

**1. SUMMARY**

- 1.1 The Council's review of the school estate required to identify ways in which the estate could become more sustainable into the future. The proposals that are described in the accompanying reports, if adopted, should result in savings being made to the schools budget and these will contribute to increasing its long term sustainability. This report describes the likely savings and the process by which they were identified.

**2. RECOMMENDATION**

- 2.1 It is recommended that Members note the content of the report

**3. DETAIL**

- 3.1 The Education service requires to identify savings in order to contribute to the Council's overall target of generating recurring budget efficiencies of approximately £30m between 2010/11 and 2012/13. The review of the school estate is intended to contribute to this process by identifying ways in which the estate can become more efficient and therefore cost the Council less to operate. The proposals for amalgamating schools which have been provided with the accompanying reports identify opportunities for recurring savings and this report shows how these can be achieved if the proposals are adopted.
- 3.2 Whilst it is important to ensure that the immediate savings target can be met in line with the Council's programme of service reviews, the review also identifies the long term impact that the amalgamation proposals would have in terms of recurring savings to the Council. The process of identifying these efficiencies is described in the attached Appendix 1.
- 3.3 If all of the proposals were to be adopted as currently stated, it is considered that annual recurring savings of around £2m could be achieved (see Appendix 2) from the end of the October holiday period 2011. Whilst it can be seen from this document that the majority of savings identified would derive from reductions in property costs and some small reductions in the number of teaching staff, the Council would continue to meet its statutory and Concordat commitments with regards to maximum class sizes. It should also be noted that the savings identified could amount to some 17% of the sum which Education are required to identify as part of the review and takes into consideration additional transportation costs associated with the proposed school amalgamations.
- 3.4 It should be noted that the savings in years 1-3 would be expected to be lower than in later years as there would be likely to be short term costs associated with maintaining the surplus buildings and restructuring the schools staffing arrangements resulting from the proposals. The assumptions used to arrive at the estimates of these costs are included in Appendix 1.

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- 3.5 The Council receives additional Grant Aided Expenditure (GAE) from the Scottish Government to contribute to the costs associated with operating schools with rolls under 70 in rural areas. This additional sum currently totals around £2.6m and any reduction in the number of pupils attending these small schools would decrease the grant the Council receives. Based on current estimates and assumptions it is likely that the Council would lose a total of £0.374m of small schools GAE from the Scottish Government if these proposals are adopted.
- 3.6 It should be noted that the GAE grant the Council receives, including that which covers small rural schools, will shortly be set for the next three years (2011/12 to 2013/14). As such, if the proposals were to be introduced for the 2011/12 academic year, the reductions in GAE should not be reflected in the Council's grant allocation until 2014/15 financial year. However, in order to provide the most prudent assessment of potential savings the figures identified in Appendix 2 are stated after consideration has been given to the GAE reduction and all continue to demonstrate a positive likely saving in revenue costs despite the reduction in grant.
- 3.7 In order to compare the savings with the current position over the longer term it is considered good practice to express these savings in terms of a 'Net Present Value' or NPV. This takes the value of cash payments and income over a specified period of time and converts them into a common valuation (ie. the value right now). Based on current estimates and assumptions, the NPV of the total savings to the Council of taking forward these proposals could be some £45.1m over a period of 30 years.

## 4. Conclusion

- 4.1 The Council has a clear vision for its Education Service which is based on striving continuously to improve the quality of education for all in Argyll and Bute. The current Education review requires education to examine how they may achieve savings of around 15% of their current budgets while minimising any adverse impact on the quality of learning and teaching. The review of the school estate has identified proposals which should be able to secure savings for the Council and a more sustainable estate into the future.

## 6. IMPLICATIONS

|                             |   |
|-----------------------------|---|
| <i>Policy:</i>              | None at present                                 |
| <i>Finance:</i>             | Potential savings to the current schools budget |
| <i>Personnel:</i>           | None at present                                 |
| <i>Legal:</i>               | None at present                                 |
| <i>Equal Opportunities:</i> | None at present                                 |

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### Appendix 1: Financial Appraisal Process

Financial models have been drawn up which compare the costs of the schools to the expected available budget over an extended period of time. The models encompass a 'Continue as we are' option, which assumes that the current estate continues to be operated in its current scope, and an alternative which encompasses the amalgamation proposals. This was achieved by comparing the expected costs of operating the Council schools over a 30 year period with the costs likely to be incurred over this same period should an amalgamation process take place.

The models are based on a format used for recent Community Services reviews and have been prepared in consultation with Strategic Finance and the Director of Consultancy at CIPFA.

The models derive, firstly, from the budget information included in the Council's general ledger system for 2010/11. As such, the model has been constructed to ensure that all expenditure headings for the schools, as identified in the 2010/11 budget, are captured by the review:

| Account Area          | Primary         | Secondary       | Special Needs  | Pre 5          | Total           |
|-----------------------|-----------------|-----------------|----------------|----------------|-----------------|
| Employee Costs        | £20.729m        | £24.366m        | £0.423m        | £1.698m        | £47.216m        |
| Premises              | £2.804m         | £1.696m         | £0.083m        | £0.643m        | £5.226m         |
| Supplies and Services | £3.040m         | £2.360m         | £0.054m        | £0.121m        | £5.575m         |
| Transport Related     | £0.002m         | 0               | 0              | £0.001m        | £0.003m         |
| Third Party Payments  | £0.363m         | £2.099m         | 0              | 0              | £2.462m         |
| Gross Total           | £26.938m        | £30.521         | £0.560m        | £2.463m        | £60.482m        |
| Income                | -£0.898m        | -£0.865m        | -£0.006m       | -£0.045m       | -£1.814m        |
| <b>Net Total</b>      | <b>£26.040m</b> | <b>£29.656m</b> | <b>£0.554m</b> | <b>£2.418m</b> | <b>£58.668m</b> |

#### Detailed Assumptions

The financial models estimate whether the cash costs to continue the service as presently configured, and any options to alter this configuration, can be accommodated within the Council's expected budget in each year under review. If the costs of the option exceed the expected budget in any year there will be a 'gap' that will require additional funding sources to be identified to meet that gap.

#### *General Assumptions*

1. The models for both options cover a project period of 30 years. This accords with analysis of similar projects within the Council and creates a comparable period between options.
2. All costs and revenues are stated in 'nominal' terms. This means that as these models measure cash costs to the Council the figures require to be subjected to annual inflation. The long term annual inflation rate is assumed generally to be 2.5% which is a common measure used in other similar projects. Inflation of

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Council budgets in the short term is based upon the current financial settlement and is likely to be lower than the long term rate of inflation.

3. Anticipated Council 'departmental administration' costs and recharges between schools, are excluded from the models. It is assumed that these costs will be incurred by the Council regardless of which option is selected.
4. The cash impact of capital payments made to refurbish the school estate is reflected in the model. In order to assist comparability between cost inputs the capital costs have been converted into revenue payments which support the borrowing made to finance the capital expenditure (ie. Loan and Lease Charges).
5. Capital Costs (Depreciation and capital charges) are excluded from the review as they are considered accounting entries rather than cash costs to the Council and should not affect the terms of the review.

### *Assumptions for options to alter the school estate*

1. The recurring annual savings to the Council that should accrue from the amalgamation process have been calculated on a 'proposal by proposal' basis. This means that the contribution to the overall savings figure for each proposal can be ascertained.
2. In order to arrive at the savings figure all of the budget lines of each school in each proposal were reviewed in detail to determine what effect the proposal would have on those budgets. Any changes to the budget lines for each school included in the proposal were then taken forward into the amalgamated budget position.
3. The general approach taken to the review of each of the school budget lines was as described in the table below. Any specific calculations which were undertaken are referenced in the table.

| <b>Budget Heading</b>                          | <b>Approach</b>                     |
|--|-------------------------------------|
| Basic - Staff                                  | Calculation (Para 4&5)              |
| Basic - Teachers                               | Calculation (Para 6)                |
| Basic - Daily Rate Teachers                    | 100% of all schools in the Proposal |
| NIC - Staff                                    | Calculation (Para 4&5)              |
| NIC - Teachers                                 | Calculation (Para 6)                |
| NIC - Daily Rate Teachers                      | 100% of all schools in the Proposal |
| Superannuation - Staff                         | Calculation (Para 4&5)              |
| Superannuation - Teachers                      | Calculation (Para 6)                |
| Superannuation - Daily Rate Teachers           | 100% of all schools in the Proposal |
| Other Pay Items - Staff                        | 100% of all schools in the Proposal |
| Management Development & Training - In Service | 100% of all schools in the Proposal |
| Staff Insurance                                | 100% of all schools in the Proposal |
| Public Liability Insurance                     | 100% of all schools in the Proposal |

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| Budget Heading                                | Approach                            |
|---|-------------------------------------|
| Staff Group Life Assurance                    | 100% of all schools in the Proposal |
| Grounds Maintenance                           | Receiving school budget only        |
| Electricity for Properties                    | Receiving school budget only        |
| Heating Oils                                  | Receiving school budget only        |
| Non-Domestic Rates                            | Receiving school budget only        |
| Water Rates                                   | Receiving school budget only        |
| Water by Meter                                | Receiving school budget only        |
| Janitor Services                              | Receiving school budget only        |
| Refuse Collection                             | Receiving school budget only        |
| Cleaning Trading Account                      | Receiving school budget only        |
| Property Insurance Premium                    | Receiving school budget only        |
| Education Equipment                           | 100% of all schools in the Proposal |
| Milk  | 100% of all schools in the Proposal |
| Prepared Meals                                | 100% of all schools in the Proposal |
| Commercial Refuse                             | Receiving school budget only        |
| Use of P.E. Facilities                        | 100% of all schools in the Proposal |
| Telephone Calls - BT One Bill Charged         | 100% of all schools in the Proposal |
| Cost Centre Review Savings                    | 100% of all schools in the Proposal |
| Essential Users Lump Sum                      | 100% of all schools in the Proposal |
| Catering Sales                                | 100% of all schools in the Proposal |
| AEF Specific Grants (as per Finance Circular) | 100% of all schools in the Proposal |

### *Non Teaching Staffing (Clerical Staff)*

4. The number of clerical staff Full Time Equivalent (FTE) staff required in the amalgamated facility was calculated using a staffing formula which is currently used by Education:

A fixed number of hours, which increases by 2.5 hours per 25 pupils and starts at 20 hours, plus a variable of 0.085 hours per pupil. For example:

A school with 20 pupils would receive  $20 + (0.085 \times 20) = 21.7$  per week,

The totals above are multiplied by the number of teaching weeks in the year.

Where the total number of clerical staff required for the amalgamated facility exceeded the current staff complement, it was assumed that the current arrangements would continue in place.

The required clerical staff FTE was then applied to the posts currently in place. For those existing posts that might not be required after amalgamation the staff costs were excluded from the cost of the amalgamated facilities.

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##### *Non Teaching Staff (Classroom Assistants, Pupil Support Assistants, Gaelic Language Assistants and Auxiliaries)*

5. These posts are currently under review by the Education Service. As such, no change to the number of these posts was made as part of the review of the school estate. This is an area of potential additional saving.

##### *Teaching Staff Costs (including Gaelic medium teaching)*

6. Teaching staff numbers required for the schools in each proposal were based upon the number of classes required in each amalgamated school. The required FTE was then adjusted for the additional staff required to cover senior management time based on Education Management Circular 2.03 and as per the table below:

| <b>Staff Heading</b>  | <b>Requirement</b>  |
|---|---|
| Core Teaching Staff   | Equals number of classes required   |
| McCrone Time  | 0.1 FTE per core staff member   |
| PT Provision  | 1 for every 6 staff members   |
| PT Management Time  | 0.1 FTE per PT  |
| DHT Provision   | 1 for every primary with 220+ pupils  |
| DHT Management Time   | 0.3 FTE for every DHT   |
| HT Management Time  | Receiving school HT / Management Circular 2.03  |
| Pre 5 Management  | Based on combined mgt time of previous all schools to be amalgamated  |
| Additional Staffing (inc. Mgt of probationers)                | Mgt time of previous all schools to be amalgamated removed  |
| Clerical Staff  | A fixed number of hours, which increases by 2.5 hours per 25 pupils and starts at 20 hours, plus a variable of 0.085 hours per pupil. |
| Classroom Assistants (inc. Pupil Support and Gaelic Language) | Assumed to carry on as per pre amalgamation as no formal basis for allocation.  |

Costs for primary teaching staff have been extracted from the Primary staff template from Strategic Finance which supports the 2010/11 budget.

7. Costs for primary non-teaching staff have been extracted from the appropriate Primary staff template from Strategic Finance which supports the 2010/11 budget.
8. The total teaching staff FTE required was then applied to the posts currently in place. The required number of teachers, Gaelic language teachers, Principal Teachers, Depute Head Teachers and Head Teachers were identified from the current staff complement where possible. If additional specific posts were required under the proposal (eg. Additional Principal Teachers) then the closest alternative from the existing staff complement was included for the purposes of the review. For those existing posts that might not be required after amalgamation the staff costs were excluded from the cost of the amalgamated facilities and a saving identified.

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### *Grant Aided Expenditure (GAE) for small rural schools*

9. The Council receives additional GAE for rural schools based on the proportion of its primary pupils who attend schools with a roll under 70. The grant is based on a reallocation of the general schools grant from authorities with few pupils in this category to those with more pupils. The exact rate of reallocation is related to each authority's number of pupils in this category compared to the average across Scotland.
10. As this is a relative measure which will change as the numbers of pupils in other authorities changes it is not possible to precisely identify the impact of the reduction in the GAE. However, by assuming that the current proportions of pupils in each authority who are in rural schools of under 70 pupils remains unchanged the Council have been able to derive an estimate of the likely effect and this has been reflected in the potential savings identified in each proposal.

#### *Additional costs of amalgamation*

The additional costs associated with an amalgamation option were also considered:

- a. Travel costs - Travel costs were estimated as the cost of the additional journeys required beyond the existing provision and were based on the additional journey distances from the old school to the receiving school taking into account the likely bus routes which would be required. The additional costs of these arrangements are shown in Appendix 2.
  - b. Redundancy – Standard Circular 2.18 indicates there is a presumption against the compulsory redundancy of any teaching staff. The models make a prudent assumption as to what the costs might theoretically be if statutory redundancy terms were to be applied if schools were to be amalgamated. The costs are estimated to be £585,000 in total should the proposals be adopted although this figure would depend on the staff and terms involved.
  - c. Costs of closure, including ongoing maintenance/security until disposal, are estimated based on similar surplus schools in the Council's possession. These costs are estimated to amount to an average of around £130,000 per year (plus removal costs) for the first three years of the review but would be dependent on the process and timescale for deciding on the future of the buildings.
  - d. GAE allowance for security of Schools – the Council is allocated an amount of GAE in respect of the security arrangements for all schools. These proposals will result in an estimated annual reduction in this GAE allowance of approximately £40,000.00.
11. The total running costs of the new amalgamated cluster, adding in the costs of closure, were compared with the costs of continuing as we are and the potential savings are shown at Appendix 2.

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### Appendix 2: Summary of Potential Annual Recurring Savings

| Receiving School                     | Amalgamating Schools              | Potential Staff Savings | Potential Property Savings | Extra Travel Costs | GAE Reduction   | Net Annual Saving |
|--------------------------------------|-----------------------------------|-------------------------|----------------------------|--------------------|-----------------|-------------------|
|                                      |                                   | £                       | £                          | £                  | £               | £                 |
| Port Charlotte                       | Keills                            | 65,030                  | 21,871                     | -47,500            | 0               | 39,401            |
| Dervaig                              | Ulva                              | 53,265                  | 8,288                      | -15,000            | 0               | 46,553            |
| Salen                                | Lochdonhead                       | 100,981                 | 12,170                     | -25,840            | 0               | 87,311            |
| Rothesay                             | North Bute                        | 89,987                  | 26,073                     | -38,000            | -89,372         | -11,312*          |
| Easdale                              | Luing                             | 56,322                  | 9,299                      | -12,540            | 0               | 53,081            |
| Innellan                             | Toward                            | 85,632                  | 11,220                     | -5,500             | 0               | 91,352            |
| Strachur / Tighnabruaich             | Kilmodan                          | 138,234                 | 11,675                     | -23,074            | 0               | 126,835           |
| Hermitage Primary                    | Luss                              | 85,921                  | 27,365                     | -15,700            | -36,478         | 61,108            |
| Garelohead                           | Rosneath, Kilcreggan              | 213,147                 | 162,906                    | -86,000            | 0               | 290,053           |
| Hermitage Academy / John Logie Baird | Parklands                         | 172,856                 | 82,609                     | 0                  | 0               | 255,465           |
| Drumlemble                           | Southend                          | 88,921                  | 14,866                     | -8,869             | 0               | 94,918            |
| Sandbank                             | Strone                            | 136,046                 | 48,069                     | -10,000            | -71,133         | 102,982           |
| Castlehill                           | St Kieran's                       | 161,873                 | 23,816                     | 0                  | 0               | 185,689           |
| Lochnell                             | Ardchattan, Achaleven, Barcaldine | 217,195                 | 35,893                     | -22,390            | -67,485         | 163,213           |
| Taynuilt                             | Kilchrenan                        | 52,652                  | 9,771                      | -12,933            | -21,887         | 27,603            |
| Dalmally / Kilmartin                 | Ardchonnell                       | 0                       | 0                          | 0                  | 0               | 0                 |
| Clachan                              | Skipness, Rhunahaorine, Glenbarr  | 245,807                 | 39,410                     | -27,030            | 0               | 258,187           |
| Tayvallich                           | Ashfield                          | 63,701                  | 16,227                     | -14,000            | 0               | 65,928            |
| Ardrishaig                           | Achahoish                         | 44,278                  | 12,723                     | -18,000            | -31,007         | 7,994             |
| Lochgilphead                         | Glassary, Minard                  | 104,705                 | 22,588                     | -38,880            | -56,542         | 31,871            |
| <b>Total</b>                         |                                   | <b>2,176,553</b>        | <b>596,839</b>             | <b>-421,256</b>    | <b>-373,904</b> | <b>1,978,232</b>  |

\* The Council's School Estate Strategy and Asset Management Plan has noted that North Bute Primary School is in a level C (poor) condition. It would require at least £450,000 of additional capital works to improve the current condition and prevent further deterioration. The Council would require to borrow this sum in order to effect the renovations and the loan repayments would be likely to cost the Council some £35,000 per annum over a period of 20 years. This would result in a likely net recurring annual saving to the Council of around £24,000.



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Nb. If the proposal to amalgamate Luing and Easdale is removed from the above as per the recommendation in the report entitled Education Review – Review of the School Estate, the expected saving would be reduced by £53,081 to £1,925,151.