

**Report to:** Schools Forum

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

**Date of meeting:** 21 January 2015

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

**Report by:** Mike Stoneman, Strategic Commissioning Manager  
Richard Webb, Finance 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 seek approval for the schools capital contribution methodology to be used from 2015/16 onward. This follows the 'in principle' agreement from Schools Forum on 15 October 2014 and the subsequent consultation process for the proposed new methodology, which took place between 04 December 2014 and 08 January 2015.

## 2. Recommendation

- 2.1 It is recommended that Schools Forum

- a) Note the principles adopted in determining the proposed contribution methodology, as set out in section 4 of this report.
- b) Note the response and feedback to the consultation, as set out in Appendix 2.
- c) Consider and approve one of the following methodologies for implementation from 01 April 2015:
  - i. The proposed methodology, whereby all maintained schools contribute, as set out in section 5 of this report; or
  - ii. The alternative methodology, whereby only maintained schools having capital schemes delivered will contribute, as set out in section 7 of this report.

*(Note: the individual school governing bodies will need to agree to contribute)*

### 3. Background Information

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 The existing methodology, applied for 2013/14 and 2014/15, was based on the following:

Minimum Devolved Formula Capital (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

3.3 For schools where there were multiple schemes, the methodology described above was applied to each scheme.

3.4 Where schools converted to Academy status, the outstanding contributions would be deducted in calculating their final surplus or deficit.

3.5 In all cases contributions were subject to affordability. The existing criteria for this are 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.

- 3.6 A report was presented to Schools Forum on 15 October 2014, which identified a significant funding gap and issues related to the existing methodology for calculating school contributions. Schools Forum endorsed, in principle, a proposal to introduce a new affordable and equitable scheme methodology, 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 the completion of far more schemes than is affordable under the existing mechanism.
- 3.7 Officers were requested, by Schools Forum, to undertake consultation with all maintained schools, with a view to introducing the new methodology from the 2015/16 financial year. A consultation paper was issued to all LA maintained schools on 4<sup>th</sup> December 2014, which sought views and an indication as to their likelihood of committing to the proposed new method of contributing to the capital programme.
- 3.8 The proposal, endorsed by Schools Forum, is that a collaborative approach be adopted, whereby all maintained schools contribute a weighted percentage of budget share, in order to ensure that a sustainable capital programme is preserved and an increased number of urgent capital projects is delivered.
- 3.9 Each governing body will ultimately have to approve their school's participation in the scheme, for an initial period of 2 years, which will require the majority of schools to agree, in order to proceed. Failure to move to the new methodology will result in many priority schemes being delayed to future years and works being undertaken at the minimum level required to meet statutory and health & safety requirements, in order to maximise the use of the limited financial resources.
- 3.10 The methodologies outlined within this report only apply to LA maintained schools, which are not Voluntary Aided (VA), as VA schools have a separate system arranged by the relevant diocese.

#### 4. Key Principles For The New Methodology

- 4.1 The existing funding mechanism will 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. It would enable the limited amount of funding to be used on a greater number of projects.
- 4.2 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; and
  - (iii) Adopt a straightforward model with minimal complexity.
- 4.3 Various options were considered by Schools Forum and the scheme outlined in section 5 is the one endorsed in principle and which officers were requested to consult on and obtain agreement to.

#### 5. Proposed Methodology - All Schools Contribute To The Capital Programme

- 5.1 Schools Forum agreed that the way to ensure the maximum number of urgent capital projects proceed, is via an affordable and equitable scheme whereby all maintained schools contribute, regardless of whether they are having a capital scheme undertaken in that financial year. This collaborative approach will require an initial 2 year commitment and will generate greater contributions, delivering far more schemes than is affordable under the existing mechanism.
- 5.2 In order to ensure both the 'affordability' of schools to contribute as well as acknowledging the level of school balances, the following weightings have been applied to the expected annual contributions.

<b>Level of balances as at 31 March 2015 (Revenue &amp; Capital)*</b>	<b>% of 2015/16 Budget Share (before de-delegation)</b>
Below £25,000	Nil Contribution
£25,000 - £75,000	0.5%
£75,001 - £150,000	1.0%
£150,001 - £300,000	1.25%
£300,001 - £500,000	1.5%
Over £500,000	2.0%

\* Excluding balances held in trust for other bodies (eg cluster funds)

- 5.3 Where a school's contribution would take balances below £25,000, contributions would be restricted to ensure that no school has overall balances below £25,000, as a result of its capital contributions.
- 5.4 The table below offers examples of the contributions payable by schools, at a range of budget share levels, across each of the bands outlined in paragraph 5.2 above.

Budget Share	Total Balances (Revenue + Capital)	Multiple	Annual Contribution
£750,000	Below £25,000	Nil	£0
	£25,000 - £75,000	0.5%	£3,750
	£75,001 - £150,000	1.0%	£7,500
	£150,001 - £300,000	1.25%	£9,375
	£300,001 - £500,000	1.5%	£11,250
	Over £500,000	2.0%	£15,000
£1.0 Million	Below £25,000	Nil	£0
	£25,000 - £75,000	0.5%	£5,000
	£75,001 - £150,000	1.0%	£10,000
	£150,001 - £300,000	1.25%	£12,500
	£300,001 - £500,000	1.5%	£15,000
	Over £500,000	2.0%	£20,000
£1.25 Million	Below £25,000	Nil	£0
	£25,000 - £75,000	0.5%	£6,250
	£75,001 - £150,000	1.0%	£12,500
	£150,001 - £300,000	1.25%	£15,625
	£300,001 - £500,000	1.5%	£18,750
	Over £500,000	2.0%	£25,000
<b>£1.5 Million</b>  <b>*See Example Below</b>	Below £25,000	Nil	£0
	£25,000 - £75,000	0.5%	£7,500
	£75,001 - £150,000	1.0%	£15,000
	<b>£150,001 - £300,000</b>	<b>1.25%</b>	<b>£18,750</b>
	£300,001 - £500,000	1.5%	£22,500
	Over £500,000	2.0%	£30,000
£3.0 Million	Below £25,000	Nil	£0
	£25,000 - £75,000	0.5%	£15,000
	£75,001 - £150,000	1.0%	£30,000
	£150,001 - £300,000	1.25%	£37,500
	£300,001 - £500,000	1.5%	£45,000
	Over £500,000	2.0%	£60,000

*\*Example:*

School 'A' Budget Share	£1,500,000
School 'A' Total Balances (Revenue + Capital)	£ 225,000
Multiple % to be applied	1.25%
Contribution calculation for School 'A'	£1.5 Million x 1.25%
Contribution Payable by School 'A'	<b>£ 18,750</b>

- 5.5 Had this proposed scheme been implemented in 2014/15 an additional 8 priority schemes could have been completed. This would have resulted in a much improved educational environment for many more children and staff in Portsmouth schools. A rejection of the new proposals would undoubtedly mean many priority schemes will be delayed into future years.
- 5.6 The proposal, if approved, will provide certainty to schools and the planning process, in terms of their capital contributions as well as having a positive impact on the number of schemes delivered. Additionally, the two year commitment required of schools will benefit the capital works planning process.
- 5.7 A key element of the new mechanism is that no contributions will be payable by schools with total balances (capital + revenue) below £25,000. Furthermore, following discussion at Schools Forum, the level of contributions will be capped to ensure that contributing to the new scheme will not take a school's balances below £25,000.
- 5.8 Contributions will be collected at the beginning of each financial year. Should a school convert to academy status during the financial year, their contribution is still payable in full for that year and any works included in the approved capital programme will still be completed.
- 5.9 Under the proposed new methodology, schools would no longer be expected to contribute the first £5,000 (Primary) or £10,000 (Secondary) towards urgent works, as a small contingency would be held from the contributions received.
- 5.10 The Council is fully aware that some Governing Bodies may decide not to accept the new collaborative approach. Schools choosing to reject the proposed scheme will be required to contribute 25% (up to a maximum of £225,000) towards each priority scheme at their school. Each payment will be a one-off with no deferral over 2 or 3 years.
- 5.11 Should a majority of maintained schools reject the proposals, an alternative scheme will need to be implemented, although the contributions required will increase significantly for those schools with priority schemes approved in the capital programme.

## **6. Responses to the Consultation**

- 6.1 All maintained schools, as part of the consultation issued on the 4<sup>th</sup> December 2014, were requested to consider and comment on the proposed new scheme outlined in section 5 above. A questionnaire was also attached for completion (see Appendix 1) which, together with any comments, were requested to be emailed to the Education Strategic Commissioning Unit, by 08 January 2015. The results of the consultation, together with key comments, are outlined at Appendix 2. Any responses received after this date will be presented verbally at the meeting.

## 7. Alternative Updated Existing Methodology

- 7.1 Should the proposed methodology, as outlined in Section 5 above, not be approved then an alternative mechanism, following the principles of the existing methodology, will need to be approved and implemented from 01 April 2015. However, both the 'banding' and 'affordability' criteria will need to be amended.
- 7.2 The purpose of the proposed new methodology is to increase the number of urgent schemes being delivered. Obviously, overall contributions are significantly reduced if schools choose not to support the proposal in section 5 and therefore the scope to increase the number of projects undertaken becomes limited.
- 7.3 Under this alternative method the below bands and contribution levels will apply:

### Contribution Calculations

- 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
- 7.4 In order to ensure both the 'affordability' of schools to contribute as well as acknowledging the level of school balances, the following weightings have been applied to the scheme contributions.

Level of balances as at 31 March 2015 (Revenue & Capital)*	Annual DFC Equivalent
Below £25,000	Nil Contribution
£25,000 - £75,000	0.5xDFC
£75,001 - £150,000	1.0xDFC
£150,001 - £300,000	1.25xDFC
£300,001 - £500,000	1.5xDFC
Over £500,000	2.0xDFC

\*Excluding balances held in trust for other bodies (eg cluster funds)

- 7.5 Under this alternative option, schools would still be required to contribute the first £5,000 (Primary) or £10,000 (Secondary) towards urgent works, as a much lower level of funding will have been generated through this alternative method.
- 7.6 Schools' contributions will be collected at the beginning of each financial year. Should a school convert to academy status during the financial year, their contribution is still payable in full for any schemes underway, with any outstanding or future years' contributions being collected as part of the final surplus/deficit calculations on Academy conversion. Any works, included in

the approved capital programme, which have commenced, will still be completed.

7.7 The table below offers examples of the contributions payable by schools, at a range of DFC levels, across each of the bands outlined in paragraph 7.3 above, for a scheme costing £150,000. The calculation is for each capital scheme.

Scheme Cost	School DFC	Total Balances (Revenue + Capital)	DFC Multiple	Total Contribution (over 3 years)
£150,000 (3 Years DFC)	£5,000  (x 3 Years = £15,000)	Below £25,000	Nil	Nil
		£25,000 - £75,000	0.5	£ 7,500
		£75,001 - £150,000	1.0	£ 15,000
		£150,001 - £300,000	1.25	£ 18,750
		£300,001 - £500,000	1.5	£ 22,500
		Over £500,000	2.0	£ 30,000
£150,000 (3 Years DFC)	£7,500  (x 3 Years = £22,500)	Below £25,000	Nil	Nil
		£25,000 - £75,000	0.5	£ 11,250
		£75,001 - £150,000	1.0	£ 22,500
		£150,001 - £300,000	1.25	£ 28,125
		£300,001 - £500,000	1.5	£ 33,750
		Over £500,000	2.0	£ 45,000
<b>£150,000</b> (3 Years DFC)  <b>*See Example Below</b>	<b>£10,000</b>  <b>(x 3 Years = £30,000)</b>	Below £25,000	Nil	Nil
		£25,000 - £75,000	0.5	£ 15,000
		£75,001 - £150,000	1.0	£ 30,000
		<b>£150,001 - £300,000</b>	<b>1.25</b>	<b>£ 37,500</b>
		£300,001 - £500,000	1.5	£ 45,000
		Over £500,000	2.0	£ 60,000
£150,000	£15,000  (x 3 Years = £45,000)	Below £25,000	Nil	Nil
		£25,000 - £75,000	0.5	£ 22,500
		£75,001 - £150,000	1.0	£ 45,000
		£150,001 - £300,000	1.25	£ 56,250
		£300,001 - £500,000	1.5	£ 67,500
		Over £500,000	2.0	£ 90,000

*\* Example*

School 'B' Capital Scheme Cost 2015/16	£150,000
Required Contribution	3 Years DFC Equiv.
School 'B' DFC	£ 10,000
School 'B' Total Balances (Revenue + Capital)	£ 225,000
Multiple to be applied	1.25 x DFC Contrib'n
Contribution calculation for School 'B'	£10,000 x 3 x 1.25
Total Contribution Payable by School 'B'	<b>£37,500</b>
Annual Instalments	£12,500



## **8. Contingency and risk management**

- 8.1 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.
- 8.2 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.
- 8.3 If the proposed new methodology in section 5 is approved, then no further contributions would be sought from schools for urgent works. However, under the alternative scheme the existing arrangements would continue with schools being required to contribute the first £5,000 (Primary) and £10,000 (Secondary) towards urgent works.

## **9. Legal implications**

- 9.1 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.
- 9.2 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.
- 9.3 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.

## 10. Head of Finance comments

- 10.1 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.
- 10.2 Financial modelling has been undertaken on both the proposed capital contribution methodologies, utilising the 2014-15 capital programme data. If the proposed methodology set out in section 5 had been applied in 2014-15, then an additional £890,000 of capital funding would have been generated, enabling 8 additional capital schemes to have been undertaken. If the alternative option set out in section 7 had been applied, then only £101,500 of additional contributions would have been generated, enabling only 1 additional scheme to be completed.
- 10.3 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
School Capital Programme and Contributions Working Papers	Education Finance

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 Signed by:

**Appendix 1 - 'School Contributions To Capital Schemes' - Consultation Questions**

**Questions:**

Schools' Capital Contributions Proposals	
1	Do you agree with the proposal to introduce a new collaborative methodology for calculating schools' contributions to capital schemes in Portsmouth?
2	Do you agree with the proposal to include an affordability index within the new methodology?
3	Do you agree with the proposal to restrict contributions to ensure that no school has its balances fall below £25,000?
4	Do you agree that those schools opting out of the new methodology should have the method outlined in paragraph 4.10 applied?



5	Do you have any comments regarding the proposed new system for calculating schools contributions to the capital programme?

## **Appendix 2 - Consultation Responses**

### **Schools' contributions to the annual school modernisation programme**

#### **Results of Consultation**

This appendix is a summary of the responses received during the consultation period which ended on Thursday 8 January, however, schools have been given the opportunity to provide feedback up until 20 January and any additional feedback received up to this date will be updated verbally to Schools Forum.

In addition to the summary below, all comments received during the consultation period will be circulated to Schools Forum members in advance of the meeting.

#### **Number of responses received: 9**

**1: Do you agree with the proposal to introduce a new collaborative methodology for calculating schools' contributions to capital schemes in Portsmouth?**

**Yes: 6**

**No: 3**

**2: Do you agree with the proposal to include an affordability index within the new methodology?**

**Yes: 6**

**No: 3**

**3: Do you agree with the proposal to restrict contributions to ensure that no school has its balances fall below £25,000?**

**Yes: 6**

**No: 3**

**4: Do you agree that those schools opting out of the new methodology should have the method outlined in paragraph 4.10 applies?**

**Yes: 4**

**No: 5**