

Meeting:	Herefordshire schools forum
Meeting date:	Friday 15 January 2021
Title of report:	Whitecross PFI contract - triennial review
Report by:	Director of Children and Families

Classification

Open

Decision type

This is not an executive decision

Wards affected

Kings Acre;

Purpose

To review the financial position of the Whitecross PFI contract and inform Schools Forum of any necessary action.

Recommendation(s)

That:

- (a) The council's existing contribution of £928,350 pa be continued until the next triennial review in Autumn 2023**

Alternative options

1. Alternatives might be

- to reduce the council's contribution from April 2021 budget by £156,000 pa from April 2021 so that the sinking fund has a zero balance at the end of the contract. However this is an unnecessary risk because if inflation increases in the final ten years of the contract then the funding will have to be reinstated and potentially increased. Inflation cannot be forecast accurately over this ten year time span.

- the most prudent and financially safest approach is to maintain the current payments to the sinking fund giving the opportunity reduce the council's contribution in full in the final year or two of the contract subject to the value of the sinking fund. The existing payments are fully budgeted in the council's medium term financial strategy (MTFS).

Key considerations

2. The Whitecross PFI contract financial control model has been updated and reviewed based on the current planning assumptions of the Office of Budget Responsibility (OBR). Using their forecast for Retail Price Index (RPIX) is 3% and expected school budget increases of 1.5% in the financial control model, there is an estimated surplus of £1.2m in the sinking fund at the end of the contract in May 2031.
3. RPIX is currently around 2.5% although the OBR have not updated their forecast since April 2019, and a more realistic estimate of school budget increases (which determine the school's contribution) is 2.5%. Sensitivity analysis indicates that continuing to use the OBR RPIX forecast of 3% and increasing the school contribution to 2.5% increases the sinking fund surplus at contract end approximately £1.6m.
4. The financial planning provides for the maximum surplus on the sinking fund in 2023/24 at approx. £1.7m and thereafter it reduces down to zero as costs become greater than income.
5. The council proposes leaving the budget contributions as they are at £928,350 until the next review in autumn 2023 which corresponds to a value of £1.9m in the sinking fund. If inflation rates remain at the current 2.5%/3% and the school contribution at 2.5% pa then there will be the opportunity in autumn 2023 to consider the financial model and determine the best option in light of the inflation rate at that time.
6. It should be noted that the government have indicated that the RPIX index of inflation will be withdrawn in 2030 and the final few years of the PFI contract will have to use the Consumer Prices Index (CPI) inflation index. The contract will need to be revised in agreement with the PFI provider at the time RPIX index is withdrawn.

Community impact

7. The financial review of the Whitecross PFI contract has no community impact.

Environmental Impact

8. The financial review of the Whitecross PFI contract has no environmental impact.

Equality duty

9. 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.
10. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

11. There is no impact on the financial resources required to fund the Whitecross PFI contract. However this may change at the next triennial review in autumn 2023

Legal implications

12. There are no direct legal implications arising from this report.

Risk management

13. The greatest risk to the Whitecross PFI contract has always been if inflation increases above the current forecast of 3%. We can protect against this by maximising the value in the sinking fund by maintaining the current payments. The financial affordability of any potential expansion of the school will need careful investigation prior to any potential increase in the number of places provided.

Consultees

Headteacher, Whitecross school

Appendices

None

Background papers

Whitecross PFI financial control model

Please include a glossary of terms, abbreviations and acronyms used in this report.

OBR	The Office for Budget Responsibility (OBR) is a non-departmental public body funded by the UK Treasury, established by the UK government to provide independent economic forecasts and independent analysis of the public finances.
PFI	Private Finance Initiative
RPIX	Retail Prices Index (excluding mortgage interest) of inflation
CPI	Consumer Prices Index of inflation

Sinking Fund

A **sinking fund** is a **fund** containing money set aside or saved to pay off a debt or bond. A company that issues debt will need to pay that debt off in the future, and the **sinking fund** helps to soften the hardship of a large outlay of revenue