

**Report to:** Schools Forum

**Subject:** Schools Modernisation Capital Programme - capital contributions from schools

**Date of meeting:** 15 October 2014

**Report from:** Julian Wooster, Director of Children's and Adults Services

**Report by:** Mike Stoneman, Strategic Commissioning Manager

**Wards affected:** All Wards

**Key decision:** No

**Full Council Decision:** No

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**1. Purpose of report**

1.1 The purpose of this report is to determine the methodology that should be used to secure a contribution from schools towards the Council's annual school modernisation capital programme.

**2. Recommendation**

2.1 It is recommended that Schools Forum consider and approve one of the following options for school contributions to the annual school modernisation capital programme (*full details of the options are set out in paragraph 4.5*):

- a) Option 1a - All maintained schools contribute an amount equivalent to the devolved formula capital (DFC) allocation.
- b) Option 1b - All maintained schools contribute an amount equivalent to 1% of the schools budget share.

The contributions in option 1a and 1b would be weighted as follows:

	DFC Equivalent	%Budget Share Equivalent
Total balances Below £25,000	Nil Contribution	Nil Contribution
Total balances £25,001 - £250,000	1 x DFC	1%
Total balances £250,001 - £500,000	1.5 x DFC	1.5%
Total balances over £500,000	2 x DFC	2%

- c) Option 1c - Only maintained schools with capital projects contribute an amount equivalent to their DFC allocation, on the following basis, using the weighting methodology in option 1a above:

Scheme Value £15,001 - £50,000 – equivalent of 1 year's DFC allocation  
Scheme Value £50,001 - £100,000 – equivalent of 2 year's DFC allocation  
Scheme Value above £100,000 – equivalent of 3 year's DFC allocation

### 3. Background

- 3.1 Each year, the Council agrees a school modernisation capital programme which addresses urgent condition works in LA maintained schools. The projects which feature in the programme have been identified through Asset Management Plan meetings, condition surveys and recommendations by Education officers concerning the needs of specific pupils.
- 3.2 Last year, Education Officers submitted a bid to the Council for £5,894,000 based on Priority 1 works that needed to be undertaken. Due to the budget available (circa £1.136m) these were re-prioritised based on a risk assessment (likelihood and impact). Those with a score of 23 and above were included in the allocation.
- 3.3 Officers were disappointed not to have secured funding for six projects with a score of 20. To have achieved this would have meant an additional investment by the Council of £520,931.
- 3.4 Schools are expected to contribute to the schemes. Contributions from the schools are currently based on the size of the scheme with a maximum threshold of 25% of the total costs for Primary Schools.
- 3.5 Options for calculating the schools contribution were considered at the Schools Forum meeting on 1 May 2013. It was agreed by Schools Forum that the approach used for 2012/13 (with the exception that the 25% threshold applied to all schools and contributions were not sought for emergency lighting and fire risk associated schemes), and which officers consider to be the most affordable for schools, would continue to be applied for 2013/14. This was also confirmed at the Schools Forum meeting on 30 April 2014 when it was agreed that the same methodology be applied for the 2014/15 school modernisation capital programme.
- 3.6 The methodology applied was based on the following:

#### **Minimum DFC contribution proposed from schools (25% maximum threshold for Primary Schools)**

- Scheme Value £15,001 - £50,000 – equivalent of 1 year's Devolved Formula Capital allocation
  - Scheme Value £50,001 - £190,000 – equivalent of 2 year's Devolved Formula Capital allocation
  - Scheme Value above £190,000 – equivalent of 3 year's Devolved Formula Capital allocation
- 3.7 For schools where there were multiple schemes, the methodology described above was applied to each scheme.

- 3.8 Where schools converted to Academy status, the outstanding contributions would be deducted in calculating their final surplus or deficit.
- 3.9 In all cases contributions were subject to affordability. The existing criteria for this is set out below:
- All maintained schools are expected to financially contribute to capital works, related to school condition projects carried out at their school. The level of the contribution will be in accordance with scales agreed by Schools Forum.
  - In the following circumstances, the contributions from the schools in respect of condition projects may be recovered over an extended period (the extension will be by one financial year):
    - the school already has an on-going commitment to contribute to a previous condition project; or
    - the school has had more than one scheme approved in the current financial year which attract a contribution; and
    - the schools financial reserves (capital and revenue) at 31 March of the previous financial year are less than 4% (Primary/Special) and 2% (Secondary) of the schools delegated budget share.
  - In the following circumstances, the contributions from the schools in respect of condition projects may be waived:
    - the school already has an on-going commitment to contribute to a previous condition project; and
    - the schools financial reserves (capital and revenue) at 31 March of the previous financial year are less than 1% (Primary/Special), 0.5% (Secondary) of the schools delegated budget share
- or,
- the expected contribution would cause the school to have an in-year and overall deficit balance.

#### 4. **Options for calculating the schools contribution**

- 4.1 It is proposed that a revised methodology be introduced. The existing funding mechanism, as set out in section 3 above, would be discontinued and the new methodology brought in for schemes commencing from 01 April 2015. The rationale for this is based on the volume and urgency of condition works that have been identified, and the reducing amount of capital funding that is available to the City Council. This would enable the limited amount of funding to be used on a greater number of projects.
- 4.2 Therefore, the key principles that have been used in designing the new methodology are to:

- (i) generate additional funding to enable further high priority schemes to be completed
  - (ii) ensure that the new methodology is equitable, by taking account of each school's funding level and ability to pay
  - (iii) adopt a straightforward model with minimal complexity.
- 4.3 Various options have been considered and modelled, utilising the 2014/15 capital programme data. The options put forward below, also offer an indication of the number of projects that could have been undertaken in 2014-15, had the level of contributions from the schools been different. These options also present a wide range of additional funding generated, thereby offering genuine alternatives to the current mechanism.
- 4.4 Some of the alternative options considered, modelled and rejected are outlined below, together with the reason for the rejection.
- (i) Flat Rate Charge for each phase. This proposal modelled the effect of charging various fixed sums for each band. However, it did not take account of the size of schools and failed to link to either budget share or DFC. Even with weighted adjustments for school balances this method failed to meet the objective of additional funding in an equitable and straight forward manner.
  - (ii) Straight percentage of school budget or DFC without weightings. Although, this method took account of a school's size, it failed to consider 'ability to pay' and was therefore rejected. However, Option 1(a) and (b) below use this as a base with adjustments for the level of balances held.
  - (iii) Increasing the number of bands - This method increased the number of scheme cost bands to 5 or 6 (from the 3 existing outlined in 3.6 above) with contributions between 1 - 4 years equivalent DFC. This failed to deliver any real increase in contributions as well as creating a more detailed & confusing set of parameters and was therefore rejected.
  - (iv) Straight increase in number of years' DFC contributions - The existing methodology was modelled with each band (outlined in 3.6 above) increasing by 1 year, thereby generating contributions between 2 - 4 years' DFC. This was also rejected as no real increase in contributions was apparent.
- 4.5 Set out below are the options offered for consideration to amend the current arrangements for school contributions to the schools capital programme. They have been compared to the existing contribution model to show the change in the level of contributions as well as the number of projects that could have been supported in 2014-15.
- 4.6 Option 1 considers moving to an affordable and equitable scheme whereby all schools contribute, regardless of whether they are having a capital scheme undertaken in that financial year. This collaborative approach would generate greater contributions and deliver far more schemes than is affordable under the existing mechanism. However, Option 2 offers an

alternative, similar to the existing scheme, but which takes account of a school's ability to pay.

### Option 1 - All Schools Contribute to the Capital Programme

Under this option, all maintained schools would be expected to contribute to the capital programme for condition works even if they were not receiving any works to their school, in that financial year. The contributions would be based on either:

- (a) annually contributing an amount equivalent to DFC allocations; or
- (b) annually contributing a percentage of the school budget share, depending on the level of balances held.

In order to ensure both the 'affordability' of schools to contribute as well as acknowledging the level of schools balances, the following weightings have been applied to the expected annual contributions under options 1a and 1b.

	1(a)** DFC Equivalent	1(b)* %Budget Share Equivalent
Total balances Below £25,000	Nil Contribution	Nil Contribution
Total balances £25,001 - £250,000	1 x DFC	1%
Total balances £250,001 - £500,000	1.5 x DFC	1.5%
Total balances over £500,000	2 x DFC	2%

\* This is calculated on school Devolved Formula Capital for the previous financial year and weighted on the balances held at the end of the previous financial year.

\*\* This is calculated on school budget shares before de-delegation and is based on the previous year's figures and weighted on the balances held at the end of the previous financial year.

A range of different levels of contribution under both 1(a) and 1(b) were modelled. However, the options put forward are considered to achieve the required objectives, whilst offering distinct alternatives.

Under these options, schools would no longer be expected to contribute the first £5,000 or £10,000 towards urgent works, as a small contingency would be held from the contributions received. In the last year approximately £40,000 has been contributed by schools towards the cost of urgent health & safety works.

### Option 2 - Only schools with capital projects contribute

This option, based upon the existing methodology, requires only those maintained schools with projects in the final approved capital programme to contribute towards the costs. Obviously under this option the level of contributions is significantly reduced and therefore the scope to increase the number of projects undertaken is limited. The proposals under this option apply the affordability criteria, as described in option 1(a), i.e. schools with a

higher level of balances contributing either 1.5 or 2 x the calculated base level annual DFC equivalent contribution, shown below and schools with balances under £25,000 paying no contribution. The current banding mechanism has been adapted for this option as follows:

- Scheme Value £15,001 - £50,000 – equivalent of 1 year's Devolved Formula Capital allocation
- Scheme Value £50,001 - £100,000 – equivalent of 2 year's Devolved Formula Capital allocation
- Scheme Value above £100,000 – equivalent of 3 year's Devolved Formula Capital allocation

Under this option schools would still be required to contribute the first £5,000 or £10,000 towards urgent works as a much lower level of funding will have been generated.

The impact of the above options is outlined in the table below

#### Capital Scheme Financing

	Existing Scheme £	Option 1 (a)* £	Option 1(b)** %Budget Share Equivalent £	Option 2 Existing Scheme Adjusted £
School Contributions	114,678	542,577	1,022,230	223,606
PCC Capital Funding	1,136,000	1,136,000	1,136,000	1,136,000
	<u>1,250,678</u>	<u>1,678,577</u>	<u>2,158,230</u>	<u>1,359,606</u>
Additional Contributions	0	427,899	907,552	108,928
Extra Schemes Funded	0	3	8	1

*\* This is calculated on school Devolved Formula Capital for the previous financial year and weighted on the balances held at the end of the previous financial year.*

*\*\* This is calculated on school budget shares before de-delegation and is based on the previous year's figures and weighted on the balances held at the end of the previous financial year.*

4.7 The options described (in paragraph 4.5 above) are considered to be the most equitable, straight forward and appropriate to put forward, with a view to increasing the number of high priority schemes undertaken.

4.8 The option generating the greatest additional contribution is option 1(b), being a contribution equivalent to 1% - 2% of each school's budget share, depending on the level of balances held. This option takes into account a school's ability to pay ensuring an increased 'affordable' contribution, to ensure urgent capital works are carried out. Had this option been in place for 2014/15, an additional 8 high priority schemes could have been undertaken.

## **5. Contingency and risk management**

- 5.1 Within the budget for each project, there is a level of contingency of between 6 - 10% of the project value. Should an emergency project be identified during the year that is not within the school modernisation capital programme, then the following will be considered:
- to establish if any further savings within the existing programme of works can be made to fund any additional work identified
  - a review of the identified projects to establish if there are any project savings that can be made or if any project can be re-phased without causing a health and safety concern
  - finally, any urgent works that cannot be funded by the other actions would have to replace the lowest priority projects providing works have not commenced.
- 5.2 If the urgent works cannot be funded from within the existing portfolio resources, then an additional capital bid may be submitted to the Council during the financial year. Any in year bids for additional capital funding, must follow the procedures set out within the Council's constitution, which includes approval by Full Council.
- 5.3 In the case of urgent works in 2013/14 schools were required to make a minimum contribution of £5,000. In 2014/15 it was agreed that for any urgent works as described above, the school would continue to fund the first £5,000 for schemes up to a value of £15,000. For schemes of £15,001 and over the same methodology as described in paragraph 3.6 would apply looking at the equivalent of DFC contributions whilst still ensuring there is a minimum contribution of £5,000. If either option 1(a) or option 1(b) is approved, then no further contributions would be sought for urgent works.

## **6. Legal implications**

- 6.1 The Council has an obligation to ensure that the premises of schools which it maintains are maintained to prescribed standards in accordance with section 542 of the Education Act 1996 and regulations made under that section. The annual schools modernisation capital programme contributes to the fulfilment by the Council of that obligation.
- 6.2 The Full Council will determine the amount of capital funding to be made available for the purposes of the programme each year and the Cabinet Member for Children and Education has power to approve the detail of the programme.
- 6.3 In addition to specific duties to consult the Schools Forum in respect of certain matters prescribed by Regulations, the Council has a general power to consult the Forum on such matters concerning the funding of schools as it thinks fit and this report seeks the Forum's approval/views in relation to a proposed change in the methodology for determining schools' financial contributions to works within the capital programme.

**7. Head of Finance comments**

- 7.1 The report sets out the proposals for continued school contributions towards the cost of the condition projects from their delegated budgets. Contributions will not be sought for schemes relating to the removal of friable asbestos since the local authority carries the statutory burden in these areas.
- 7.2 Any on-going revenue implications will be met by individual schools through their individual budgets which are funded from the Dedicated Schools Grant (DSG).

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Signed by: Julian Wooster, Director of Children's and Adults' Services

**Background list of documents: Section 100D of the Local Government Act 1972**

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

<b>Title of document</b>	<b>Location</b>
Asset Management Plan files	Housing Property Services
Condition Survey Reports	Housing Property Services – Concerto database
School Organisation Plan	Education

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Signed by: