

SLOUGH SCHOOLS' FORUM
Wednesday 7th May 2014

PFI FUNDING OPTIONS

PURPOSE OF REPORT

1. To launch a review of the schools' PFI contract and contributions in the light of changed circumstances.

Recommendations

2. The Council asks that:
 - the Forum expresses a view on how the immediate payment of the reserve of £500k should be distributed whether on the basis of the formula or in some other way
 - the Forum agrees to support a review of the overall PFI charge
 - the Forum participates in a consultation on the redistribution of the PFI funding gap to achieve a significant reduction to the figure of £810k on a phased basis

Introduction

3. The work on the Schools Funding Formula in 2012/13 highlighted the significant contribution the Council's General Fund had been making to education functions. The General Fund is the revenue resource available to all the Council's statutory and non-statutory services excepting housing delivery and DSG.
4. In the context of the diminishing resources of the Council and the increasing service demand this now represents a far greater burden on Council spending than in 2006 when the PFI contracts were established. The Council wishes to review the scale of the contribution and this report is the introduction to the first stage of that review.

Background

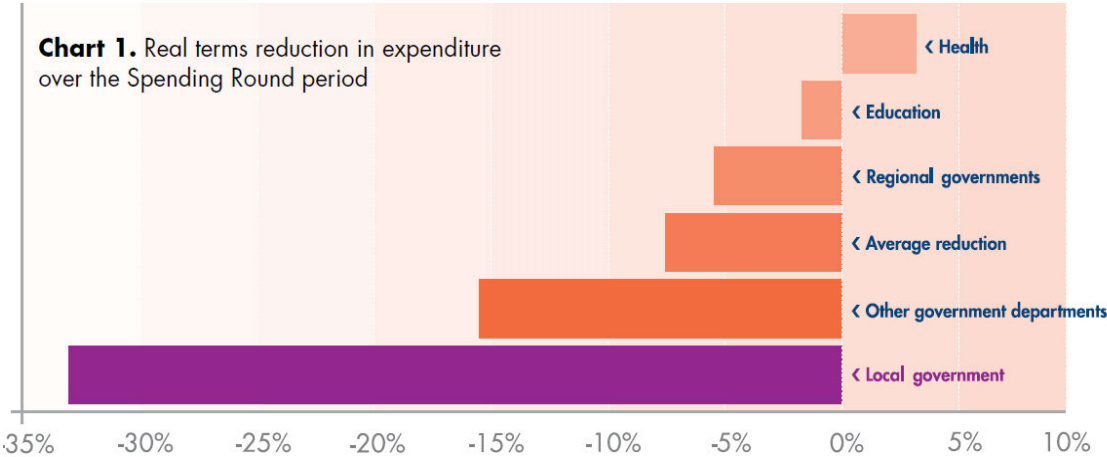
5. The entire PFI unitary charge is just over £2.3m for 2014-15.
6. At the time of the agreement of the PFI for three schools (Beechwood, Penn Wood and Arbour Vale) and to secure government approval the PFI charge was £2.1m and of this the Council committed to close a funding gap of £810k per annum. The Council's contribution represents the difference between the annual unitary charge and the PFI grant plus schools' contributions.
7. The Council's contribution comes into the High Needs Block (£310k) and the remaining £500k into the Schools Block.

8. The original business case for the council contributing to the schools PFI was due to:
- The capital funding arrangements at the time for financing major capital projects and the accounting regulations meant that it was necessary and beneficial to charge this to the General Fund rather than education budgets.
 - Some compensatory savings to placements costs achieved through placements at Arbour Vale.
9. The Council’s financial position is now dramatically different. Accounting regulations concerning the treatment of PFI have changed so that the charge to the General Fund is anomalous.

The Council’s financial position

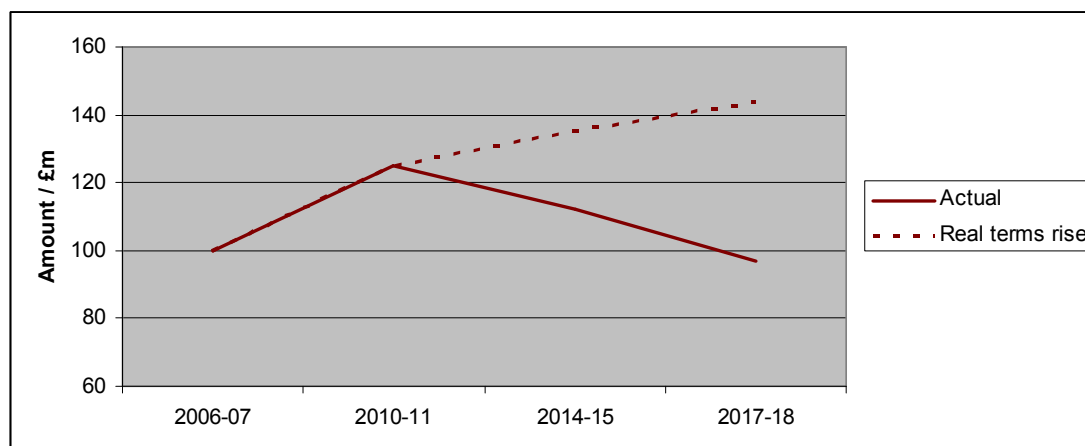
10. Since 2010 the public sector as a whole has faced a significant squeeze on its budgets, and this has been especially so in Local Government, see below:

Chart 1: Spending reductions



11. This recognises that all elements of the public sector have had to make savings. Whilst education budgets overall have been better protected the Council acknowledges that pressures on individual schools have varied with some schools now facing significant reductions.
12. For Slough Council itself, the chart below shows the overall changes to the net budget in recent years. Within this period of time, 2015-16 will see the largest reduction in Government funding, with a proposed reduction of approximately 28% compared to the previous year.

Chart 2: Changes to the Council's net budget



13. As can be seen from the above, in real terms, the Council's budget is predicted to be almost £50m lower in 2017-18 in real terms compared to 2010-11.

14. The Council's budget is also predicted to be lower in cash terms in 2018 than in 2006. This is in a period of inflation throughout, as well as increasing demographic and service demands and cost pressures on the Council's services overall, most significantly in both Children's and Adults' Social Care.

15. The funding of the Council's PFI contribution from the General fund reduces the funds available for the Council's other services.

16. In short, in this new harsher climate, the scale of the Council's contributions is unaffordable. The Council is seeking a significant reduction in the PFI charge against the General Fund. The Council is not unique in this. It is a route that others have already implemented.

Short term adjustment

17. As part of the DSG formula review in 2013-14, the Council's contribution was temporarily reduced from £810k down to £310k, see the table below.

Table 1: PFI contributions

Year	DSG	SBC	Schools	Total
2012-13	£454,627	£809,542	£972,364	£2,236,533
2013-14	£981,084	£309,542	£1,001,779	£2,292,405
2014-15	£981,084	£309,542	£1,012,834	£2,303,460

18. The result of the above decision to the formula was that all schools' budgets were in effect top sliced to make up for these contributions. Pending consultation this situation continues through to 2014-15.

19. The £500k for 2013-14 has been maintained in a reserve and, though it is not bound by the formula, the Council wishes to distribute the reserve according to the formula or on another basis agreed with schools.

20. There is also a further pressure on the PFI budget in the form of the recent benchmarking exercise. This remains unresolved at present, but there is circa £180k of additional costs to the PFI that need to be met.

Next steps

21. The Council now wishes to consult on how the PFI gap can be closed and/or funded in future.

22. Whilst wishing to secure a significant reduction to the charge on the General Fund, the Council proposes to maintain its contribution of £310k for the time being. The Council also recognises the challenge of managing reducing budgets and is seeking to make a phased reduction.

23. The Council therefore proposes that:

- The PFI contract is reviewed with the co-operation of the three schools to identify any contractual opportunities or service adjustments which could reduce the overall £2.3m burden. The Council will resource this review and any necessary challenge. It is proposed that a paper is brought back to the next Forum meeting with an indication of the nature, scale and timescale of the opportunity.
- Options for a phased reallocation of the funding gap across General Fund, education and schools budgets will be brought to the next Forum meeting.
- Following consultation, agreement on revised PFI contributions is sought from Schools Forum in autumn to enable early confirmation of Council and DSG budgets.

ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

24. Advice on the principle of the report has been sought and the Council's Legal Service will be a party to the contract review.

Section 151 Officer – Assistant Director Finance and Audit

25. The financial implications of the report are outlined in the supporting information above.

Access Implications

26. There are no access implications.

CONSULTATION

Principal Groups Consulted

27. None.

Method of Consultation

28. Not applicable.

Representations Received

29. Not applicable.

Contact for further information

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