

Costing Opposition Plans on University Technical Colleges (UTCs)

Description of policy
<p>Labour's commitment to 100 new UTCs</p> <p>Relevant quote text:</p> <p>'We need a major expansion of university technical colleges to ensure Britain is producing enough trained technicians in STEM subjects and other subjects where there is clear demand' (Ed Balls, <i>Beyond the Third Way</i>, 30 June 2014, link).</p> <p>'Establish at least 100 University Technical Colleges by 2020 focused on growth areas of the economy' (Lord Adonis, <i>Mending the Fractured Economy</i>, 1 July 2014, link).</p>
Additional policy assumptions
<p>Relevant assumptions provided by HMT SpAds:</p> <ol style="list-style-type: none">1. Assume that 100 new additional UTCs are established under the policy.2. Assume that all the new UTCs open by 2020.3. In addition to costing the CDEL of opening these UTCs, cost the RDEL directly arising from starting the UTC – the grants made to get the project going. (SpAds have noted that in practice there may also be additional RDEL running costs once the UTCs are up and running, but accept that it will be too difficult to include this in the costing because this spending follows the students and we don't know what educational route students of the new UTCs might have taken otherwise.)4. Include an estimate of the admin cost of setting up the new UTCs.
Additional technical modelling assumptions or judgements required
<p>In addition to the above, it has been necessary to make some further assumptions / judgements to facilitate the modelling of the costs.</p> <p><u>Timetable and pattern of approved applications</u></p> <p>The following assumptions have been made:</p> <ul style="list-style-type: none">• DfE processes and guidance to manage the assessment of UTC applications and the delivery of projects would remain broadly the same as they are now.• We would aim to agree and publish application guidance and launch the first new application round as soon as possible after the election.• Each assessment round takes 3 months (this is based on the quickest time to date that officials and ministers have run the process from start to finish).

- We would have a rolling programme of application rounds in order to try to get re-applicants back into the system as soon as possible and maximise the chances of approving enough projects to meet the target.
- A UTC project usually takes 2 years in development (a small % have managed to open faster, which is reflected in the timetabling of waves B, E & H below).
- We see some projects drop out of the programme during the pre-opening stage. A 4% attrition rate is therefore built into the modelling, based on past experience.

Building these assumptions into the model, this would see the deadline for the 1st application round (round A) at the beginning of August 2015, with 3 rounds per year from that point on. In order to meet the target of 100 new institutions open by the end of 2020, the last application round that would give us any projects that could open in time would be the 11th round in December 2018 (round K).

We would need to approve an average of 10 applications per round in order to ensure we meet the target of 100 open by 2020. We have also assumed that an immediate post-election push might see a slightly higher approval figure for the first round:

- Round A = 12
- Rounds B-J = 9x10 = 90
- Round K = 3 (25% of the 10 approved that round)

Total = 105. When the 4% attrition rate is deducted = 100 (rounded down to a whole number).

Wave	Application deadline	Announcement	Opening date	Number approved	Number opened*
A	August 2015	November 2015	September 2017	12	14 in 2017
B	December 2015	March 2016	September 2017 – c.25%	3	
			September 2018 – c.75%	7	29 in 2018
C	April 2016	July 2016	September 2018	10	
D	August 2016	November 2016	September 2018	10	
E	December 2016	March 2017	September 2018 – c.25%	3	
			September 2019 – c.75%	7	29 in 2019
F	April 2017	July 2017	September 2019	10	
G	August 2017	November 2017	September 2019	10	
H	December 2017	March 2018	September 2019 – c.25%	3	
			September 2020 –	7	28 in

			c.75%		2020
I	April 2018	July 2018	September 2020	10	
J	August 2018	November 2018	September 2020	10	
K	December 2018	March 2019	September 2020 – c.25%	3	
			September 2021 – c.75%	7	n/a

*taking account of 4% attrition rate

Capital

The following assumptions have been made:

- The unit cost is £10.2m per UTC. This is based on our latest estimate and covers all costs including acquisition, construction, ICT and furniture, fittings and equipment, including specialist equipment. Further analysis to take account of the more recent set of projects is required to determine whether this unit cost should now in fact be higher, but this has not been possible in the timeframe for this commission.
- The profile of spend assumed for the model is: 16% in the year before the UTC opens; 38% in the year of opening; 36% 1 year after opening; and 10% 2 years after opening. The profile used is our current one, which is an amalgamation of free schools, UTCs and studio schools and we intend to do further analysis to investigate the profile spend of UTCs alone over the coming months, which could vary the distribution of the spend. This is not possible in the time frame for this commission, but the financial years that costs fall in may be different as a result.
- Construction cost inflation is applied at 5% per year starting in 2015-16. This is based on the PUBSEC construction cost index which forecasts an increase of 5% per annum over the next 18 months. There is no index beyond 4Q/15 but with the economy improving and construction expenditure on the upswing, the imbalance between demand and supply is not anticipated to ease over the medium term. We have therefore assumed a continuation of the trend.
- Slippage is applied such that 20% of costs fall into the following year.
- Capitalised staff costs are included, covering the work of Education Funding Agency staff working on the projects (legal advisers, project managers, property contractors, etc.). These costs start one year before the main capital expenditure begins and continue until capital expenditure is completed (so five years per project), reflecting the work that project staff do before sites are purchased or construction begins. GAE at 3% and salary inflation at 1.2% per annum is applied, in line with administrative costs below.

Revenue

The following assumptions have been made:

Pre-Opening Grant (PDG):

- We would continue to provide each project with a PDG of £300k. This grant is to help cover essential costs up to the point that the UTC opens. Typically projects will use their PDG to pay for: Project Management support; staff recruitment; salary costs; marketing; their management information system; etc.
- PDG is paid in instalments over the pre-opening period, so a % split across financial years commensurate with that used at present is assumed.
- Given that all projects would receive PDG and any spent portion would not be recouped should the project be cancelled, the attrition rate has not been applied to this element, meaning 105 projects have been costed. Any unspent portion of PDG for cancelled projects would be recouped but these are typically very small sums.

Post-Opening Grant (POG):

- We would continue to provide each project with a POG to reflect the additional costs of establishing a new school which cannot be met through the general annual grant (GAG) received by all schools. The post-opening grant provides funding in two elements. The first element (non-staffing resources) is paid each year that the school builds up to capacity: £500 for each new pupil on roll. The second element (leadership) is a bespoke amount worked out on a school-by-school basis and is designed to help UTCs meet the costs of employing senior staff as the school grows to full capacity. The amount of leadership funding depends on the way year groups build up and which senior staff are essential for schools to operate.
- POG is profiled in line with an analysis of the average way in which the funding is currently split across financial years.
- A UTC has on average 600 pupils at full capacity.

Administrative costs

In terms of the internal administrative costs associated with running the UTC programme, we have assumed:

- Increased staffing levels would be needed in order to deliver an expansion of the programme.
- Salary costs include on-costs; GAE at 3%; and salary inflation at 1.2% per annum.

Given that the average number of projects in pre-opening would be approximately double the number at present, we have modelled staff costs assuming the same level of resource at DD and G6 but double the number of current staff at G7, HEO and EO:

	Staff FTE
Deputy Director	0.5
G6	1
G7	12
HEO	6

EO	3
Total	22.5
If needed, information required on distributional effects of the policy	
Not requested.	
Cost/Revenue to the Exchequer over five years	

CDEL

	Capital (£m)	Staff (£m)	Total (£m)
2015-16	-	0.14	0.14
2016-17	20.15	0.44	20.59
2017-18	99.37	0.74	100.11
2018-19	230.01	1.04	231.05
2019-20	338.63	1.05	339.68
2020-21	336.97	0.91	337.88
2021-22	217.87	0.61	218.48
2022-23	67.68	0.3	67.98
Total	1,310.68	5.23	1,315.91

RDEL

	PDG (£m)	POG (£m)	Total (£m)
2015-16	1.08		1.08
2016-17	5.46		5.46
2017-18	8.1	2.76	10.86
2018-19	9	9.16	18.16
2019-20	6.06	14.37	20.43
2020-21	1.8	16.52	18.32
2021-22		11.79	11.79
2022-23		5.2	5.2
2023-24		2.14	2.14
2024-25		0.72	0.72
2025-26		0.14	0.14
Total	31.5	62.8	94.3

Administrative costs

	Staff (£m)
2015-16	1.36
2016-17	1.38
2017-18	1.39
2018-19	1.41
2019-20	1.43
2020-21	1.45
Total	8.42

Distributional effects (if none requested, any significant):

Not requested.	
Comparison with current system (if applicable):	
Not requested.	
Other comments (including other Departments consulted):	
N/A	
<i>To be completed by Permanent Secretary's Office</i> Date costing signed off:	22 nd September 2014
<i>[If applicable]</i> Date revised costing signed off:	