

Report to: Schools Forum

Subject: Schools Modernisation Capital Programme - capital contributions from schools

Date of meeting: 25 February 2015

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

1. Purpose of report

- 1.1 The purpose of this report is to seek endorsement for the schools capital contribution methodology to be used from 2015/16 onwards. This follows the endorsement of the proposed new methodology by Schools Forum on 21st January 2015 and the subsequent request to schools that was sent out on 23rd January 2015 asking for confirmation of their support for the new methodology.

2. Recommendation

2.1 It is recommended that Schools Forum:

- a) Note the response and feedback to the request that was sent out to school Governing Bodies to confirm whether they would support the new methodology, as set out in Appendix 2 of this report;
- b) Acknowledge that the proposed new methodology (as set out in Appendix 1) is unviable, due to the fact that nearly half of the schools that responded confirmed they would not support the proposal;
- c) Endorse the alternative methodology (as set out in section 6 of this report), whereby only maintained schools having capital schemes delivered will be expected to contribute financially to the schemes.

3. Background to current methodology

- 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 with the schools, 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.

4. Background to the proposed new methodology

- 4.1 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.
- 4.2 Various options were considered by Schools Forum and the scheme outlined in Appendix 1 is the one endorsed by Schools Forum i.e. 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.
- 4.3 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.
- 4.4 **However, 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.
- 4.5 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 4th 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. The results of the consultation were presented to Schools Forum on 21st January 2015. The majority of schools that responded supported the new methodology but there were several schools who were opposed.

5. Responses to the request to Governing Bodies

- 5.1 All maintained schools, were requested to confirm the Governing Body's support for the new methodology.
- 5.2 The responses to the request, including key comments, are outlined at Appendix 2. Any responses received after 13th February 2015 will be presented verbally at the meeting.
- 5.3 In total 22 schools responded. 12 supported the new methodology; 10 were opposed to it. The fact that nearly half of the schools who responded stated they would not support the scheme confirms that the proposed new methodology is not viable as its implementation depends on the support of the vast majority of schools.

6. Alternative updated existing methodology

- 6.1 Should the proposed methodology, as outlined in Appendix 1 not be supported, then an alternative mechanism, following the principles of the existing methodology, will need to be endorsed and implemented from 1st April 2015. However, both the 'banding' and 'affordability' criteria will need to be amended.

- 6.2 Under this alternative method the below bands and contribution levels will apply:

Contribution Calculations

- Scheme Value £1- £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

- 6.3 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)

- 6.4 Schools will also be expected to contribute financial to any urgent works projects identified during the year. The calculation for the financial contribution will be based on the methodology set out above.
- 6.5 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.
- 6.6 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 6.3 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
£150,000 (3 Years DFC) *See Example Below	£10,000 (x 3 Years = £30,000)	Below £25,000	Nil	Nil
		£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
£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'	£37,500
Annual Instalments	£12,500

7. Contingency and risk management

- 7.1 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.
- 7.2 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. Legal implications

- 8.1 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.
- 8.2 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.
- 8.3 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.

9. Head of Finance comments

- 9.1 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.

- 9.2 Financial modelling has been undertaken on both the proposed capital contribution methodologies, utilising the 2014-15 capital programme data. If the proposed new methodology set out in Appendix 1 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 6 had been applied, then only £101,500 of additional contributions would have been generated, enabling only 1 additional scheme to be completed.
- 9.3 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:

Title of document	Location
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

Proposed new methodology - all schools contribute to the capital programme

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.

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.

Level of balances as at 31 March 2015 (Revenue & Capital)*	% of 2015/16 Budget Share (before de-delegation)
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)

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.

The table below offers examples of the contributions payable by schools, at a range of budget share levels.

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 Over £500,000	1.5% 2.0%	£18,750 £25,000
£1.5 Million	Below £25,000 £25,000 - £75,000 £75,001 - £150,000 £150,001 - £300,000 £300,001 - £500,000 Over £500,000	Nil 0.5% 1.0% 1.25% 1.5% 2.0%	£0 £7,500 £15,000 £18,750 £22,500 £30,000
*See Example Below			
£3.0 Million	Below £25,000 £25,000 - £75,000 £75,001 - £150,000 £150,001 - £300,000 £300,001 - £500,000 Over £500,000	Nil 0.5% 1.0% 1.25% 1.5% 2.0%	£0 £15,000 £30,000 £37,500 £45,000 £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'	£ 18,750

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.

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.

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.

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.

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.

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.

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.

Appendix 2

Annual Schools Modernisation Capital Programme - capital contributions from LA maintained schools

Response from schools to the statement: *The Governing Body of.....School agrees to contribute funding to the annual school modernisation programme for a two year period as set out in section 5 of the report to Schools Forum dated 21 January 2015.*

Responses received: 22

Yes: 12

No: 10

Comments:

- Want to know exactly what contribution is expected.
- Although in favour, the percentage scale should not be increased, this should also be reviewed after a 2 year period.
- In the case that insufficient schools sign up, can you assure us that the amount requested above will not increase?
- Despite our instincts to be collaborative and work for the good of all schools in the city, this proposal would have a dramatic impact on our finances and is not in the school's best interest at this time.
- The Governing Body have approved it on the basis that it is the 'right thing' to do but felt that the details provided didn't give sufficient information to have a balanced discussion. It would have been good to see what programmes were completed and those that would have been included within the 14/15 if this scheme had been adopted. We would like the school to know all the schemes that are funded in 15/16 as a result of this change. We would have liked more time and better impact information that would have permitted a more informed debate. It felt rushed and a no choice option.
- The worries and concerns are already represented in comments listed from the previous consultation.
- Please refer to previous letter outlining the school governors' reasons for rejecting the proposals. The school position has not changed, the governors do not support the proposed new methodology and the school will not be contributing funding.
- The governing body does not agree to contribute and believe that the consultation gave late and unreasonable notice allowing governors little time to meet and review. The proposal does not fit alongside local or national financial requirements which all schools are required to adhere to. To date capital funds have been used by the local authority to support capital projects, revenue funding is intended for the education of pupils in that school and not to be raided to support other schools capital projects. This completely goes against the local authority pledge to raise standards for the pupils of Portsmouth.
- Section 4.10; we would question whether there is a legal framework for putting pressure on a school to comply with using delegated funds to support this project, or face a financial penalty. If schools are now required to support other school budgets, under the umbrella of collaborative working, how does this fit within the Fair Funding

formula? The Local Authority has responsibility for maintaining school buildings and this would remain the case for these schools not taking part. How can this be fair?

- This is an ill thought out scheme with little attention to detail. There is no distinction between committed and uncommitted funds and no consideration of budgets held by schools for breakfast and after school provision, cluster groups etc.
- We are very concerned as to how this proposal will affect our school. Our revenue balances are committed to ensuring we can employ extra teaching staff so that children can work in smaller groups for literacy and numeracy. This has had a very positive impact on our attainment and progress. We would be happy to consider contributing from capital monies. As other schools are, we are concerned with part 4 which appears to penalise any school who doesn't agree to a contribution, surely the LA still legally has Landlord responsibilities?
- While we support a collaborative approach we are not happy with the proposed annual contributions particularly in relation to schools with high budget shares. We endorse much of what was said in the letter from Springfield school. The third paragraph (re: local management of schools and its purpose) is one that we particularly agree with. We also echo what was said about the lack of distinction between committed and uncommitted balances. Could the calculations not be based purely on revenue and uncommitted balances. That would then leave schools free to plan and carry out particular building projects or staffing restructures.
- If despite our decision to say no to this proposal, the majority of schools say yes and the scheme goes ahead then we would expect to be given another opportunity to decide whether we want to take part in this scheme.
- If the scheme goes ahead then we would also expect our planned commitments for summer 15 refurbishment works, our restricted grant funds and our existing capital contributions to the previous capital scheme to be taken into account when determining whether our surplus balance is above the £25k threshold.
- In principle yes but would prefer the uncommitted balances to be the amount that is available for clawback.
- Schools that have saved for a specific capital project should not be penalised through the proposed methodology.
- The Governing Body will not contribute funding! The school budget is used each year and balances are small. We cannot afford to contribute more for a capital programme when we have other urgent needs such as IT equipment for pupils. Our forecast is for reducing balances in the next 3 years.
- The governing body has reservations about the proposal and the effect it might have. The proposal has not changed even though there was considerable feedback; neither was there a response to the feedback giving appropriate arguments that might have been considered.