 'fitness for purpose' of schools was generally far less robust.

- 1.18** The Assembly Government had defined only loosely what it expected in terms of facilities in schools. This contributed to the lack of robustness in suitability data, and a lack of consistency within and between local authorities in the criteria used to assess what needed to be done to improve the facilities in each school. Some of the authorities we visited had not yet estimated the cost of the work needed to improve the suitability of school buildings, with many considering that their uncertainty over the quality to be achieved and the level of funding available in the future had contributed to their difficulties in estimating expected costs.
- 1.19** The quality of many local authorities' capital investment plans and the reliability of estimates of costs to deliver them were further undermined by a lack of clear plans for the future configuration of the schools estate. Many authorities had yet to decide how many schools they needed and where those schools should be located. Estimates of the capital required to improve the schools estate, therefore, may have included work in schools which might subsequently be deemed unnecessary, or may have omitted the costs of building new schools which may be needed to replace one or more existing buildings.
- 1.20** The lack of reliable information about the schools estate across Wales meant that the Assembly Government was unable to assess the progress being made towards meeting its objectives for improvements in school buildings. There was also uncertainty about how much needed to be spent to achieve the objectives, both in individual authorities and across Wales. In total, local authorities estimated in their 2007 returns to the Assembly Government that the cost of achieving the objectives of making the schools estate across Wales fit for purpose would be £2.2 billion. However, the limited reliability and completeness of the information on which these estimates were based meant that this sum could only be regarded as a rough estimate.
- 1.21** The Assembly Government acknowledged the limitations of the information that it held. However, in view of the urgency of the need across Wales, it considered that the over-riding priority was to begin to invest substantially in improving school buildings. Therefore, even though the school building investment programme could not be planned effectively without more reliable information on the scale of investment required, the Assembly Government decided to distribute SBIG to local authorities by means of:
- a** an annual formula based mainly on pupil numbers, which took no account of the number or condition of schools within each authority; and
  - b** from 2005, a single £9 million lump sum for each authority, to be used for schemes at any time between 2005-06 and 2009-10.
- 1.22** In the absence of reliable information on the schools estate and the investment required to make schools fit for purpose, the allocation of SBIG to authorities was fair, but it was not based on assessments of relative needs and priorities. The Assembly Government's inability to identify and target those authorities where the need for investment was greater meant that resources were not necessarily

being used to best effect, as there was a risk that schools in some parts of Wales were being refurbished while other schools in a poorer condition elsewhere may have had to wait for improvements.

## **The Assembly Government's objective of making all schools 'fit for purpose' was not sufficiently specific to provide a robust basis for planning the capital investment programme**

**1.23** The planning and delivery of capital investment for schools is effectively a joint venture between the Assembly Government and local authorities. To achieve its objectives across Wales, the Assembly Government depends on effective delivery by all 22 local authorities. Local authorities, in turn, depend on the Assembly Government to set a clear strategic framework and to provide a significant proportion of the capital funding required.

### **There was uncertainty about the quality of school buildings which local authorities should aim to achieve**

**1.24** The Assembly Government's early strategic plans contained the broad commitment that all schools in Wales should be fit for purpose, well maintained and well equipped by 2010<sup>13</sup>. However, the Assembly Government defined only in very broad terms what it meant by 'fit for purpose'. Requests for information sent by the Assembly Government to each local authority in 2007 stated that, for the purpose of that return, 'fit for purpose' should mean that:

- a** the school buildings and grounds are maintained to an appropriate standard, with no major outstanding defects;
- b** the school provides a safe, pleasant environment for pupils, staff and others;
- c** the school has sufficient, suitable accommodation and facilities to meet anticipated demand for places, and can deliver the curriculum effectively, with no major shortcomings which could significantly adversely affect the delivery of education;
- d** all developments are well designed, sustainable and meet the needs of the users; and
- e** the school is accessible to disabled persons or could be made more accessible to disabled persons through a programme of investment.

**1.25** The Assembly Government's definition did not set out clearly the quality standard it was seeking to achieve. References within the definition to the condition of schools, their sufficiency and, particularly, their suitability provided too little guidance to help local authorities determine on a consistent basis whether existing school buildings were 'fit for purpose'. Instead, local authorities and schools were required to identify for themselves the building issues that limited the delivery of the curriculum or the operation of schools.

**1.26** Legislation and guidance from a range of sources within and outside Wales help to bring a degree of consistency to the assessment and planning of the schools estate. With regard to the condition of school buildings, for example, Building Regulations

<sup>13</sup> *A Better Wales*, NAW, 2000; *A Plan for Wales 2001*, NAW October 2001, page 7

stipulate what the building industry must adhere to when undertaking construction projects and health and safety legislation provides further standards; and CLAW guidance<sup>14</sup> to local authorities offers a consistent approach to the categorisation of the severity of defects in the fabric of school buildings and how soon such defects need to be put right.

- 1.27** The Assembly Government has encouraged local authorities in Wales to draw on advice issued by the UK Government, for example in Building Bulletins<sup>15</sup> and on the Department of Children, Schools and Families (DCSF) website<sup>16</sup>. These Building Bulletins provide helpful standards about the number, size and types of rooms that should be present in both new designs and existing buildings in the primary and secondary sectors. The DCSF website offers extensive advice on a wide range of matters such as innovative design, the design of science laboratories, ventilation, acoustics and energy efficiency.
- 1.28** In assessing the suitability of their schools, local authorities have had to take into account a rapidly changing range of educational issues, some of which are specific to Wales and therefore not included in the UK Government's Building Bulletins. Changes to the school curriculum and to teachers' conditions of service since the Assembly Government first set out its strategy to improve school buildings have had significant implications for the meaning of 'suitability'. The introduction of the Foundation Phase<sup>17</sup> in 2008, for example, has required more space and facilities for pupils between the ages of four and seven. Also, the Teacher Workload Agreement, implemented between 2003 and 2005, made it more desirable than before that schools should have space in which teachers

can plan and prepare lessons outside their classrooms during non-contact time.

- 1.29** The 14-19 Learning Pathways agenda, in particular, is a curriculum change that has significant implications for the design of secondary schools. The Learning and Skills (Wales) Measure 2009 places a duty on local authorities to ensure that students aged between 14 and 19 have access to a much broader curriculum than before. The options available must include vocational courses, some of which will require specialist, industry-standard facilities. In meeting these new duties, schools in many parts of Wales will need to collaborate with each other and with Further Education Colleges and work-based learning providers. As such collaboration develops, the facilities required in individual secondary schools may need to change in order to provide adequate curriculum provision within a locality whilst avoiding the potential duplication of expensive specialist facilities and resources.
- 1.30** There is, therefore, particular uncertainty with regard to the suitability of secondary schools, many of which currently consist of a patchwork of buildings developed over many years. In educational terms, the buildings do not link together coherently, and in some cases schools might best be made 'fit for purpose' through demolition and rebuilding from scratch. However, until decisions about the pattern of 14-19 provision within a locality are taken, the concept of suitability remains unclear. The requirement in January 2009 for local authorities to produce Transformation Plans to address post 16 education within their areas has begun to bring greater clarity, but the scale of capital investment necessary to make all schools fit for purpose remains uncertain.

<sup>14</sup> *A Guide to Asset Management Planning in Wales*, CLAW, September 2001

<sup>15</sup> Building Bulletin 98, *Briefing Framework for Secondary School Projects*, Building Bulletin 99, *Briefing Framework for Primary School Projects*

<sup>16</sup> [www.teachernet.gov.uk](http://www.teachernet.gov.uk)

<sup>17</sup> Welsh Assembly Government, *Education (National Curriculum) (Foundation Stage) (Wales) Order 2008*



**1.31** In addition to the need to take into account curriculum developments, the Assembly Government also added new requirements in respect of the environmental efficiency and fire safety of new and substantially refurbished buildings. In contrast to its general definition of suitability, the Assembly Government set clear standards for these new requirements. From 2007-08 it required as a condition for the use of SBIG funding that authorities aim to achieve the BREEAM<sup>18</sup> 'excellent' standard and to install sprinklers in all new or substantially refurbished buildings. This standard is clear and is consistent with the Assembly Government's wider policy objectives in relation to matters such as sustainable energy consumption.

**1.32** However, these new requirements had cost implications. Research carried out for the UK Government compared the costs of achieving 'good', 'very good' and 'excellent' BREEAM standards in a sample of schools<sup>19</sup>. The research showed that achieving a 'very good' rating was unlikely to create significant extra costs. In some cases, however, attempting to reach the BREEAM 'excellent' standard might require substantial additional costs, mainly because of the need to add a renewable energy option, and could detract from a project's affordability. We found no evidence that the Assembly Government had considered the relative merits of alternatives to this requirement, such as requiring slightly lower BREEAM standards in new buildings so that more money might become available to spend on improving the energy efficiency of existing buildings.

### **There is no clear timescale or budget for achieving the objective of getting all schools up to the required quality**

**1.33** In its strategic plan, A Better Wales, the Assembly Government set out its aim that all schools in Wales should be 'fit for purpose' by 2010. The Assembly Government soon recognised that this aim was unrealistic but, in the absence of good quality information, it did not set a new national target. Instead, it began to work with individual local authorities to establish local targets.

**1.34** In response to a request for information by the Assembly Government in 2007, each local authority estimated when it expected all of its schools to be fit for purpose. The returns from local authorities showed wide variations in the expected dates, with one authority estimating that the work was unlikely to be completed until 2030 (Figure 1 and Appendix 2).

**1.35** Most of the local authorities we visited acknowledged that their estimates of when they expected all schools to be fit for purpose were unreliable. The lack of clarity about the quality standards to be achieved contributed to the limited reliability of suitability data. Local authorities were therefore unsure about what work they needed to do, and how much they needed to spend, in order to bring their existing schools up to an acceptable quality standard. Furthermore, there was substantial uncertainty about the extent and availability of future financial support from the Assembly Government over the timescales concerned.

**1.36** The 'open-ended' timescale within which to make all schools fit for purpose does not promote effective planning at either local or national levels. The lack of a target date hinders effective financial planning and may encourage a loss of focus on and priority for

<sup>18</sup> Building Research Establishment Environmental Assessment Method

<sup>19</sup> *The cost of BREEAM Compliance in Schools*, Faithful and Gould

**Figure 1 – Local authority estimates of the date by which all schools will be fit for purpose**

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*Source: Local authority returns to the Assembly Government*

the improvement of school buildings as other capital spending requirements arise. The setting of local targets is beginning to address this.

**1.37** The timescale over which the Assembly Government can achieve its objective of making all schools ‘fit for purpose’ will be determined, at least in part, by the affordability of the associated investment programme. However, the scale of total investment needed is unclear because of several factors, including the lack of clarity about the quality required, particularly in terms of suitability. Despite these uncertainties, local authorities estimated in their 2007 information returns to the Assembly Government that total capital expenditure of about £2.2 billion would be required. Based

on this estimate, and using 2008 as the base year, **Figure 2** illustrates the average annual investment that would be needed to make all schools fit for purpose by various dates.

**1.38** During 2007-08, local authorities across Wales invested a little under £190 million on education capital projects<sup>20</sup> funded through SBIG and other sources of capital (**Appendix 3**). If this level of investment were continued, and based on the estimates by local authorities of the need for investment, all schools in Wales could be brought up to fit for purpose standards by 2018 or 2019. This assumes, however, that Assembly Government funding is targeted to those authorities where there is greatest need and that local authorities continue to allocate other sources of capital to education at the current

<sup>20</sup> SDR 160/2008, National Assembly for Wales, October 2008

**Figure 2 – Average annual investment across Wales needed to make all schools fit for purpose by different dates**

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*Source: Local authority data returns to the Assembly Government, 2007*

rate. In practice, there are considerable variations between authorities in terms of their ability to raise capital to supplement SBIG.

## **The Assembly Government, with support from the WLGA, have taken steps to strengthen the planning and management of capital investment in schools**

**1.39** The Assembly Government's policy of improving school buildings and the availability of SBIG funding have improved working conditions for large numbers of pupils and teachers across Wales. In February 2009, the then Minister announced that, since 2002,

Assembly Government funding had supported almost 2,000 school building projects, including 107 new schools. Nevertheless, in discussions during our fieldwork, Assembly Government officials acknowledged that there have been weaknesses in the planning and delivery of the Assembly Government's objectives, and it has made changes aimed at addressing these weaknesses.

### **The Assembly Government has improved its asset management planning processes**

**1.40** Over the last few years, and following a critical review by the National Audit Office<sup>21</sup>, the Assembly Government has committed to working with local government bodies in Wales to develop a strategic approach to

<sup>21</sup> *Review of Asset Management Planning in the Welsh Assembly Government and Assembly Sponsored Public Bodies*, NAO Wales, March 2005



major capital investment for the Welsh public service. In her foreword to the Assembly Government's three-year capital investment plans for 2006-07 to 2008-09<sup>22</sup>, the then Minister for Finance, Local Government and Public Services set out the priorities that would underpin capital investment decisions and the principles that would shape them. These priorities and principles were explicitly related to the Assembly Government's key strategic documents. The Minister's foreword also acknowledged that much of the planned capital investment would not be spent by the Assembly Government itself, but by its partners in local government and elsewhere.

**1.41** In addition to the capital programmes of its own departments, the Assembly Government has developed a new central framework for capital investment. This is intended to:

- a** support the achievement of its strategic objectives;
- b** support departments in delivering their capital programmes and the maintenance of assets; and
- c** promote best practice.

**1.42** Key to this framework is the Strategic Capital Investment Fund (SCIF), which stems directly from the One Wales agenda, and is intended to deliver a step change in the Assembly Government's approach to planning and delivering capital investment strategically. In addition to direct departmental allocations, a budget of £400 million was set aside over the period 2008-09 to 2010-11 to enable innovative, cross-cutting and strategic capital projects to be taken forward.

**1.43** A dedicated Cabinet Committee on Strategic Capital Investment oversees the operation of the SCIF and a new independent expert panel advises the committee. Members of the advisory panel bring with them experience of planning, developing, financing and delivering large capital projects and programmes. It is intended that they will bring new disciplines to capital investment decisions, improve capital programme and project management, and promote improvements to the quality of departmental asset management plans. In establishing the SCIF, the Assembly Government has drawn on existing good practice in requiring that projects submitted for consideration for SCIF funding must be supported by business cases drawn up using the Five Case Model toolkit<sup>23</sup>, recommended as standard practice by the Office for Government Commerce and issued to all public bodies in Wales in March 2007.

**1.44** The Assembly Government has accepted that there were inconsistencies in the way in which its departments liaised with local authorities to seek project proposals during the first round of SCIF funding. There was also some variation in the consistency with which the requirement for comprehensive business cases was enforced. Nevertheless, SCIF is already contributing to the improvement of school buildings; the Assembly Government has committed £29 million to support projects in Newport and Wrexham that integrate secondary school buildings with the provision of leisure facilities for both school and community use. SCIF will also support a project in Torfaen that includes a school, a primary health centre and leisure facilities on a single site. These projects are in keeping with the Assembly Government's strategic objectives to regenerate communities, as set out in One Wales.

<sup>22</sup> *Firm Foundations*, Welsh Assembly Government, 2006

<sup>23</sup> *Public Sector Business Cases using the Five case Model: a Toolkit* was produced by the Healthcare Finance Management Association and is used extensively within central government departments. The toolkit requires users to support the business case argued on strategic, economic, commercial, financial and management grounds.

## The DCELLS and the WLGA are taking forward the Assembly Government's commitment to a more strategic approach to capital investment

**1.45** The overall aim of the DCELLS capital investment programme has been broadly consistent over recent years, and is to secure appropriately funded, well-supported schools which are fit for purpose and increasingly used as a community resource<sup>24</sup>. Over the past two years, DCELLS has been working on a number of fronts to become more strategic in its approach, including:

- a** publishing in 2008 its School Effectiveness Framework, which makes explicit the need for collaboration between the Assembly Government, local authorities and schools, and emphasises the importance of community-focused schools in improving the attainment of learners;
- b** requiring in January 2009 local authorities to produce Transformation Plans that set out proposals for delivering the curriculum for post 16 learners, as specified in the Learning and Skills (Wales) Measure;
- c** agreeing with local authorities new, authority-specific target dates for the achievement of the fit for purpose objective;
- d** requiring local authorities to demonstrate in their bids for further financial support how their plans take account of the sharp decline in pupil numbers and the need to invest in schools that are viable, can deliver high quality education, and can provide facilities for community use; and
- e** supporting local authorities to work collaboratively on capital investment programmes, sharing expertise and good practice.

**1.46** In March 2007, the (then) Minister for Education, Children and Young People wrote to local authorities stating her intention that future capital funding allocations should be based on the expectation that local authorities have in place robust capital investment strategies, school reorganisation strategies and asset management plans. Her letter also set out her intention that, from 2009-10 onwards, capital funding would be targeted on those authorities which have demonstrated a good track record in delivering investment programmes using SBIG, and have invested significant amounts of their own resources in their schools capital programme through general capital funding, capital receipts and prudential borrowing.

**1.47** Subsequent Ministers have taken forward this proposal. For 2009-10, the 21st Century Schools Capital Programme replaced SBIG and sought to rebuild or refurbish every school in Wales to a 21st Century Schools standard. In addition to addressing the improvement of school buildings, the investment programme will be aligned with post-16 transformation proposals. The (then) Minister stated that the implementation of the programme would involve a significant change in the deployment of capital funding, with a move away from a formula-based process to a strategic investment plan that is targeted on need<sup>25</sup>.

**1.48** As part of the transition from SBIG to the 21st Century Schools Programme, the Assembly Government announced during 2009:

- a** a further £108.9 million of transitional SBIG funding for schools and colleges in 2009-10, supporting the delivery of 12 new schools, 10 significant refurbishments and improvements in eight FE Colleges; and

<sup>24</sup> DCELLS Business Plan 2008-2011, March 2008, page 28

<sup>25</sup> 21st Century Schools Capital Programme – Governance and Management Arrangements, Statement of Information, Welsh Assembly Government, 1 May 2009

- b** a further £165 million for the second phase of transitional funding, spread across targeted projects in schools and colleges over three years from 2010-11.
- 1.49** The proposal to target grant funding on those authorities producing well-considered strategic plans has the potential to improve the effectiveness with which capital resources are allocated and used. The 21st Century Schools programme will allocate funding in phases, allowing those authorities whose plans are less well-advanced to refine their planning while capital investment takes place elsewhere. However, it will be important that the Assembly Government also promotes good quality planning by local authorities by, for example, issuing clear guidance and facilitating the sharing of good practice.
- 1.50** In order to support its increasingly strategic approach, in January 2008 DCELLS began a process of internal reorganisation to centralise the responsibility for asset management within a single capital funding branch. The DCELLS has recruited new staff with the technical skills needed to manage the programme of improving school buildings. The new structure also brings together responsibilities for the management of capital funding for pre and post 16 education building programmes. This has the potential to improve significantly the strategic planning of investment in secondary schools and to reduce the potential duplication of provision between schools and FE Colleges. This, in turn, should contribute positively to the implementation of the new 14-19 curriculum requirements.
- 1.51** In keeping with the principle of collaboration set out in the School Effectiveness Framework, the Assembly Government and the WLGA have jointly formed a shadow board to oversee the planning of capital investment in schools. And, in May 2009, the Assembly Government and the WLGA jointly wrote to local authorities offering support in the form of surveying resources to draw together the asset management data needed to plan the capital investment programme effectively. This approach has the potential to improve the quality and consistency of the information available about the condition and suitability of the schools estate across Wales. As a further example of collaboration, the Assembly Government and the WLGA are also working together to develop national standards that are intended to set clear and consistent criteria for investment plans in the future.
- 1.52** The Assembly Government now allocates most capital funding for improving school buildings to specific projects, based on an assessment of the benefits that each project is likely to yield. The assessment process includes a more robust evaluation than before of the extent to which the proposals provide suitable facilities, taking account of existing provision in the locality of each project.
- 1.53** It is too early to comment on the outcomes of these changes in terms of improvements to school buildings and more effective capital expenditure. However, the assessment by the Assembly Government of local authority bids prior to the release of funds should make it more likely than before that Assembly Government funding will be targeted strategically, taking account of Assembly Government priorities and the relative needs of different local authorities.

## Part 2 – There have been improvements to the schools estate, but the quality of planning and the capacity to deliver school capital investment programmes effectively have been inadequate in some local authorities

- 2.1** Local authorities are responsible for about 1,800 maintained schools in Wales. Of these, 163 (about nine per cent) are Voluntary Aided, whereby the Church in Wales or the Roman Catholic Church appoints a specified proportion of school governors and the school employs its own staff and owns its buildings.
- 2.2** Responsibility for the provision, repair and maintenance of Voluntary Aided schools is shared between the governors and the local authority: the governors are responsible for the provision and subsequent repair and maintenance of the fabric of the school, while the local authority is responsible for the provision and subsequent repair and maintenance of the kitchen, dining hall, medical inspection room, caretaker's house and playing fields. The Assembly Government provides 85 per cent of the costs of governors' approved capital expenditure in Voluntary Aided schools, with the governors required to meet the remaining 15 per cent.
- 2.3** In this part of the report we examine the planning arrangements and capacity in local authorities to deliver the Assembly Government's objectives for its programme of capital investment in schools. We also consider the arrangements for Voluntary Aided schools.

### **In many local authorities the effective planning of capital investment has been hampered by a lack of sufficiently reliable information about the schools estate and a reluctance to take decisions on school rationalisation**

#### **The limited robustness of data about the suitability of school buildings was a key weakness in local authority asset management plans**

- 2.4** To plan their investment programmes effectively, authorities need to have good quality information on school buildings in their area in terms of their:
- a** suitability or fitness for purpose for delivering education;
  - b** condition, both in terms of physical state and compliance with statutory requirements; and
  - c** capacity in relation to the number of pupils on roll, currently and in the future.
- 2.5** In 'The Learning Country', published in 2001, the Assembly Government set out its expectation that local authorities should produce education asset management plans by 2003, although not all have done so.

In 2008 the National Assembly's Enterprise and Learning Committee also called for the greater transparency and public availability of local authorities' education capital expenditure and asset management plans, to aid effective engagement and scrutiny at the local level by schools, governors and parents<sup>26</sup>.

- 2.6** We examined the robustness of councils' education asset management planning in the 12 authorities that we visited. We found that the quality of information about the condition of school buildings was generally good enough to provide a reasonable estimate of how much needs to be spent to remedy defects. Local authorities generally carry out condition surveys every four to five years, and apply annual inflationary increases to estimates of the cost of work that has yet to be completed.
- 2.7** The quality of data on the capacity of schools was generally good. Local authorities have responded positively to the introduction by DCELLS in July 2006 of new school capacity measures. Local authorities have re-calculated the capacity of their schools using the new criteria, thus making the measurement of capacity more reliable and consistent than in the past.
- 2.8** Most of the authorities we visited were making progress in improving the accessibility of aspects of their school building information. For example, most authorities now have plans of school buildings and sites that are stored in electronic form. However, it remains the case that, in most authorities, such information is easily accessible only by officers in the property services department, and not by those in the education department. Conwy County Borough Council was one of the few authorities that had integrated school building information accessible to all relevant staff (Box 1).

### Box 1 – Improving the accessibility of school building information in Conwy

Conwy County Borough Council has purchased a sophisticated computer system which integrates all school building information and allows it to be accessed and updated easily by relevant staff from across the authority. Such systems enable local authorities to keep up-to-date the information underlying their asset management plans, thereby helping to ensure that the plans remain useful to those who need to use them.

- 2.9** Information about the suitability of school buildings was generally less reliable than other key data. Given that the Assembly Government's overall objective is to improve the fitness for purpose or functional suitability of school buildings, this is a key weakness. In some authorities, estimates of the work needed to adapt schools in order to make them fit for purpose depend heavily on the views of headteachers. As a result, these estimates are based on subjective criteria. In contrast, some local authorities have developed criteria and checklists, which are considered and applied jointly by headteachers and local authority officers. These have helped to secure greater uniformity within the authority in respect of the factors included in an assessment of suitability or fitness for purpose. The offer in May 2009 by the Assembly Government and the WLGA to support local authorities with surveying resources also has the potential to improve the quality and consistency of the information available about the condition, suitability and sufficiency of the schools estate.
- 2.10** Some local authorities did have good quality information to plan effectively their school building investment programmes. In Pembrokeshire, for example, up to date and reliable information on the capacity, condition

<sup>26</sup> *Arrangements for School Funding in Wales*, Report of the Enterprise and Learning Committee, 16 April 2008



and suitability of school buildings had been brought together in a user-friendly way to form the basis of a 25 year programme of capital investment. The programme is flexible enough to allow for changes and to take advantage of new opportunities as they arise.

- 2.11** The quality of data about the condition, suitability and sufficiency of Voluntary Aided schools had similar weaknesses to that relating to schools for which local authorities are wholly responsible, and Diocesan Education Authorities<sup>27</sup> do not yet have a comprehensive information base to underpin the management of their assets. Some local authorities include Voluntary Aided schools within their own property databases, recording data about sufficiency, condition and suitability, but this is not universally the case. Following discussions between the Assembly Government and the Diocesan Education Authorities, work has begun on developing a diocesan-based asset management plan for Voluntary Aided schools.

**In most authorities, indecision about how to rationalise the schools estate has been hindering the planning of capital investment**

- 2.12** Pupil numbers in primary and secondary schools in Wales have fallen significantly in recent years. Between January 2001 and January 2008, the number of pupils attending all maintained primary and secondary schools decreased by almost 30,000 and is projected to fall by a further 14,000 by January 2016.
- 2.13** Primary school rolls have fallen by almost 12 per cent since 2001. All local authorities in Wales have experienced a decline in the primary school population since 2001, although the rate of decline has varied between six per cent in Carmarthenshire and 23 per cent in Blaenau Gwent. In contrast,

numbers on secondary schools rolls have fallen by only three per cent since 2001, with a minority of authorities seeing an increase in numbers. However, the reduced numbers transferring from primary schools will further reduce pupil numbers in secondary schools over the coming years.

- 2.14** Local authorities have responded to falling primary school rolls through a combination of school closures and mergers. There were 124 fewer primary schools across Wales in January 2008 than in 2001. Only five authorities had made no reduction in the number of primary schools they maintained, while six authorities had reduced the number of primary schools by more than 15 per cent.
- 2.15** However, reductions in the number of primary school places have failed to keep pace with falling pupil numbers. As a result, in 2008 in the primary sector:
- a** more than 52,000 available school places (18.6 per cent) were unfilled, compared with 15.5 per cent unfilled in 2001; and
  - b** almost 30 per cent of schools had more than a quarter of their places empty.
- 2.16** There has been a much smaller change in the number of maintained secondary schools in Wales: there were 222 in 2008 compared with 229 in 2001. However, in January 2008:
- a** more than 37,000 of the available school places (15 per cent) were unfilled, compared with 11.7 per cent unfilled in 2001; and
  - b** more than 25 per cent of schools had more than a quarter of their places empty.

<sup>27</sup> There are six Anglican (Church in Wales) and three Roman Catholic dioceses in Wales. Each is a statutory provider of school places and is governed by a Diocesan Education Authority which works in partnership with the local education authority in which its schools are situated.

**2.17** Local authorities are wasting resources when they maintain too many surplus places in their schools. Excessive surplus capacity ties up revenue resources in the upkeep of buildings, administration and management rather than being more effectively deployed in teaching and learning. In addition, the need for capital investment to modernise more or larger buildings than are necessary reduces the funds available for other priorities. Tight financial settlements in future years will make it increasingly important to increase efficiency by reducing surplus capacity.

**2.18** The Assembly Government has recommended that each local authority should aim to retain no more than 10 per cent surplus places overall, while acknowledging that levels in individual schools may be higher than this<sup>28</sup>. In January 2008, more than 17 per cent of total primary and secondary school capacity was unfilled. Surplus capacity was below 10 per cent only in Newport, while in seven other authorities, surplus capacity exceeded 20 per cent (Figure 3).

**Figure 3 – Surplus capacity in local authorities in Wales, January 2008**

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*Source: Local authority returns to the Assembly Government, January 2008*

<sup>28</sup> *School organisation proposals consultation*, Welsh Assembly Government, October 2008

- 2.19** The capital investment programme provides an opportunity to reconfigure the schools estate in response to changing pupil numbers. However, most authorities have been reluctant to take decisions on the rationalisation of the schools estate, thus delaying the improvement of school buildings. Some of these authorities have continued to improve school buildings even though they may soon become surplus to requirements.
- 2.20** Although secondary schools reorganisation remains to be tackled in most authorities, a few have made substantial progress in the rationalisation of primary schools (Box 2).
- 2.21** Reducing surplus capacity is not the only factor that should be driving reorganisation of the secondary schools estate. The need to widen access to vocational courses for learners aged between 14 and 19 presents both a need to invest and an opportunity to improve efficiency through collaboration with the further education sector.
- 2.22** Also, many secondary schools in Wales run sixth forms that are too small to deliver the range of choice needed for students under the requirements of the Learning and Skills (Wales) Measure 2009. The Measure entitles learners to a minimum number of curriculum options, including a specified proportion of vocational courses. Some of these demand high-quality and costly industry-standard accommodation and equipment.
- 2.23** In order to be able to offer the new statutory curriculum entitlement, schools are likely to have to collaborate more, with each other, with FE colleges and with work-based learning providers, including on the provision of accommodation and facilities. In January 2009 the Assembly Government required local authorities to produce Transformation Plans to address the issues facing post 16 education, and has begun to identify capital resources to help fund some ambitious projects arising from the Plans.

### Box 2 – Examples of authorities that have addressed the rationalisation of primary schools effectively

In Blaenau Gwent, the number of primary schools has fallen by a third since 1996. The authority estimates that the closure of the most inadequate premises has reduced the amount that needed to be spent on school maintenance by £9 million and that the rationalisation process has also achieved annual revenue efficiency savings of around £1.5 million.

In Pembrokeshire, an inspection in 2008 by Estyn and the Wales Audit Office<sup>29</sup> concluded that,

*'.....officers and members have made very difficult decisions about the closure and amalgamation of schools in the interest of learners. The authority has been very successful in reducing net surplus places in primary schools, from around 25 per cent in 1996 to less than 10 per cent in 2003, and in maintaining the figure at below 10 per cent between 2003 and 2007 when the numbers on roll were falling<sup>30</sup>. The authority took the opportunity to remove a large number of the temporary classrooms used in schools. The accommodation for learning is of excellent quality because capital investment has been targeted at rationalisation which resulted in new buildings or the refurbishment of existing buildings.'*

Carmarthenshire County Council has a Modernising Education Provision programme which is currently about a quarter of the way through. This is a strategic school investment and rationalisation plan, approved by the Council in November 2004, to implement its Planning School Places Strategy, adopted in April 2001. The programme envisages capital spending of £300 million by 2020 on:

- primary schools – reorganisation in some 35 primary school areas, building 19 new schools and major improvements to over 40 schools;
- secondary schools – reorganisation of provision involving five existing schools, building one new school and major improvements to all other schools; and
- a review of Special Education provision (units attached to 15 schools).

<sup>29</sup> Pembrokeshire Local Authority's Education Services, Estyn, February 2008

<sup>30</sup> By January 2008, surplus capacity in primary schools in Pembrokeshire had increased slightly to 11.3 per cent



**2.24** Welsh-medium and Special Educational Needs provision can also benefit from increased collaboration between authorities, impacting on the future pattern of school buildings. Recently, four local authorities in south-east Wales announced a jointly funded investment of about £12 million in order to extend and refurbish a Welsh-medium secondary school that pupils from all four authorities can attend.

## There are new schools in most parts of Wales, but few authorities have a clear understanding of how they will fund the necessary improvements to the remainder of the schools estate

### New and improved schools have been delivered in most parts of Wales

**2.25** New and refurbished school buildings have been delivered across most parts of Wales. In a statement issued in February 2009, the Assembly Government reported that, since 2002, 1,931 projects had received Assembly Government support through SBIG and that this investment had contributed to the building of 107 new schools. In Monmouthshire, for example, all substandard primary school buildings have been removed, with nine schools closed and four new schools opened.

**2.26** In the most successful examples, such as in Pembrokeshire, authorities have integrated their planning of improvements to school buildings with their school places planning, to make the most effective use of resources. Integrated planning such as this:

- a** provides better buildings for pupils and teachers;
- b** releases revenue savings by reducing surplus capacity, enabling prudential borrowing to support further capital investment;
- c** provides possible capital receipts through the sale of surplus school sites; and
- d** reduces the amount that needs to be spent in maintaining schools that have outlived their useful and are no longer needed.

**2.27** In 2008, the WLGA described the impact of the work undertaken in Pembrokeshire:

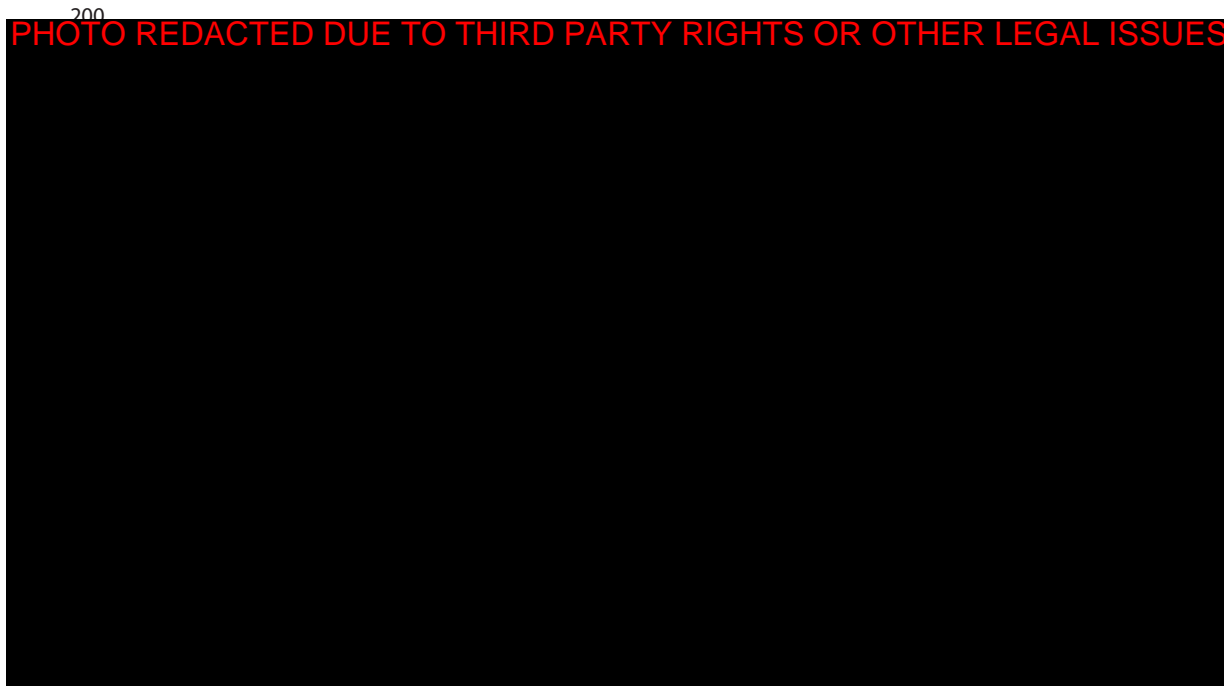
*'...To date over 40 school sites have benefited either by way of new schools or extensive 'as new' refurbishment. Within the last 10 years nearly £100 million has been spent in making the County's schools fit for purpose. Pembrokeshire has seized this financial opportunity by effective use of capital grant such as SBIG, along with an efficient Asset Management programme. This approach has resulted in school changes being seen by communities as a positive action<sup>31</sup>.'*

### The level of investment has varied significantly between authorities, and few authorities have a clear strategy for funding the further improvements needed in their schools

**2.28** In 1996-97, local authorities in Wales spent a total of £57.4 million on capital projects relating to education. This sum has risen annually, particularly since 2002-03, and reached nearly £190 million in 2007-08 (Figure 4).

<sup>31</sup> Welsh Local Government Association *Planning School Places*, January 2008

Figure 4 – Local authority education capital expenditure 2001-02 to 2007-08 (£ millions)



Source: Annual capital out-turn statistical releases, National Assembly for Wales

**2.29** In the four years from 2004-05 to 2007-08, education capital expenditure has totalled £680 million. Just over one third of this, £250 million, came from SBIG. Local authorities raised the remainder from a range of different sources (Appendix 3). These included:

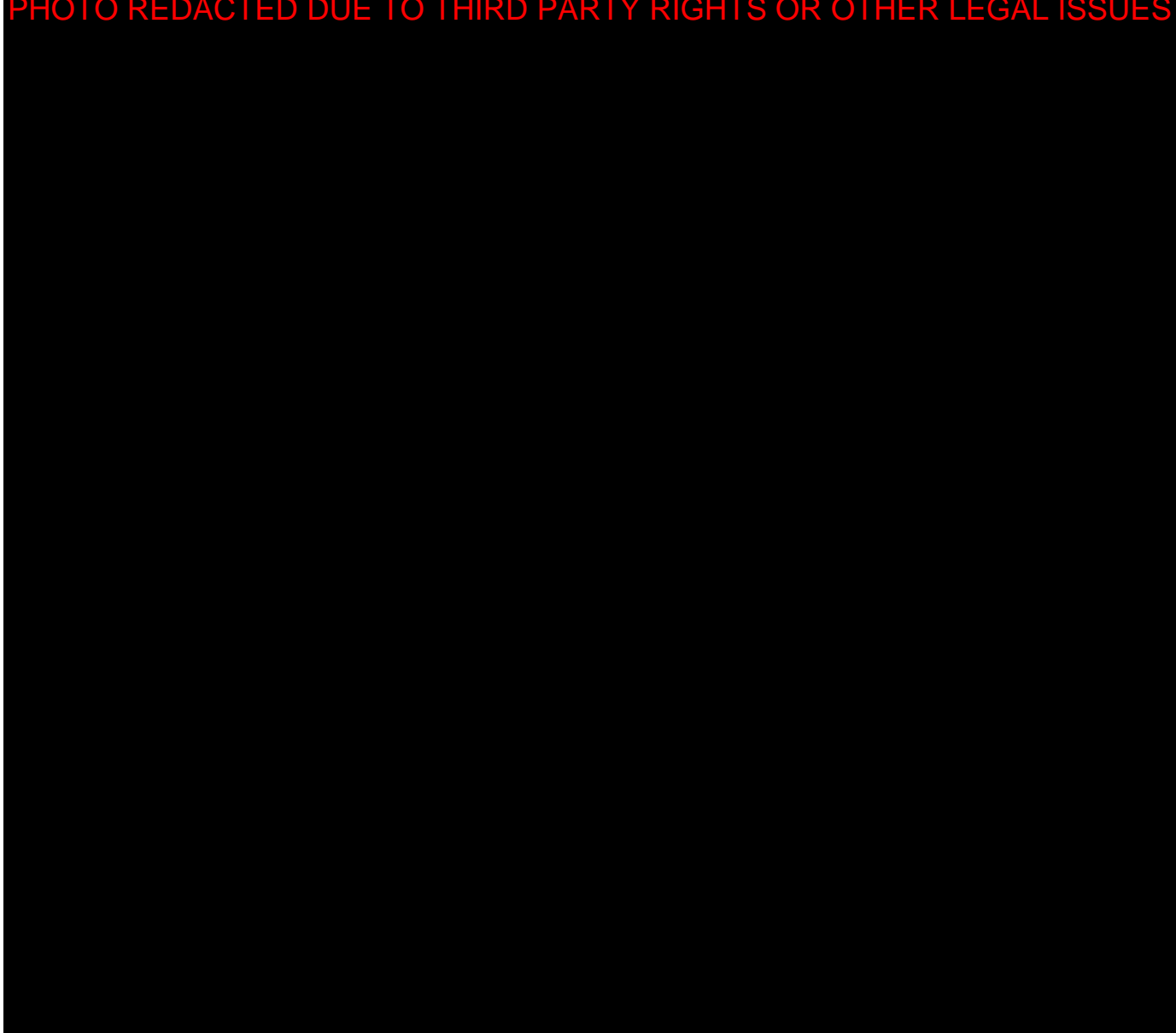
- a Assembly Government grants other than SBIG;
- b local authority general capital allocations;
- c capital receipts from sale of land or buildings; and
- d prudential borrowing.

**2.30** Authorities have varied widely in their recent capital spending to improve school buildings. The capital resources per pupil that individual authorities have invested in school buildings in recent years have varied by a factor of nearly four, from £820 in Flintshire to £2,940 in Blaenau Gwent (Figure 5).

**2.31** This variation reflects a range of factors. Most of those authorities with high levels of expenditure per pupil have made significant progress both in rationalising their schools estate and in improving the quality of school buildings. The Assembly Government has helped such authorities with their programmes; for example, it enabled Monmouthshire County Council to borrow SBIG allocations from other authorities that were not then ready to undertake large investment schemes. In contrast, many of

**Figure 5 – Variations in capital expenditure per pupil<sup>32</sup> between different authorities 2004-05**

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<sup>32</sup> Figures exclude PFI payments and are based on 2008 pupil numbers

the authorities with low levels of expenditure tended to be those that had yet to make decisions about school reorganisation and which, as a result, were unclear about how much they needed to spend, how much capital they were likely to be able to raise and how it could be raised.

- 2.32** Some local authorities, such as Wrexham County Borough Council (**Box 3**), have been far more successful than others in combining different sources of capital to improve school buildings. Across Wales, however, there has been considerable variation in the ability of authorities to bring together a range of different sources of finance. Overall, SBIG was the source of about one third of the total capital expenditure on schools during the four years to 2007-08. The proportion of capital investment in schools that authorities have made over the same period using sources other than SBIG varied between 37 per cent and 73 per cent, or from £460 per pupil and £2,070 per pupil (**Figure 6**).
- 2.33** Seven local authorities in Wales<sup>33</sup> have entered into Private Finance Initiative (PFI) contracts with consortia to build new schools and supply facilities management services. Contracts relate mostly to the replacement or significant refurbishment of secondary schools, with some contracts including more than one school.
- 2.34** These PFI proposals were approved as part of the Welsh Office Pathfinder Scheme in 1997 or in a subsequent round of approvals by the Assembly Government in 1999. As approved schemes, these qualified for 'PFI Credits' in the form of additional central government funding that contributes gradually reducing sums over the lifetime of the contract. This additional revenue helps local authorities meet the PFI charges and increased the affordability of PFI contracts for

### Box 3 – Investment in school buildings in Wrexham

Between 1998 and 2008, Wrexham County Borough Council invested around £70 million in school building projects, with around £48 million (69 per cent) of that total being raised by the Council.

The Council closed three secondary schools in Wrexham town centre to reduce surplus places and alleviate the maintenance backlog. Two new secondary schools were then created, providing appropriate accommodation within the town centre on two of the former three sites. The third site has been released for other uses. A major part of the funding for this project was generated from capital receipts. In addition, a public/private partnership enabled the Council to build a new primary school and to reorganise secondary Welsh-medium education and special needs education. A new joint Roman Catholic and Church in Wales Voluntary Aided secondary school, the first of its kind in Wales, has also been formed following the substantial refurbishment of the former Roman Catholic High School using Assembly Government grant.

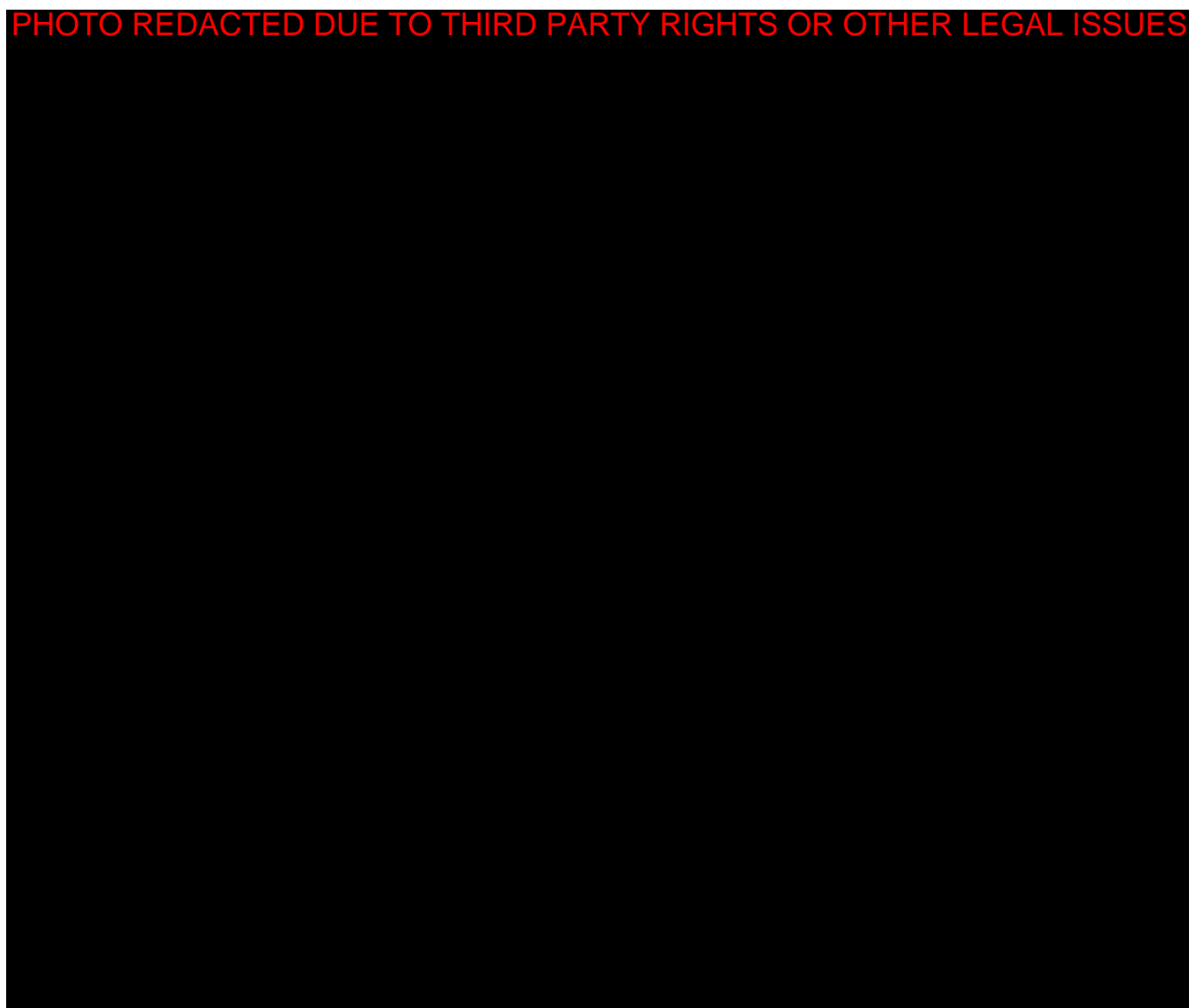
In addition to these major projects, the Council has taken other opportunities to reduce surplus capacity and to improve school buildings. It has pursued a policy of amalgamating separate Infant and Junior schools, reducing the number from 13 pairs to three. Seventeen primary schools have had either substantial remodelling, refurbishment or new build. These projects have also resulted in 24 additional sports pitches that are available for the use of the community as well as the schools.

the local authorities concerned (**Appendix 3**). The Assembly Government closed its PFI Unit in 2004 and has no plans to introduce further bidding rounds for PFI Credits.

- 2.35** Consideration of the merits of PFI relative to more traditional forms of procurement is outside the scope of this report. However, in Wales (**Box 4**) and, to a much greater extent in Scotland (**Box 5**) and England, PFI contracts have enabled some authorities to make significant improvements to school buildings over a far shorter period than would have been possible had they relied solely on more traditional forms of procurement.

<sup>33</sup> The authorities concerned are Bridgend CBC, Caerphilly CBC, Ceredigion CC, Conwy CBC, Newport City Council, Pembrokeshire CC and Rhondda Cynon Taff CBC

**Figure 6 – Variations in non-SBIG capital expenditure per pupil<sup>34</sup> between different authorities: 2004-05 to 2007-08**



*Source: Wales Audit Office, derived from SBIG data supplied by the Assembly Government and from annual capital out-turn statistical releases, National Assembly for Wales*

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<sup>34</sup> Figures exclude PFI payments and are based on 2008 pupil numbers

#### Box 4 – Secondary school PFI project in Conwy County Borough Council

Conwy County Borough Council has entered into a 25 year PFI contract to rebuild or significantly refurbish three of its seven secondary schools. The projects have a total capital value of about £50 million, a sum that this comparatively small council would not have been able to raise from other sources.

The processes of establishing and subsequently managing the PFI contract represented a significant challenge for the council. The council manages the relationship between the three schools and the PFI contractor, a role that has proved to be a little more time-consuming than originally envisaged. Nevertheless, about 3,500 pupils and their teachers are now working in high-quality, well-maintained buildings. Furthermore, the authority has been able to target subsequent SBIG funding on its remaining secondary schools before embarking on the modernisation of its primary school stock.

#### Box 5 – Investment in schools through PFI in Scotland

Audit Scotland has examined progress in Scotland on improving school buildings<sup>35</sup>. It found that, over the seven years from 2000-01 to 2006-07:

*'Councils have spent £1.56 billion on improving the school estate through 'traditional' capital spending which includes money from borrowing, capital receipts, developer contributions, insurance claims and grants from the Scottish Executive's School Fund. Fewer than half (43 per cent) of the 219 new schools built and opened between 2000 and 2007, and only three of the 47 new secondary schools, have been funded this way.*

*Improvements to the school estate worth £2.34 billion were committed through PFI contracts signed by April 2007. By April 2008, this is expected to reach 36 signed contracts for improvements worth over £3 billion.'*

**2.36** The majority of authorities we visited lacked a clear strategy for funding further improvements needed to their school building stock. In part this was because of the scale of the investment needed; authorities told us that they could not fund the desired improvements without the support of the Assembly Government, but were uncertain as to whether their proposals would be approved under the Assembly Government's 21st Century Schools Capital Programme. Indecision about changes to the school estate to take account of changing pupil numbers was also a significant barrier to the production of a clear funding strategy.

### Inadequate investment in maintenance has contributed to the need for capital investment in some schools

**2.37** In its capital investment plan for 2006-07 to 2008-09<sup>36</sup>, the Assembly Government acknowledged that the decline in public sector net investment between 1963 and 1998 had resulted in a deterioration of the fabric of roads, hospitals, schools and local authority houses. This echoed the findings of the Audit Commission, which reported in 2003 that the investment in preventive maintenance and improvement of school buildings in England had been neglected in many local authorities throughout the 1980s and most of the 1990s<sup>37</sup>.

<sup>35</sup> Audit Scotland, *Improving School Buildings*, March 2008

<sup>36</sup> *Firm Foundations*, Welsh Assembly Government, May 2006

<sup>37</sup> *Improving School Buildings*, Audit Commission, 2003

- 2.38** In Wales, all revenue funding for the repair and maintenance of schools is delegated to schools through each authority's funding formula. Local authorities make it clear to each school in that school's annual budget allocation how much revenue funding is nominally delegated for repairs and maintenance. However, these school-level figures are not reported publicly. Furthermore, there is no requirement for local authorities to report how much they have delegated in total to their schools for repairs and maintenance<sup>38</sup>. It is therefore impossible to compare reliably how much each local authority allocates each year for this purpose, or how much is allocated to individual schools across Wales.
- 2.39** In its 2006 report on school funding<sup>39</sup>, the Wales Audit Office found that 'budget setting is essentially incremental in nature, and based on historical spending patterns'. This was true of the repairs and maintenance element within schools' delegated budgets. While some of the authorities we visited used the existing condition of schools as one of the factors to determine each school's share of the total repairs and maintenance budget, none used a technical assessment of the need for and benefits from repairs and maintenance in determining the size of the repairs and maintenance budget. These budgets were generally based on historical amounts adjusted annually for inflation. Furthermore, many authorities told us that reactive work to meet health and safety requirements, such as carrying out asbestos surveys, improving school security and complying with fire regulations, used the vast majority of available repairs and maintenance funding.
- 2.40** With the exception of PFI projects, where maintenance arrangements are built into the project financing, we found that local authorities do not take sufficient account of the life-cycle costs of new buildings in planning repair and maintenance budgets. Inadequate investment in maintenance in the past provides valuable lessons for local authorities and schools. It is important, therefore, that local authorities produce good technical assessments of the level of investment needed for preventive maintenance to ensure that the condition of new and refurbished schools does not again deteriorate to an unacceptable level. New technology is also increasing the need for effective maintenance.
- 2.41** The Assembly Government and the WLGA have begun to address this issue under the 21st Century Schools programme. The planning and assessment criteria take account of life-cycle costs in determining the likely running costs of new proposals, helping the Assembly Government and local authorities to assess the long-term affordability of new proposals.
- 2.42** Schools can spend their delegated budgets as they see fit. Section 44 of the Education Act 2002 enables the Assembly Government to require schools to account for their expenditure in a consistent format, but the Assembly Government has not yet exercised its powers under this legislation. We were unable, therefore, to calculate how much of their delegated budgets schools have spent on repairs and maintenance in recent years.
- 2.43** Some schools reported that they spend more than their notional allocations on the maintenance of their buildings. There are also examples where schools have budgeted

<sup>38</sup> Each local education authority is required to report its planned education expenditure before the beginning of each financial year in a format determined by S52 of the School Standards and Framework Act, 1998

<sup>39</sup> *School Funding Analysis*, Wales Audit Office, March 2006



carefully over a number of years so as to contribute towards significant building work, sometimes contributing to the cost of capital projects in partnership with the local authority. However, at a time of falling pupil numbers and, as a result, declining budgets, many schools are likely to give higher priority to maintaining staffing levels than to the repair and maintenance of their buildings. Some authorities also told us that governors in new schools feel that they can neglect maintenance in the early years of the life of the building and use the funding for other purposes. Such decisions are understandable and may be educationally beneficial in the short term. However, a lack of adequate investment in repairs and maintenance over a number of years will result in deterioration in the fabric of buildings and the need for more costly repairs at a later date.

**2.44** Although the responsibility for repairs and maintenance revenue expenditure has been devolved to schools, the vast majority of schools in the authorities we visited had chosen to use their local authority's property services to manage aspects of the work on their behalf. Schools paid for the authority's support, as well as the building work, from their delegated budgets. The level, nature and cost of this support varied and were usually set out in a service-level agreement between schools and the authority. Schools were generally free, subject to certain restrictions, to arrange their own contractors, with local authority support for procurement and contract management being available for those who chose to use it.

**2.45** Agreements such as these meant that officers from local authority property services visited schools regularly and were able to offer expert advice on the work that needed to

be done. Such visits also enabled the authority to monitor, albeit informally and at schools' expense, how well schools were fulfilling their responsibilities for the maintenance of their buildings. Such monitoring was not always thorough enough in respect of those schools that chose not to use the authority's property services. One authority we visited found, for example, that one of its schools that had not used the council's property services for many years had not complied with new fire regulations. As a result, the cost to the authority of a planned capital project increased significantly.

**2.46** Even though the vast majority of schools used their local authority property services, schools' satisfaction with the quality of the service they received varied widely. In the 2009 School Perception Survey<sup>40</sup>, the 892 schools that responded judged on average that their authorities' property services were marginally better than satisfactory. However, schools in eight of the 20 participating authorities judged that property services in their authorities were less than satisfactory. Common causes of dissatisfaction included high costs and delays in responding to schools' requests for repair work.

**2.47** In about a quarter of the local authorities we visited, most schools had agreed to pool most of their delegated repairs and maintenance funding, allowing the authority to manage the fund on schools' behalf. Such a decision by schools implies a high level of trust in the authority's ability to prioritise the spending fairly and transparently, and a good level of satisfaction with the work of property services. **Box 6** provides a summary of one such scheme and exemplifies the advantages that such a scheme can offer.

<sup>40</sup> The Audit Commission delivers the School Perception Survey every two years on behalf of the Wales Audit Office, Estyn and the Association of Directors of Education (Wales). In the survey, schools award a grade between 1 (Very Good) and 5 (Very Poor) according to their perceptions of a wide range of local authority services and functions. In 2009, all local authorities except Denbighshire and Torfaen took part, with 52 per cent of schools in the participating authorities responding.



### Box 6 – Pooled maintenance resources in Merthyr Tydfil County Borough Council

In the 2009 School Perception Survey, schools in Merthyr Tydfil rated their authority's building services highly in comparison with other authorities in Wales. The Council and its schools work together well to maintain school buildings. All the primary and secondary schools for which the Council is responsible pool their delegated revenue repairs and maintenance budgets, allowing the Council to manage the fund on their behalf. Schools' willingness to work collectively in this way suggests that they are satisfied with the services that they receive and trust the Council to manage the fund to the benefit of all schools. The arrangement allows the Council to use the fund to complement its capital building programme in a systematic way, and to prepare and publish a medium-term programme of building improvements for all of its schools. The programme is based on reliable information about what needs to be done and a shared understanding of priorities.

### Box 7 – Monmouthshire's strategic partnership agreement

Following a comprehensive competitive tender exercise, in 2005 Monmouthshire County Council entered into a five-year strategic alliance with a construction company. The tendering process took due account of aspects such as the company's health and safety record and its experience of undertaking school building projects, as well as cost. Under the agreement, school building contracts up to a specified value are awarded to the partner without the need for further competitive tendering. The agreement provides valuable additional resources and expertise for the authority in terms of the design of schools and project management. Key to its success, however, is the fact that the Council's education service and the contractor have developed an effective relationship in which they work together to draw on the lessons learned from one project in order to improve the design and management of the next. As a result, projects are set in motion more quickly than in the past and, to date, have been completed to time and within budget.

## Some local authorities have insufficient capacity and expertise to deliver effectively a sizeable programme of capital investment

**2.48** Planning and delivering capital investment in schools requires skilled resources. Councils require good quality technical skills for the design and project management of building work. Managing consultation processes for school reorganisation programmes effectively is also staff-intensive, requiring well-briefed officers and councillors to attend large numbers of public meetings and to evaluate public responses. The ability of a council to develop an appropriate human resource capacity is inhibited in some cases by uncertainties about the future shape and timing of the capital investment programme, including future funding levels.

**2.49** Small authorities, in particular, can lack the capacity and skills to alone deliver major programmes of investment. However, Monmouthshire County Council is an example of a small authority that has significantly increased its capacity to manage a number of simultaneous school building projects by entering into a strategic partnership with a building contractor (**Box 7**).

**2.50** Some larger authorities, such as Carmarthenshire, have a considerable range of skills and resources among their staff to deliver capital programmes effectively. However, even this comparatively large council has identified as a corporate risk its limited capacity to undertake a major schools building programme. The authority is addressing this risk through the use of a design consultancy under a framework contract.

- 2.51** Collaboration between councils offers an opportunity to share costs and to overcome some of the problems of shortage of key skills to manage and deliver the investment programme effectively. The recent decision by four councils in south-east Wales to jointly fund the extension and refurbishment of a Welsh-medium secondary school is an encouraging, but isolated, example of such collaboration.
- 2.52** More broadly, the Value Wales arm of the Assembly Government is working to extend collaboration across the public sector through its procurement strategy for construction and is increasingly promoting other forms of collaboration, including with the private sector. The Assembly Government's 21st Century Schools programme is also encouraging joint working across the public sector to identify publicly owned land that has the potential for a co-development that includes a school.

## Appendix 1 – Wales Audit Office methodology

### Project initiation

- 1 As part of the development of the project, we held an Issues Analysis meeting in July 2007 with representatives from the Assembly Government, Estyn and the WLGA. This led to the development of a hierarchy of questions designed to answer the key question:

*'Is capital investment being used effectively to improve the quality of school buildings?'*

### Stage 1 fieldwork with the Assembly Government

- 2 We conducted interviews with Assembly Government officials in late 2007 to gather information in relation to the study questions.
- 3 At this stage and subsequently, we also analysed:
  - a local authority capital expenditure in Wales;
  - b information about the allocation of the SBIG; and
  - c returns provided to the Assembly Government by local authorities in 2007, giving information about the:
    - i investment still needed to make all schools fit for purpose;
    - ii expected date by which this would be achieved;
    - iii improvements carried out to date; and
    - iv plans for school reorganisation.

### Local authority fieldwork

- 4 We used the local authority information returns provided to us by the Assembly Government to help us select 12 local authorities across Wales for visits between April and July 2008. We chose the authorities to be visited in order to give a balance in terms of:
  - a geographical areas;
  - b large and small authorities;
  - c urban and rural areas; and
  - d authorities at different stages of their investment programmes.
- 5 We visited the following 12 local authorities:
  - Blaenau Gwent County Borough Council
  - Cardiff Council
  - Carmarthenshire County Council
  - Conwy County Borough Council
  - Denbighshire County Council
  - Merthyr Tydfil County Borough Council
  - Monmouthshire County Council
  - Pembrokeshire County Council
  - Rhondda Cynon Taf County Borough Council
  - Swansea City and Borough Council
  - Torfaen County Borough Council
  - Wrexham County Borough Council

**6** Before visiting each authority, we drew together the information from the returns they had sent to the Assembly Government and data drawn from statistical updates published by the Assembly Government in order to highlight areas that we wished to discuss during the visit. For example, in most authorities, we needed to clarify the assumptions underlying the estimates they had provided to the Assembly Government of the further investment needed to bring all schools up to a fit for purpose standard. We sent these analyses to each of the authorities we planned to visit so that those being interviewed were aware of the areas we would cover during our interviews.

**7** We spent two days in each authority discussing our analysis, the authority's plans for improving school buildings and the projects they had already completed. We met with a range of senior officers from the education, property services and finance departments. In some authorities, we also held discussions with the Cabinet member holding the education portfolio.

**8** At this stage, we also discussed the study questions with:

- a** a senior officer from the WLGA; and
- b** representatives of the Roman Catholic and Church in Wales Diocesan Education Authorities.

## **Stage 2 fieldwork with the Assembly Government**

**9** Following our local authority fieldwork, we held a further series of interviews with officials from the Assembly Government in September 2008. These enabled us to test hypotheses from the local authority fieldwork and gave officials an opportunity to provide an update about the developments in the Assembly Government's programme.

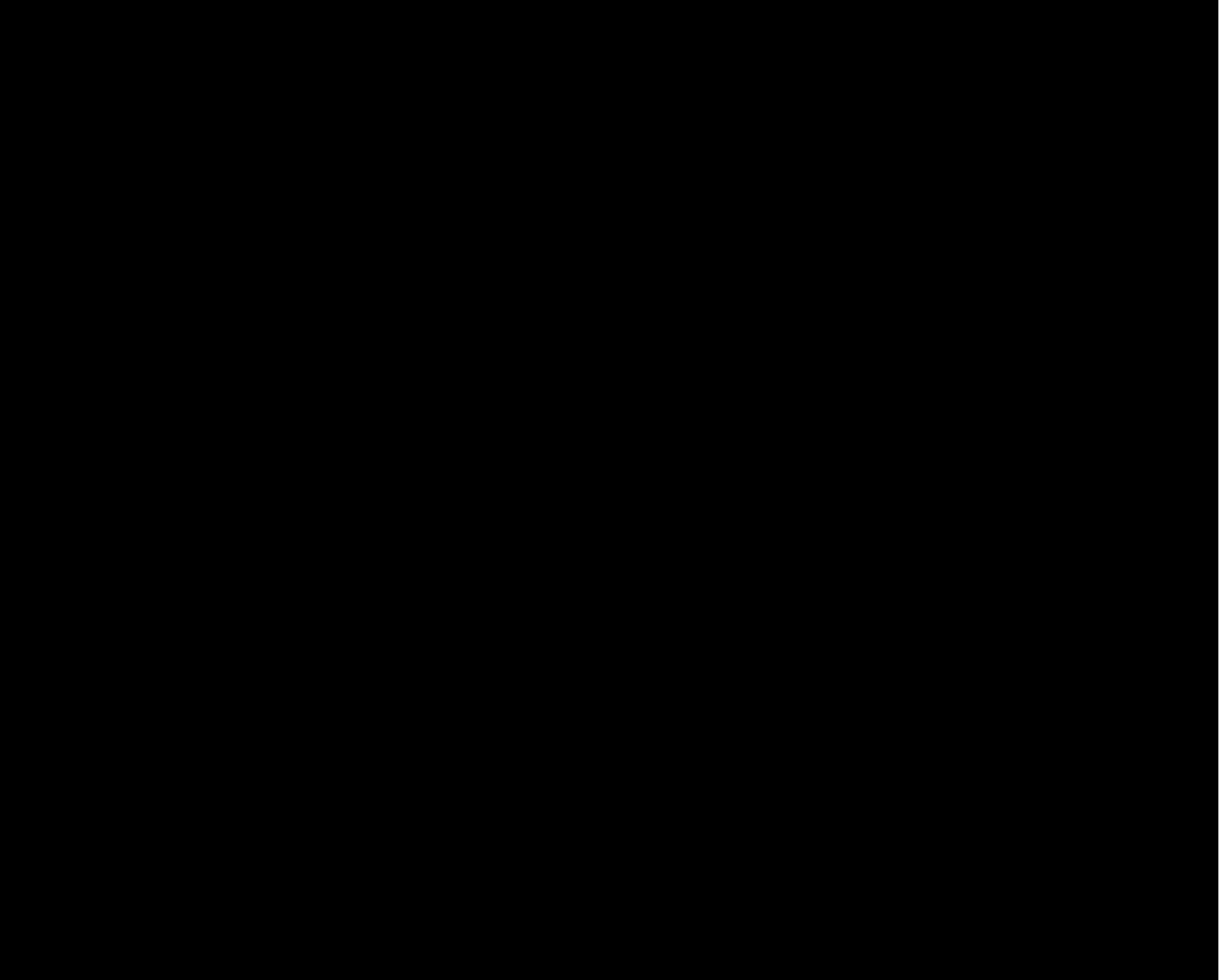
## **Conclusion of the study**

**10** Following completion of the fieldwork, we held a Drawing Conclusions meeting in September 2008 to discuss emerging conclusions from the study. The meeting was attended by representatives from the Assembly Government, local authorities, Estyn and the WLGA.



## Appendix 2 – Local authority estimates of when they expect all schools to be fit for purpose

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## Appendix 3 – Sources of finance for capital investment in schools

- 1 In the four years from 2004-05 to 2007-08, local authorities in Wales invested a total of £680.5 million<sup>41</sup> on education capital projects. Annual expenditure has grown year-on-year and reached almost £190 million in 2007-08.
- 2 This capital expenditure is financed from a number of sources. We set out below brief details about the main sources available.

### General Capital Funding (GCF)

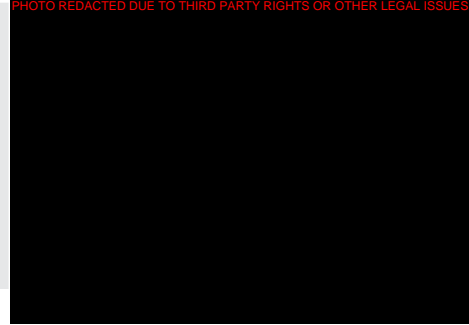
- 3 A notional education element of general capital funding (£60 million in 2007-08) is included in the overall local government capital settlement. The amount is not hypothecated, and local authorities may choose to use the capital for non-educational priorities. Allocations of general capital funding for each service area are based on a formula. The Distribution Sub-Group of the Consultative Forum on Finance agreed a change to the formula governing the notional education component in May 2006, and the 2007-08 funding model was based on pupil numbers and the modelled number of schools, rather than the actual number of schools, which applied in 2006-07. Seventy-five per cent of the education component of general capital funding is now distributed according to pupil numbers and 25 per cent based on the modelled number of schools.

### School Buildings Improvement Grant (SBIG)

- 4 The SBIG is paid under Sections 14 and 16 of the Education Act 2002 and has two elements:
  - a the annual 'Formula' shares are allocated using the same formula used to calculate the notional education component of GCF; and
  - b 'lump sum' shares of £9 million have been allocated to each local authority for large capital projects, with the timing of the allocations based on the projected timetables of approved schemes from 2005-06 through to 2009-10.
- 5 Authorities are required to complete proposal forms in respect of both elements of their SBIG allocations. Proposals should include the rating of the project within the local authority's Education Service Asset Management Plan. Local authorities are also required to detail how a particular proposal meets the Assembly Government's commitment to make all schools 'fit for purpose' and draws in the Government's expectations regarding Building Research Establishment Environmental Assessment Methodology (BREEAM) ratings and the installation of fire sprinklers. The Assembly Government checks each proposal and schemes may be rejected if they do not meet the criteria.

<sup>41</sup> These figures exclude PFI payments





- 6 The £9 million lump sum SBIG programme comes to an end in 2009-10, releasing a significant proportion of the total SBIG budget. As signalled in 'The Learning Country: Vision into Action'<sup>42</sup>, the Assembly Government is developing a link between the allocation of funding for capital investment in schools and the effectiveness of strategic planning by local authorities, based on authorities' asset management plans and assessments of demand for school places.
- 7 This will mean that authorities that have robust asset management plans, school reorganisation strategies and capital investment programmes will be targeted with additional funding so as to accelerate their progress in meeting the fitness for purpose target for all their schools. Funding will, therefore, be targeted at those schools which have been identified within those authorities as in need of capital investment and will either be replacement schools where school reorganisations have been undertaken or where schools have been confirmed as continuing to be appropriately serving their communities but need investment to reach the fitness for purpose standard.
- 9 The Voluntary Aided Schools Capital Grant Programme provides financial assistance for the establishment and capital maintenance of such schools, in partnership with the school governors and the local authorities. The Assembly Government has the power to grant aid 85 per cent of the costs of the governors' approved expenditure, with the governors themselves required to meet the remaining 15 per cent. The Assembly Government assesses each proposal for a major scheme to check appropriateness, compliance with standards, and value for money. In practice, diocesan education authorities play a major part in setting priorities for the allocation of grant. The Assembly Government is currently supporting almost a hundred projects at various stages.
- 10 Governors of Voluntary Aided schools are invited annually to bid for new build or improvement projects to be added to the capital programme. This process is currently under review with the intention of developing an asset management plan for the Voluntary Aided school sector that identifies and prioritises the need for capital investment.

### Voluntary Aided Schools Capital

- 8 Responsibility for the provision, repair and maintenance of a Voluntary Aided school is shared between the school governors and the local authority. There are 163 Voluntary Aided schools in Wales. In Voluntary Aided schools, the governors are responsible for the fabric of the school while the local authority is responsible for the initial provision and subsequent repair and maintenance of the kitchen, dining hall, medical inspection room, caretaker's house and playing fields.

### Strategic Capital Investment Fund

- 11 In addition to direct departmental allocations, the Strategic Capital Investment Framework (SCIF) provides a further potential source of funding for school building projects that are deemed to be innovative and cross-cutting.
- 12 The first 19 projects to be taken forward under SCIF were announced in December 2008. These projects are expected to receive SCIF investment of around £350 million, but also to bring in other public and private sector investment. The projects are spread across six strategic themes – regeneration, positive lifestyles, climate change, sustainable

<sup>42</sup> *The Learning Country: Vision into Action*, Welsh Assembly Government, October 2006

transport, resilience and skills. Within the skills development theme there are three projects that will contribute to the improvement of school buildings. These are in Wrexham, Newport and Torfaen, with contributions from SCIF of up to £5 million, £15 million and £4 million respectively. The projects will help to integrate public services for local communities; for example, the Blaenavon Education and Community Campus in Torfaen will provide educational, health, leisure and community services from a single facility.

### Prudential Borrowing

- 13 The Local Government Act 2003 enabled local authorities to borrow money to finance capital expenditure, subject to an affordability assessment, without central government approval. Local authorities must service this 'prudential borrowing' from their own revenue resources, requiring a commitment of revenue funding over the duration of the loan.
- 14 Out-turn data for 2007-08<sup>43</sup> shows that local authorities in Wales collectively used prudential borrowing to fund £163.7 million of capital spending, 14 per cent of the total capital expenditure. The use of this method of financing has increased sharply since it first became available in 2004-05, when local authorities borrowed only £30.5 million, or less than four per cent of the total capital expenditure.
- 15 Falling school rolls have presented local authorities with opportunities to make revenue savings within their education budgets. Budget pressures in other service areas and the need for efficiency savings have constrained councils' ability to use savings in full to fund prudential borrowing. Nevertheless, the low interest rates during

2008 and 2009 have increased the amount that local authorities can afford to borrow. As a result, prudential borrowing is increasingly playing a part in local authorities' planning to fund improvements to their schools.

### Private Finance Initiative (PFI)

- 16 The PFI is a method of procurement, first used in Australia in the late 1980s, that is widely used to secure private-sector funding for the building of public institutions such as hospitals, roads and schools. In return for providing the funding, the private sector delivers some of the services previously delivered by the public sector.
- 17 Both central and local government have used PFI as a means of procurement. During 1997 and 1999, the Assembly Government approved PFI school-building schemes from seven authorities<sup>44</sup>.
- 18 In using PFI as a means of procurement, a local authority enters into a contract, usually with a consortium consisting of several investors, including a construction company and a service provider. The consortium designs and builds the school in accordance with the authority's specification. Once the school has been built, the contract lasts typically for 25 to 30 years. During this period, the contractor maintains the school building, its grounds and its fixtures and fittings in good condition and, typically, delivers other services such as school meals or the provision and maintenance of computer equipment. At the end of the contract, the consortium returns the asset, in good condition, to the ownership of the local authority. The consortium recovers its costs of providing the asset and services, together with a profit element, by means of an annual service charge over the period of the contract.

43 SDR 160-2008, Welsh Assembly Government

44 The authorities concerned are Bridgend CBC, Caerphilly CBC, Ceredigion CC, Conwy CBC, Newport City Council, Pembrokeshire CC and Rhondda Cynon Taf CBC

- 19** As part of its approval of PFI education schemes in seven authorities, the Assembly Government agreed to pay 'PFI Credits' to the authorities concerned, effectively reducing the service charges payable by the authorities to the PFI consortia. Since 1999, no further credits have been available and, since then, local authorities have not entered into any new PFI contracts to build new schools.
- 20** This report does not evaluate the advantages and disadvantages of the PFI method of procurement. The National Assembly for Wales Finance Committee conducted an inquiry into Public Private Partnerships (PPP), reporting in February 1999. Among other things, the Committee concluded that it 'does not consider PPP to be suitable at this point in time for managed services that involve large transfers of staff from the public to the private sector.' However, it also recommended that this position should be carefully and periodically reviewed by the Assembly Government. The Committee also strongly recommended that, 'whether the Assembly Government chooses PPP or more traditional procurement methods for future projects, maintenance costs for the lifetime of the project should be considered and accounted for at the budget consideration stage. Project savings which equate to a reduction in planned maintenance should be considered bad management and avoided if public money is to be invested in an astute way.'