



Walsall Children's Services

Report to: Schools Forum

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Subject: Start up costs in respect of the Primary Capital Programme and Building Schools for the Future.

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Purpose of the report: To provide Schools Forum with further information regarding the contributions required from schools to enable the future delivery of PCP and BSF programmes in Walsall.

Decision: Schools Forum is required to agree a preferred funding option for the 2009-10 and 2010-11 financial years.

Implications

Financial: A reduction in the total resources available to schools of approximately £1.6m per year for both the 2009-10 and 2010-11 financial years.

1. Introduction

- 1.1 At the Schools Forum, 20 January 2009, a report was circulated exemplifying a number of options to fund a £2m contribution towards BSF/PCP start up costs.
- 1.2 The report generated detailed discussions which concluded that the cost to the schools overall, and the ISB in particular, should be reduced in order to make the contribution more affordable.
- 1.3 It was agreed by the Forum that the total contribution of £2m agreed at the 9 December 2008 meeting be reduced to £1.6m, and that further contributions from non-ISB sources be investigated.
- 1.4 This report summarises the result of the investigative work undertaken since the last Schools Forum meeting.

2. Estimated BSF/PCP Start up Costs

- 2.1 The best current estimated cost to take Walsall Council through the BSF process to financial close (approximately 2.5 years after the remit meeting) and support PCP is £6.2m. These costs will continue to be re-evaluated and challenged as the process progresses. An approximate breakdown of costs is :

Internal Costs	£2.113m
External Costs	£4.035m

Total £6.148m

- 2.2 The external costs relate to consultancy costs mainly being procured through the BSF Framework agreements set up by Partnership for Schools (PfS). PfS is the arm of the DCSF managing the BSF programme.
- 2.3 An article published in the Local Government Chronicle, 19 February 2009, available at www.lgcplus.com, states the start up costs for the first 15 Local Education Partnerships (LEP) as £9m - £10m. This includes :

£2m	Direct Council costs
£1m - £2m	Local Authority Consultants
£4m - £5m	Private Sector costs paid by the Council
£0.5m - £0.8m	Legal costs to set up company structures

- 2.4 The Coventry BSF start up costs, previously shared with Schools Forum, anticipated costs of £5.3m rising to £7.1m. Of this sum, £4.4m was provided from the Schools Budget.
- 2.5 Going forward, it is anticipated that the budget information shared at the BSF Programme Board will be shared with the Schools Forum. The Director for Regeneration and Performance, Tim Johnson chairs this meeting, and it is also attended by the Chief Executive, Paul Sheehan.
- 2.6 The Council wish it to be noted that programme spend on other BSF projects (as noted in paragraph 2.3) is significantly in excess of what Walsall Council is currently estimating. Walsall Council would ask Schools Forum to consider that if costs were to over run current estimates and move in line with those seen elsewhere, that we would seek to discuss potential funding of the overspend with Schools Forum.

3. Interest from School Balances

- 3.1 As some schools do not bank with Walsall Council it would be impossible to collect all interest accrued from school balances. However, another option could be the offer of a bond by the Council.
- 3.2 The Council will be able to offer bonds with a fixed rate of 2.5% for 12 months which is competitive in the current market. The fixed rate would allow schools to have certainty of their return 1.5% above current base rate. The extra 1.5% would then be utilised to offset BSF contributions in 2010-11, leaving schools with a 1% cash gain to help with their own BSF contribution.
- 3.3 This preferential rate Bond Scheme would only be available to schools for the purpose of reducing the 2010-11 BSF/PCP contribution. Any other investment would only attract the basic return rate of 1%. Further information regarding the operation of the scheme will be sent to schools as soon as possible.

4 A Temporary Variation to the Minimum Funding Guarantee (MFG)

- 4.1 The government introduced a per pupil, MFG into the school funding system several years ago. The purpose of the guarantee is to protect the base funding of schools from significant financial turbulence year on year. However, the DCSF will agree local variations to the MFG in certain circumstances, where it is clear that the matter has been discussed with the Schools Forum, and, Schools Forum supports the proposed change.
- 4.2 The PCP/BSF funding models shared with Schools Forum in January exemplified the impact of the MFG on the proposed ISB contribution. The schools on or close to the MFG limit, made little or no contribution towards the cost of the required contribution. In order to secure the necessary sum from the ISB additional costs of between £343k and £709k were incurred, dependent upon the model adopted.
- 4.3 The DCSF has been formally asked to approve a temporary variation to the MFG, to minimise the financial impact of the BSF/PCP contribution on the ISB. The initial DCSF response to our request is positive, (based upon the per pupil exemplification) as the impact on schools is less than 1% of their delegated budget share,
- 4.4 Therefore, the models detailed in section 7 of the report assume that the variation to the MFG has been formally approved, thereby limiting the financial impact to the ISB. However, formal approval will not be given by the DCSF until the Schools Forum has made a final decision to support the proposal and agreed a funding model.
- 4.5 The MFG protection will remain as part of the budget setting process for 2009-10 and 2010-11. The variation to the MFG will only allow the addition of a new formula factor to those items already excluded from MFG, such as business rates and funding for named pupils. All other formula factors will have the MFG uplift of 2.1% applied.

5 Devolved Formula Capital

- 5.1 The initial proposals shared with Schools Forum assumed a £200k per annum contribution from the five proposed BSF Wave 6a schemes. The sum was deliberately set at a low level as at the time of writing the report the five proposed schemes had not been announced and their DFC commitments were therefore unknown. Also there are potential technical accounting issues arising from the use of capital funding and these are being explored with the authority's consultants.

- 5.2 The proposed Wave 6a schemes are listed below along with the recommended BSF/PCP contribution.

Proposed Scheme	BSF Contribution Over 2 Years £
Alumwell	100,000
Joseph Leckie	100,000
Pool Hayes	100,000
Shire Oak	200,000
Streetly	200,000
Total Contribution	700,000

- 5.3 All proposed schemes, with exception of Pool Hayes (full rebuild), will have an element of new build and major and minor refurbishments. The recommended BSF contribution towards the programme set up costs is based upon the sums available to the existing schools over the next two years and the condition of the buildings. The figures have been suggested by the Asset Management Team and are based upon their knowledge of the buildings. The proposal requires the schools to retain a reasonable sum to meet essential maintenance costs during the next two years.
- 5.4 The Asset Management Team has made it clear that the above figures could be subject to change if there are any unforeseen building issues or mechanical break downs.

6 Extended Schools Grant Funding

- 6.1 The Schools Forum agreed that £200k should be taken from the Extended Schools Grant funding for both 2009-10 and 2010-11 financial years to support the BSF/PCP costs. However, to minimise the impact of the set up costs on the ISB, it is now suggested that the grant contribution be increased from £200k to £262k in year 1 of the programme.
- 6.2 The amount of grant funding available per year would be as follows, if the above proposal is agreed.

Year	Original Grant £	BSF/PCP Contribution £	Grant Remaining £
2008-09	1,369,285	-	1,369,285
2009-10	1,784,247	(262,000)	1,522,247
2010-11	1,527,513	(200,000)	1,327,513

7 ISB Contribution to BSF/PCP Set Up Costs

- 7.1 The proposals contained within this report have reduced the impact on the annual BSF/PCP contribution from the ISB as detailed below:

	Original Proposals		Revised Proposals	
	2009-10 £	2010-11 £	2009-10 £	2010-11 £
DFC Contribution	200,000	200,000	358,000	381,000
Extended Schools Grant	200,000	200,000	262,000	200,000
ISB	1,600,000	1,600,000	980,000	1,019,000
Total Contribution	2,000,000	2,000,000	1,600,000	1,600,000

- 7.2 The ISB contribution to the set up costs could be reduced further subject to the take up of the Bond Interest Scheme, or the recovery of surplus school balances. However, in practical terms it will not be possible to identify such contributions towards the 2009-10 costs, as there is a requirement for indicative school budgets for 2009-10 and 2010-11 to be issued before the end of the month. Therefore, any funding achieved through these routes would reduce 2010-11 contributions.
- 7.3 In the last report on this subject two basic funding models were used. The first and more complex model reduced a number of pupil-led formula factors, whilst the second model was based upon a lump sum contribution. Because of the impact of the MFG, the lump sum model was preferred as this was least expensive to the ISB.
- 7.4 Three new **indicative** models have been prepared, all predicated upon the Schools Forum and the DCSF formally approving a variation to the MFG in 2009-10 and 2010-11.

Option 1

This is a simple pupil led model. A sum for every school has been calculated based upon their estimated pupil numbers multiplied a flat rate of approximately £24.50 per pupil in 2009-10 and £25.50 per pupil in 2010-11.

$$\frac{\text{ISB Contribution}}{\text{Total Pupils}} \times \text{No. Pupils per School} \times \text{Rate per Pupil}$$

This methodology is transparent and fair as it reflects the total resources available to each school.

For 2009-10 the **indicative** range of contributions across the sectors are:

Sector	Minimum Contribution £	Indicative Budget £	% Cont	Maximum Contribution £	Indicative Budget £	% Cont
Nursery	450	229,000	0.2%	1,400	347,000	0.4%
Primary	3,500	780,000	0.4%	15,900	1,830,000	0.9%
Secondary	11,600	1,955,000	0.6%	32,000	5,150,000	0.6%
Special	500	763,000	0.1%	3,300	1,914,000	0.2%

Option 2

This methodology calculates **indicative** contributions using the ISB contribution as a proportion of the total ISB and then allocates this to individual schools based upon their total budget share.

$$\frac{\text{School Budget Share}}{\text{Total ISB}} \times \text{BSF/PCP Contribution}$$

This methodology matches the contribution per school to the amount of funding received by each school. The results for many schools are similar to Option 1, as the majority of school funding is pupil led. This option either maintains or reduces the range of contributions across the sectors, with the exception of the special schools, where there is an increase. This option also reduces the impact on smaller schools which receive basic budget shares, with little or no additional funding for SEN or deprivation delivered through the formula.

Sector	Minimum Contribution £	Indicative Budget £	% Cont	Maximum Contribution £	Indication Budget £	% Cont
Nursery	1,500	229,000	0.6%	2,300	366,000	0.6%
Primary	3,700	577,000	0.6%	11,600	1,830,000	0.6%
Secondary	12,000	1,908,000	0.6%	32,600	5,150,000	0.6%
Special	4,800	763,000	0.6%	15,800	2,502,700	0.6%

Option 3

This is a lump sum methodology which applies a fixed sum across all schools in each sector. Although this is the cheapest option for the ISB without the variation to the MFG, it has a greater financial impact on the smaller schools. Therefore, if the MFG variation is agreed, this would not be the recommended option.

In the model the following lump sums have been used:

	2009-10 £	% of Budget Range £
Nursery	1,200	0.3% - 0.6%
Primary	5,800	0.3% - 1.0%
Secondary	26,000	0.5% - 1.4%
Special	5,800	0.2% - 0.8%

In addition, this option would not meet the DCSF requirement to limit the impact of the variation to below 1% of an individual school's budget.

8. Recommendations

- 8.1 The Forum is recommended to approve a £1.6m contribution to the BSF/PCP set up costs based upon the following approximate contributions:

	2009-10 £	2010-11 £
DFC	358,000	381,000
Extended Schools Grant	262,000	200,000
ISB	980,000	1,019,000
Total	1,600,000	1,600,000

- 8.2 Schools Forum is requested to approve the variation to the Minimum Funding Guarantee for the 2009-10 and 2010-11 financial years and to seek the formal ratification of the DCSF to this proposal.
- 8.3 Schools Forum is recommended to adopt Option 2 as the preferred, new ISB formula factor to be used to provide the required BSF/PCP contributions for 2009-10. However, if DCSF insist upon the per pupil methodology then this will be used as the alternative.
- 8.4 The Forum is recommended to approve in principle the 2010-11 BSF/PCP contribution, on the understanding that the ISB element of the contribution may reduce dependent upon the uptake of the Bond Scheme and the recovery of surplus balances at the end of the 2009-10 financial year.

9. Communication

- 9.1 The outcome from this Schools Forum will be shared with all schools as soon as possible. In addition the BSF/PCP contribution for each school will be clearly identified on their school budget notification.