1. SUMMARY

1.1 This report gives a financial review of the Private Finance Initiative schemes running in Waltham Forest.

2. BACKGROUND

2.1 As explained in the report to the 20 July 2011 meeting of this committee, the Council has three PFI schemes all of which are for schools. At the time each contract was signed it was expected that there would be a zero financial balance at expiry.

2.2 In adopting the PFI route to fund these schemes, the Council considered whether it would provide value for money, taking into account the allocation of risks between the public and private sectors. All PFI schemes have to pass the HM Treasury’s ‘green book’ VFM test. While the VFM of PFI remains a subject of debate, what is undeniable is that using PFI has meant that Waltham Forest has received funding for three new secondary school and six new primary school buildings, which has benefited pupils across the borough.

2.3 Each PFI contract incurs a unitary charge payable in monthly instalments, which is funded from three sources: PFI Credits from central government, governing body contributions (GBC) from the schools covered by the contracts and an amount topsliced from Dedicated Schools Grant (DSG) each year (this element becomes payable direct from the DfE for Academy Schools).

3 CURRENT PROJECTIONS

3.1 Since the contracts were signed, there have been various changes that have affected affordability. There are different methods of calculating the affordability of the schemes going forward, due to the uncertainty around inflation rates, but the calculation presented in Appendix A is considered to be the most relevant.

3.1.1 The current projections are based on 3.5% indexation brought back to present value prices. The unitary charge and school contributions have been inflated by 3.5%.
For the DSG contributions, Lammas and Grouped Schools have been uplifted by 2.5% and for Bremer 3.5%.

3.1.2 There is now a projected overall surplus across all three PFI schemes at the end of the schemes. However, there is a projected deficit across all three PFI schemes for 10 out of the remaining 28 years of the operational period, in financial years 2021/22 to 2023/24 and 2027/28 to 2033/34. It is anticipated that any deficit during the life of the PFI projects would be dealt with as a loan from the General Fund balance.

3.2 The following table summarises the current projections detailed at Appendix A;

<table>
<thead>
<tr>
<th>Date contract was signed</th>
<th>Lammas</th>
<th>Grouped Schools</th>
<th>Frederick Bremer</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start of operational period</td>
<td>01.09.2001</td>
<td>Phased 2005-2006</td>
<td>01.09.2008</td>
<td></td>
</tr>
<tr>
<td>Contract expiry date</td>
<td>31.08.2026</td>
<td>30.04.2036</td>
<td>31.03.2034</td>
<td></td>
</tr>
<tr>
<td>Overall surplus/(deficit) at 2011-12 prices</td>
<td>£2,032,828</td>
<td>£2,674,077</td>
<td>(£2,321,821)</td>
<td>£2,385,085</td>
</tr>
<tr>
<td>Years when scheme is in deficit</td>
<td>None</td>
<td>2013/14 to 2026/27</td>
<td>2021/22 to 2033/34</td>
<td></td>
</tr>
</tbody>
</table>

3.3 The reasons for the surpluses/deficits are summarised below:

3.3.1 LAMMAS
- Originally the Lammas GBC wasn’t indexed in line with unitary charge indexation. From 2011/12 indexation has been agreed with the Governing Body.
- Similarly, the DSG contribution was not indexed from the outset. This has now been indexed from 2011/12 as agreed by the Schools Forum.
- Lammas PFI credit calculations by Department for Education had an incorrect expiry date, which significantly reduced the credits received by the council. This has now been corrected and the backdated underpayment paid, following approach by council officers.
- The original Lammas GBC didn’t include provision for passing on increases in costs relating to benchmarking and market testing of services. This has now been addressed and the school pays the full costs of all school-related services, with DSG picking up a small difference to offset the reduction in pupil numbers on site.

3.3.2 GROUPED SCHOOLS
- Grouped Schools GBC relating to facility management costs was fixed for the full contact period & did not take into account for any increase relating to either benchmarking or market testing of these services, which take place every 5 years. Moreover there was also a shortfall of £82,596 at August 2002 prices (base date) relating to facility management costs between GBC and actual costs of service (due to difference between actual and estimated costs of facilities management provision at contract signature) which again would have widened due to inflation. This has now been mitigated by council officers through consultation with the schools and
the Schools Forum. There has also been a re-negotiation of contract prices with the PFI contractor, which has led to a 50% reduction in original market testing increases put forward.

- Grouped Schools GBC contributions to utility costs were fixed from April 2008 to the end of the contact period and did not take into account any increase relating to the three-yearly utilities’ benchmarking built into the contract. The shortfall as a result of benchmarking in April 2008 would have been £136,404 which would have widened due to inflation. This has now been mitigated with the council achieving very competitive utilities deals for the PFI schools and passing on credits received from profit sharing options in the contract.

- DSG contribution was not indexed. This has been amended through agreement with the Schools Forum.

- Hillyfield, one of the Grouped PFI schools, became an academy in January 2011. As part of the deal negotiated by the council officers the DFE now meets the affordability costs and market testing increase costs for this school.

3.3.3 FREDERICK BREMER

- The deficit is solely due to the current indexation rates being higher than the standard indexation applied to all PFI contracts at contract signature (2.5%).

- The school pays all of the charges applicable to it on this contract and interest and indexation are correctly applied to DSG and GBC. The Authority is working with the PFI Contractor and the school to introduce efficiency savings, which will reduce the costs of the contract to both parties. However, the possible extent of such savings is unlikely to result in significant reduction in the deficit.

4. CONCLUSION

4.1 As seen from the above and the breakdown of affordability figures in Appendix A, the combined balance across all three PFI contracts is not expected to go into deficit until 2021/22 Financial Year. Two of the three PFI contracts will be in significant surplus by the end of the contract, while Bremer PFI will end with a deficit based on current projections. The relevant council officers will continue to monitor the affordability figures across all three PFI contract on an annual basis and will update the projections.

4.2 The fluctuations in surplus/deficit year on year need to be considered when revising the Medium Term Financial Strategy. On the current projections, a loan from the General Fund balance will be required in the years 2021/22 to 2023/24 and 2027/28 to 2033/34.

Appendix A: Current Affordability Projections PFI Schemes

Background Papers:

SAP accounting records
PFI contracts