

CAPITAL STRATEGY

Report of the Director of Children Schools & Families

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1. Purpose of Report

- 1.1 This report sets the context for the schools related capital programme in the current financial climate. It deals with the impact of government changes to the arrangements for supported borrowing and how the authority might work with schools to develop strategies to manage this – specifically related to the use of the Dedicated Schools Grant (DSG).
- 1.2 It concentrates particularly on :
- the general strategy and priority principles for any future capital programme, including repairs and maintenance
 - the effect of ‘supported borrowing’ on the County Council’s capital programme
 - priority criteria for projects which may be reinstated if the funding position improves

2. Background

- 2.1 The capital programme for schools is financed from a mix of capital receipts, specific grants, borrowing and revenue financing. Details of the capital budget for the schools programme for financial years 2004-05 to 2007-08 are set out in the table below.

	2004/05 £'000	2005/06 £'000	2006/07 £'000	2007/08 £'000
General Programme	4935	16,795	15,758	16,654
Self-financing	11,442	9,912	5,533	3,310
Externally funded*	49,727	48,198	28,767	25,680
Annual Provisions	8,085	7,420	15,965	15,986
Total	74,189	82,325	66,023	61,810

* Elements of the externally funded programme are reported within the general and annual provisions categories for 2006-07 and 2007/08

- 2.2 Considerable improvements have been made in the condition of buildings through an increased repair and maintenance programme and a sizeable capital investment programme. Nevertheless, there is still an historical legacy of small schools in elderly buildings with large numbers of mobile classrooms, outdated specialist accommodation and inadequate sports facilities, and children's residential accommodation which is increasingly unfit for purpose.
- 2.3 Area reviews of the provision of school places provide the opportunity to rationalise providing and, where possible, to create a smaller number of larger schools in better buildings. There is also the challenge of meeting the Government's targets for the development of children's centres and extended school provision, both of which have buildings and therefore capital expenditure implications.
- 2.4 In addition to the work that is already planned it should be noted that substantial work is anticipated in school kitchens to address the results from surveys of school kitchens notified by Environmental Health Officers. This is an initiative known as "scores on the doors" which has previously targeted the restaurant business, resulting in publication of their findings and closure notices where appropriate. Hertfordshire Property has commissioned Hertfordshire Catering to conduct surveys to establish the scope and cost of works required to meet the required standard. The resulting report is expected to recommend actions requiring funding by both the Authority and the schools concerned.
- 2.5 However, such developments rely on the availability of resources to invest in future programmes. Changes made by the Government to the revenue grant formula in 2006/07 mean that floor authorities like Hertfordshire that receive the minimum revenue grant increase will see no benefit from additional Government supported borrowing allocations in terms of revenue grant. The Government's formula allocations of schools capital is also increasingly delivered through 'supported borrowing' as shown in the table below:

	2004/05	2005/06	2006/07	2007/08
	£'000	£'000	£'000	£'000
Grant	19,459	12,564	6,435	4,901
Supported Borrowing	11,332	14,609	15,267	17,106
Total	30,791	27,173	21,702	22,007

This means the capital financing costs of new supported borrowing allocations for schools have to compete with all other capital and revenue spending demands (except the Dedicated Schools Grant).

3. Capital Budget 2007/08

- 3.1 The County Council at its meeting on 27 February 2007 agreed a revenue and capital budget for 2007/08 which reflects the financial constraints on the County Council, particularly the effects of 'unsupported' borrowing.
- 3.2 In order to contain future council tax increases the Council has had to review its capital plan proposals. For 2007/08 this meant the authority has had to prioritise schemes which are:
- critical to the delivery of strategic priorities - such as the provision of Key Stage 4 Learning Centres for Children Out of School
 - any statutory responsibility
 - required to address issues of health and safety at the school; or
 - where the work has already started on site.
- 3.3 Members have also retained broadly the same level of spend on repairs and maintenance. This has had to take account of extra expenditure on schools meal kitchens to address the inter-linkage of providing replacement kitchen equipment with new gas regulations that required the fitting of gas shut-off valves, and associated ventilation. Some kitchens were already the focus of official warnings from the Environmental Health Officer.
- 3.4 Whilst members have approved a significant schools capital programme for 2007/08, totalling £61.810m, it has meant that 39 proposed schemes could not be funded at this time and were withdrawn from the programme. Details of the schemes affected are set out in Appendix 1. Unless the system for funding changes, there are likely to be future implications for capital projects for all schools.

4 Action by the Authority to Address This

- 4.1 The authority has had ongoing discussions with ministers regarding the impact of these funding changes and pressure is being applied to the Government to restore effective revenue support for 'unsupported' borrowing.
- 4.2 However, given the overall funding constraints the authority believes that this is unlikely to be forthcoming. If the authority is to deliver a sustainable and enhanced capital programme for schools then there is a need to consider, with the Forum, alternative options for financing capital. This includes seeking a proposed change to the school funding regulations to allow the Schools Forum to agree that the revenue cost of borrowing for schools' capital projects to be met from the Dedicated Schools Grant (DSG). Without this change it will not be possible for the authority to deliver a sustainable programme for schools.

- 4.3 A recurrent contribution of £1m from the DSG would deliver a capital programme for schools of about £10m in 2008/09.

5. Involvement of the Schools forum

- 5.1 The current consultation on school, early years and 14-16 funding provides an appropriate opportunity for the authority and the Forum to lobby the government for these changes. The support of the Schools Forum will undoubtedly have a strong influence on the views of Ministers. A proposed strategy to deliver these changes is set out in Appendix 2. Given the impact of these issues in the current year, it is proposed that a specific response should be sent to the DfES in advance of the consultation feedback.

6 Benefit to Schools

- 6.1 Changes to the funding arrangements would provide for an open and transparent strategy around funding for capital projects in future. This will be included in the Hertfordshire Learning Partnership and will include:
- a five year capital strategy, involving stakeholders, which takes account of all funding revenues
 - a planned programme for consultation with the Schools Forum about revenue and the capital programme
 - open and transparent arrangements around the decision-making relating to funding of projects
- 6.2 In parallel to this, members have asked officers to pursue a number of other strategies to secure funding, including:
- Reviewing options to phase the building programme
 - Maximising external funding sources
 - Use of schools' clawback balances.

Information on the level of schools' clawback will be available later on in the current financial year which would be subject to consultation with the Forum.

- 6.3 Given the constraints on the County Council's own resources, capital funding will come increasingly from external sources, such as S106 contributions. The major sources, however, are Building Schools for the Future (BSF), the Primary Capital Programme (PCP) and the PFI. Both BSF and PCP represent large scale procurement of construction and ICT through the creation of a joint venture company between the local authority, central government and a private sector partner, called a Local Education Partnership.

6.4 The BSF programme in Hertfordshire over the next 10 to 12 years will consist of seven sequential geographical procurement areas of some £150 million each, in the following order:

- Stevenage (in 2008/09)
- East Central Area (Hertford/Ware, WGC/Hatfield and Potters Bar)
- Western Area (Hemel Hemstead)
- Eastern Area (Bishop's Stortford down to Broxbourne)
- Northern Area (North Herts District Council, excluding Stevenage, but including Buntingford)
- Southern Area (Watford and south-west Herts)
- Western Area (St Albans and surrounding area).

The ICT part of BSF funding, however, amounting to £12.6 million for Stevenage is 'unsupported' borrowing which the County Council will have to find in order to receive £133.5 million for capital building. There is also likely to be a gap between this capital funding and the cost of the building works actually undertaken. Partnerships for Schools recognizes this difficulty and has expressed its willingness to work with the County Council to ensure that this important programme is not jeopardized by the funding situation.

6.5 The PCP is an annual allocation of funding, over a similar period of time, to rebuild 5% of primary schools and undertake major refurbishment to a further 45%. Hertfordshire is one of 23 regional pilot authorities in 2008/09 with funding to test different approaches to the major refurbishment of system-built buildings prior to the main programme commencing 2009/10. Criteria will be established to identify which schools need to be rebuilt and which refurbished.

7. Priority principles

7.1 Members have also agreed to consult the Schools Forum about the criteria which should be used to prioritise schemes to be financed from school budget resources, where:

- those projects which could be reinstated if extra funding should become available through the use of, for example, 'clawback' balances, and
- projects for inclusion in a programme funded from the use of DSG to support borrowing for capital expenditure.

7.2 The report to Schools Forum in April 2005 suggested the following priority criteria:

- ensure that no buildings will be closed for health and safety, other legislative or basic amenity reasons
- provide sufficient accommodation to meet anticipated need

- provide additional or remodelled accommodation to meet current needs or to replace worn out temporary accommodation
- reduce unsuitable accommodation in special schools
- improve technology provision
- undertake refurbishment of science laboratories
- improve Food Technology provision.

7.3 It is suggested that these priority criteria are still relevant and appropriate but should be supplemented as follows:

- where the County Council funding would lever-in funding from another source
- ensure that sports facilities meet current DfES standards, for example, sports halls for secondary schools.

8. Conclusion

- 8.1 Whilst the authority has provided significant investment in schools over many years through the capital programme, future investment is at risk given the extremely challenging financial context for the authority. In order to deliver sustainable investment in schools then alternative means of financing capital are required for the future. In particular, the Schools Forum is asked to work with the authority to seek a change to the School Funding regulations to allow the costs of capital financing to be charged against the Schools Budget.
- 8.2 Members of the Forum are asked to comment on the principles to be applied to schemes within the programme which would be funded through the Schools Budget.

Appendix 1

Details of Schemes withdrawn from the programme 2007/08

School Name	Bid Total £'000
Modernisation 2006-08	
Abbots Langley Primary - provision of medical room and improvements to admin	175
Aycliffe Drive Primary (Hemel Hempstead) - Replace temporary nursery classroom with permanent build and improvements to staff and administrative accommodation	475
Beech Hyde Primary (Wheathampstead) - Remodelling of open plan classrooms to create discrete classbases	350
Bernards Heath Infant School (St Albans) - Possible incorporation of former old school building	350
Broadfield Junior (Hemel Hempstead) - Extension of administrative and creation of library area	320
Camps Hill Primary (Stevenage) - Improvements to staff and administrative accommodation	175
De Havilland Primary (Hatfield) - Extension and remodelling of entrance and parking	200
Eastbury Farm (South Oxhey) - Improvements to staff and administrative accommodation	175
Edwinstree Middle School (Buntingford)- Refurbishment of changing room facilities	180
Graveley Primary (Nr Stevenage) - Replacement of 2 mobile classrooms and improvements to core facilities	500
Hartsbourne Primary (Bushey Heath) - Improvements to staff and administrative accommodation	150
Hartsfield Primary (Baldock) - Improvements to staff and administrative accommodation	175
Hemel Hempstead Secondary (The) - New Food Technology provision	650
Highfield Secondary (The) (Letchworth) - New Sports Hall and provision of covered external area	2400
Kimpton Primary - Improvements to staff and administrative accommodation	150
Morgans Primary (Hertford) - Improvements to staff and administrative accommodation	175
Mount Pleasant Lane Primary (Bricket Wood) - Improvements to staff and administrative accommodation	175
Newberries Primary (Radlett) - Improvements to staff and administrative accommodation	150

Ponsbourne St Mary's Primary (Newgate Street) - Addition of a classroom	250
Priors Wood Primary (Ware) - Improvements to staff and administrative accommodation	150
Queens Secondary (Bushey) - Sports Hall (£350K available from external source(s))	2050
Redbourn Junior School - Improvements to staff and administrative accommodation	150
Sir John Lawes Secondary (Harpenden) - Replacement of 6 temporary classrooms plus ancillary space and removal of wood preparation from technology workshop	1600
Spellbrook Primary (Bishop's Stortford) - Improvements to staff and administrative accommodation	117
Stonehill Primary (Letchworth) - Improvements to staff and administrative accommodation	150
Tanners Wood Primary (Abbots Langley) - Top up to S106 - Replacement of 4 mobile classrooms	350
Thorn Grove Primary (Bishop's Stortford) - Improvements to staff and administrative accommodation	150
Wheatcroft Primary (Hertford) - Improvements to staff and administrative accommodation	175
Woolenwick (Stevenage) - Remodelling of open plan classrooms to create discrete classbases	400
Woolgrove School (Letchworth) - Extension to front entrance of school and to administrative areas	250
Secondary Science Laboratory refurbishment programme	
Chancellors (Potters Bar), Fearnhill (Letchworth), Priory (The) (Hitchin), Sele (The) (Hertford) - Refurbishment of science laboratories	1,440
Cavendish (Hemel Hempstead), Chauncy (The) Ware), St Albans Girls' School, Sandringham (St Albans) - Refurbishment of science laboratories	1,500
Total Modernisation	15,657
Presdales Secondary, Sports Hall – 2002/03 design start general programme	2,400
Total	18,057

**HERTFORDSHIRE SCHOOLS CAPITAL PROGRAMME
- CALL TO CAMPAIGN
OUR MONEY OUR CHOICE**

Background: Changes made by Government mean that authorities that receive minimum funding (floor authorities) see no revenue benefit from additional Government supported borrowing allocations. This means the capital financing costs of new supported borrowing allocations have to compete with other capital and revenue spending pressures. The outcome is that 38 proposed capital schemes for schools cannot be funded in 2007/08. Without a change to the regulations, there are likely to be implications in the future for capital projects for all schools.

In 2007/08, the Schools Finance regulations restrict the charging of capital schemes to the DSG to those which are 'self financing'. This severely limits the range of improvements which are eligible. In Hertfordshire's case, this has meant the loss of some highly desirable schemes, including some which have matched funding from other sources (including Sport England funding). The increased fiscal pressure placed upon floor authorities means that this situation is likely to apply in subsequent years, and, with other unavoidable budgetary pressures, may well become more acute, resulting in the further loss of important and priority improvements.

The Government are currently consulting on the regulations which will apply from 2008/09 onwards. An opportunity therefore exists to seek a change in the regulations and to widen the range of capital schemes which can be charged to the DSG, where there is the support of schools to do so.

Assuming the support of the Schools Forum is forthcoming, the County Council will make formal a response to the consultation and request this change. It will also make direct representation to the Minister on this matter, particularly about the impact in the current (2007/08) financial year.

Aim: To secure a change to regulations for 2008/09 and onwards which would allow capital to be charged to the DSG.

Campaign objective: To seek a change in the Schools Finance regulations to enable the costs of school capital financing to be charged to the Schools Budget, with the approval of the Schools Forum.

A recurrent £1 million contribution from the Schools Budget would deliver a £10m capital programme in 2008/09.

Target: Jim Knight, MP – Minister for Schools, DfES

Action

Preparation

- secure support of Heads and Governors for the proposal
- brief stakeholders including all county councillors and MPs
- brief local media

Securing support

- seek to secure support of other local authorities in a similar position.

Respond to consultation

Submit response to 'Schools, early years and 14-19 funding' by 30 June deadline

Lobbying – Stage I

- write to Minister setting out case, indicating extent of local support, explain how the existing regulations are impacting on the current (2007/08) capital programme
- in parallel seek a meeting the civil servants to brief them on the letter, its contents and objectives

Lobbying – Stage II

- seek a meeting with the Minister to discuss the proposal in greater detail
- ask local MPs to write to/meet with the Minister in support of the Hertfordshire case (exact nature of this to be determined in light of the Ministerial meeting)
- if Minister is not supportive of Hertfordshire's case, mobilise other authorities in a similar position to lobby directly and encourage these authorities to reflect these concerns in their response to the consultation

Lobbying – Stage III (only used if government response to consultation does not secure appropriate change to the regulations)

- write-in campaign – with the support of local media, promote write-in campaign by parents, pupils and teachers. This could be coordinated through hertsdirect.org website as an online petition
- request local MP to secure a Westminster Hall debate about the issue and/ or identify Peer to call for a House of Lords debate
- seek support of other authorities for a national media campaign to raise the profile of this issue

Timetable

w/c 16 April and 23 April	Heads and Governors briefing
25 April	School Forum
During May	Secure support
Early May	Lobbying Stage I Make direct representations to Minister about charges to DSG, particularly highlighting current year impact

During June	Lobbying Stage II Meeting with Minister
By 30 June	Respond to consultation on 'schools, early years and 14 – 16 funding'
30 June	Consultation closes
Summer 2007	Government response to consultation
Post Parliamentary Summer Recess	Lobbying Stage III – if required