

MEETING:	SCHOOLS FORUM
MEETING DATE:	13 MARCH 2015
TITLE OF REPORT:	WHITECROSS PFI SCHEME
REPORT BY:	SCHOOL FINANCE MANAGER

Classification

Open

Key Decision

This is not an executive decision.

Wards Affected

County-wide.

Purpose

To update Schools Forum on the progress in securing cost reductions for the Whitecross Private Finance Initiative (PFI) contract.

Recommendation(s)

THAT:

- (a) Schools Forum notes the progress made and establishes a progress review, once every three years, commencing in January 2018, to establish a process for routine review of the PFI contract; and**

- (b) reports outside of this timescale be on an urgent needs basis.**

Alternative Options

- 1 Following advice from the project's original financial advisors seventeen possible opportunities for cost savings were considered by Schools Forum in October 2014. In conjunction with the school and PFI supplier, the three most achievable options have been taken forward to contract variation. The remaining options will be kept under review and reconsidered if necessary in future.

Reasons for Recommendations

2. To update Schools Forum on the progress in securing cost reductions for the Whitecross PFI contract.

Key Considerations

3. Following the recommendation of Schools Forum, the council has already agreed additional funding of £25,000 in 2015/16, a further £50,000 in 2016/17 and a further £50,000 in 2017/18. This additional funding is sourced equally from council and Dedicated Schools Grant funds. The current funding split is PFI credits from the DfE 59%, council funding 26%, Whitecross School 8% and dedicated schools grant funding 7%.
4. Savings have been made to the PFI contract as follows
 - ICT provision has been taken in house by Stepnell with additional strategic support provided by a local firm – savings to the unitary charge are £40,000 pa
 - Insurance savings have been made to the unitary charge of £10,000
 - The out of hours usage has been reduced from 500 hours pa to 300 hours pa achieving estimated savings of £5,000 pa
 - The Consumer Prices Index (CPI) will replace the Retail Prices Index excluding mortgage interest (RPI(x)) inflation index in the contract from April 2015. CPI is usually 1% less than RPI(X) and will save £13,000 pa on a compound basis.
 - Continued falls in the CPI to 0.3% for January 2015, if these falls continue in February then the PFI unitary charge will increase by £5,000 compared to an expected £28,000 that a 2% increase in inflation requires.
5. The governors of Whitecross School met in early December 2014 and have agreed to forgo the school's contractual right to savings in the PFI contract. The governors' decision is linked with the three year benchmarking review of ICT services and will need to be reviewed by the council and school every three years.
6. The PFI contract variations are due for signature at a meeting between the council, the school and the PFI supplier in early March and Schools Forum will be updated

Community Impact

7. There is no community impact as the actions taken will ensure that the PFI contract is fully funded unless there is a significant increase in inflation rates in the future.

Equality and Human Rights

8. There are no implications for the public sector equality duty.

Financial Implications

9. The PFI contract variations, once signed, together with the modest injection of additional funding already agreed by the council and Schools Forum will ensure that

the PFI contract is fully funded in future provided that average inflation rates for the remaining contract term to 2032 do not increase above the Bank of England Monetary Policy Committee's (MPC) target CPI inflation rate

10. Without the additional funding and the proposed contract changes, the PFI scheme faced a £3.5m deficit by 2032. Following the actions taken and forward planning at the MPC's target inflation rate of 2% a small surplus of £0.5m is now forecast. If the CPI inflation rate remains below the MPC's target rate of 2% for any length of time then the surplus will increase providing a useful buffer for any possible future increase in inflation above the MPC's target rate.

Legal Implications

- 11 The purpose of this report is to update the Schools Forum on decisions that have been made and as such there are no specific legal implications.
- 12 This update does not constitute a consultation as set out in section 10(2) of the Schools Forums (England) Regulations 2012.

Risk Management

- 13 There is a potential risk that inflation may rise significantly above the MPC's target rate of 2%. This is entirely outside the council's control as it is dependent on national economic performance. It is eminently possible that during the remaining 17 years of the PFI contract that inflation will increase. Changing the PFI contract's indexation factor will provide some protection as the CPI index is usually some 1% below the RPI(X).
- 14 Further risk management is provided by increasing the PFI scheme's surplus in years of low inflation which would help provide a buffer against future inflation rises. The PFI funding requirements are reviewed annually and it is impossible to rule out the need for additional funding in future.

Consultees

- 15 None

Appendices

None

Background Papers

None identified.