

<b>Meeting:</b>	<b>Herefordshire schools forum</b>
<b>Meeting date:</b>	<b>Friday 12 January 2018</b>
<b>Title of report:</b>	<b>Whitecross PFI Scheme - triennial review</b>
<b>Report by:</b>	<b>Schools Finance Manager</b>

## **Classification**

Open

## **Decision type**

This is not an executive decision

## **Wards affected**

Whitecross;

## **Purpose and summary**

To receive the results of the three yearly review of the Whitecross PFI Scheme as agreed by Schools Forum in March 2015 (minute 201 refers). Schools Forum is required to be consulted on schools budget proposals; receiving the triennial review of the scheme enables the forum to form a view as to whether the funding of the PFI contract remains sufficient to meet the contractual commitments without the need for additional funding at this time.

## **Recommendation(s)**

**That Schools Forum confirm that:**

- (a) No further funding is required from the dedicated schools grant at this time;**
- (b) A progress review be added to the forum's work programme for January 2021**

## **Alternative options**

1. There is no alternative option due the high costs of early termination of the PFI contract.

## Key considerations

2. Schools Forum received a report on the financing of the Whitecross PFI contract in March 2015 and agreed to establish a progress review, once every three years to commence in January 2018 to establish a process for routine review of the PFI contract process.
3. Following the recommendation of School Forum, the council has added additional funding of £25,000 in 2015/16, £50,000 in 2016/17 and a further £50,000 in 2017/18. The funding was sourced equally from the council and dedicated schools grant funds. In addition, savings of £50,000 were agreed with the PFI provider for insurance and ICT provision. The governors of Whitecross High School and Specialist Sports College agreed to forego the school's contractual right to the savings in the PFI contract.
4. The cost of the PFI contract is determined by the value of the inflation index RPI(X) in February each year. Since the last review in 2015, inflation has been as follows:
  - February 2015            1%
  - February 2016            1.4%
  - February 2017            3.5%
  - October 2017            4.2%
5. The long term financial model over the 25 year contract period assumed inflation to be 2.5% and the contributions from the government (PFI credits), the council and the school were set accordingly. The PFI credits are fixed for the contract duration hence the additional cost of the contract is determined by the difference between the inflation rate in February and the standard 2.5% in the financial model.
6. The HM Treasury medium term forecast for RPI inflation is as follows:
  - 2017    3.6%
  - 2018    3.5%
  - 2019    3.1%
  - 2020    3.2%
  - 2021    3.1%
7. In October 2017 RPI(X) inflation was running 0.2 percentage points higher than RPI. The financial model has been rolled forward with the assumption that the RPI(X) will be 4.2% in February 2018 and thereafter will continue at 3.5% until the end of the contract in May 2032. It is also assumed that the school contribution will increase by 1.5% (based an annual uplift to the PFI factor in the national school funding formula) and an additional contribution from the council in 2018/19 of £55,000, due to RPI(X), which is expected to be in excess of 4% next financial year.
8. On this basis, there is predicted to be a small surplus of £60k at the end of the contract in 2032, although no further action is required at this time.

## Community impact

9. Regular review of the PFI financial contribution ensures that there is not an unaffordable financial settlement at the end of the contract in 2032 and that value for money continues to be secured.

## Equality duty

10. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
  - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
  - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
11. As this is a decision on an existing contract, which cannot easily be changed, we do not believe that it will have an impact on our equality duty.

## Resource implications

12. No further funding is required at this time. However, if inflation, as measured by RPI(X), remains above the 3.5% contract baseline, additional funding will be required from the council in future years. The contribution from the dedicated schools grant is now determined by the national funding formula for schools.

## Legal implications

13. As set out in the Schools Forum Regulations 2012, School Forums generally have a consultative role. However, there are situations in which they have decision-making powers. The Regulations state that the local authority must consult the Schools Forum annually in connection with amendments to the school funding formula
14. The Education Funding Agency provides a summary of powers and responsibilities of schools forums which includes decisions it can make on proposals put forward by the local authority.
15. The purpose of this report is to update the Schools Forum on the results of the three yearly review of the Whitecross PFI and request recommendations for any additional funding needed.
16. This update constitutes a consultation as set out in section 10(2) of the Schools Forums (England) Regulations 2012.

## **Risk management**

17. The major risk is that if inflation is significantly higher than the currently funded 3.5% contract baseline, it makes the contract unaffordable. HM Treasury's RPI forecast suggests this is unlikely in the medium term. The significant additional costs resulting from higher than expected inflation are best managed by regular review of the contract and triennial reporting to Schools Forum.

## **Consultees**

18. This report has been shared with the PFI provider and the headteacher of Whitecross.. The chair of governors and headteacher of Whitecross school are reassured that the forecast funding requirements for the PFI contract continue to be met by the council in the medium term without any impact on the school.

## **Appendices**

None

## **Background papers**

PFI contract financial spreadsheet model