

Title of report: Whitecross PFI contract - triennial review

Meeting: Herefordshire Schools Forum

Meeting date: Friday 19 January 2024

Report by: Strategic Finance Manager

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

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 planned increase of £100,000 for 2024/25 to bring the annual base budget to £1,128,350 per annum is noted**
- b) The annual contribution be reviewed taking account of the then inflation rate at the next triennial review in Autumn 2026;**
- c) The report of the next triennial review be received by Schools Forum in January 2027**

Alternative options

1. The most prudent and financially safest approach is to continue with the planned increase to the sinking fund of £100,000 in 2024/25 giving the opportunity to reduce the council's contribution in full in the final year or two of the contract subject to the value of the sinking fund.
2. No alternatives are recommended as not to proceed with the £100,000 increase for April 2024 will lead to a shortfall of £0.8m at the end of the contract assuming RPI(X) inflation continues at 5% for

the remainder of the PFI contract. Clearly there are many alternatives which increase the budget by less than the proposed £100,000 but none are considered as financially prudent as the recommended £100,000

Key considerations

3. The Whitecross PFI contract financial control model has been updated and reviewed based on the current inflation projections published by the Bank of England (BoE). The BoE forecast the Consumer Price Index (CPI) will be 2% from December 2025. The Retail Price Index (RPIX) is usually around one percent higher than CPI and so using 3% for RPIX and expected school budget increases of 1.9% in the financial control model, there is an estimated surplus of £1.1m in the sinking fund at the end of the contract in May 2031.
4. Projecting RPI(X) at its current level of 5% through to the end of the PFI contract forecasts a deficit of £129,500. Both projections require the council to increase the PFI budget by £100,000 from April 2024.
5. Continuing with the budget increase of £100,000 for 2024-25 is essential and given the difficulty in accurately forecasting inflation, the council's contribution should be re-assessed at the next triennial review in January 2027.

Community impact

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

Environmental Impact

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

Equality duty

8. 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.
- d) 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

9. The additional £100,000 budget increase is included in the budget proposals to be presented to Cabinet in February 2024. Beyond the £100,000, no further financial resources have been identified as necessary to fund the Whitecross PFI contract. However this may change at the next triennial review in autumn 2026.

Legal implications

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

Risk management

11. The greatest risk to the Whitecross PFI contract has always been if inflation increases above the current forecast of 5%. We can protect against this by maximising the value in the sinking fund by increasing the current payments as planned for 2024-25.

Consultees

12. 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

Report Reviewers Used for appraising this report:

Please note this section must be completed before the report can be published

Governance	John Coleman	Date 23/11/2023
Finance	N/A	
Legal	Emma-Jane Brewerton	Date 01/12/2023

Communications	Luenne featherstone	Date 22/11/2023
Equality Duty	N/A	
Procurement	Lee Robertson	Date 23/11/2023
Risk	Chris Tindell-Jones	Date 21/11/2023

Approved by	Liz Farr	Date 22/11/2023
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