

REGULATORY AND OTHER COMMITTEE REPORT

NAME OF COMMITTEE:	Schools' Forum
DATE OF MEETING:	27/1/10
SUBJECT:	School Funding Arrangements 2010/11
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IS THE REPORT CONFIDENTIAL?	No
IS REPORT EXEMPT?	No

SUMMARY

The purpose of this report is to seek the Schools' Forum's views on school funding arrangements for 2010/11.

DISCUSSION

Introduction

The Local Authority's (LA) proposals for allocating the Dedicated Schools Grant need to be seen in the context of the nationally recognised framework and the five key outcomes; Children's Services primary objectives, and; its current performance.

Children's Services has a nationally recognised framework based on the five key outcomes for children and young people:

- Be Healthy
- Stay Safe
- Enjoy and Achieve
- Positive Contribution
- Economic well being

Locally, Children's Services primary objectives are reflected in the following extract from the Children and Young People's Plan:

"Working together, we will ensure that every child and young person, in every part of the county, has the best possible start in life and is able to achieve their potential. We will provide support to those who need it and ensure that all children and young people are able to achieve the five key outcomes."

In terms of performance, 56% of primary schools have been judged 'good' or better through inspection and some of the 'gap' measures, e.g. attainment of those children with free school meals or statements compared to their peers is lower than similar areas in primary, secondary and tertiary levels. However, performance in some areas of primary school education requires significant improvement and the School Improvement Service is working with schools to improve pupil performance in English and Maths. Permanent exclusions remain a challenge although fixed term exclusions are reducing. Children and young people emerge from secondary education with good GCSEs especially those from ethnic minority groups and the rate of fixed term exclusion for all children is falling. Ofsted has stated that 86% of the county's secondary schools have been judged 'good' or better with good performance on persistent absences rates. Some schools are facing falling numbers on roll, whilst others are experiencing growth.

Funding Settlement 2010/11

The DCSF announced the three year funding settlement for all LAs in the autumn of 2007. Details are set out in the table below, with the figures for 2010/11 representing the DCSF' latest estimate for that year:

	2008/09	2009/10	2010/11
DSG per pupil	£3,795	£3,933	£4,099
Percentage per pupil increase on previous year	4.4%	3.6%	4.2%
Indicative allocation	£371.459m	£383.625m	£377.222m
Cash increase	3.7%	3.3%	4.1%

It is important to note that:

- The final DSG will be determined by how many eligible children are registered on the Schools Census in January 2010. An estimating error is therefore inevitable.
- The DCSF has set the Minimum Funding Guarantee (MFG) for schools at 2.1% for each of the three years. The DCSF stated explicitly that schools were expected to achieve 1% efficiency savings each year. It assumed that inflation would be 3.1% throughout the period, but actual inflation rates have fluctuated quite significantly.
- Schools face much tougher financial settlements from 2011/12. The Chancellor recently announced that for 2011/12 and 2012/13, schools can expect annual average real growth in funding of 0.7% for 3-16 education, and 0.9% for 16-19 education. When combined with efficiency savings of 0.9%, this is intended to help meet the 1.6% pressures estimated for rising pupil numbers and pay awards, etc. The actual position for 2011/12 and beyond will be affected by the outcome of the general election and some commentators believe a revised budget could be issued in mid 2010, which may or may not have an impact upon schools.
- The reduction in the indicative allocation for 2010/11 reflects the adjustment for academies.

Proposals for 2010/11

The LA's proposals for 2010/11 cover:

- School Budgets
- Centrally held budgets funded by the DSG.
- The use of the remaining funds or 'headroom'.

Schools Forum members will be aware from previous reports, including those on s.52, that the DSG funds a number of centrally held budgets. These are set out in DCSF' regulations and include the budgets for Early Years; Special Needs, including Out of County provision; Admissions; Independent Schools, and; Capital Expenditure from the Revenue account, etc. The LA is in the process of finalising these budgets.

The Schools Forum is not required to approve the budget allocation, although full details will again be presented to its meeting in April 2010, following publication of the LA's s52 budget statement on 31 March 2010.

The LA must seek the Schools Forum's approval if it exceeds the Central Expenditure Limit (CEL). Essentially, the CEL is designed by the DCSF to ensure the percentage growth in the central budgets does not exceed the percentage growth in school budgets. Provisional work to date suggests that the CEL will not be exceeded in 2010/11.

School budgets

In addition to the 2.1% MFG, there will be a budget pressure arising for the full year effect of the re-organisation of special schools in Gainsborough. The LA will again need to review carefully all of the budgets within the Schools Contingency (e.g. for Infant Class Size, September Trigger, free school meals, English as an Additional Language, etc.) to ensure that sufficient resource is set aside in light of this and previous years' allocations.

There are no plans to introduce new formula factors in 2010/11. This is in keeping with the DCSF' expectation that LAs should ensure stability and predictability in school funding throughout the three year funding cycle. As indicated in a separate report to this meeting of the Schools Forum, the LA does not plan to introduce the early years single funding formula in 2010/11. This follows the Ministerial announcement in December that this would be postponed for a year.

However, in light of previous discussions with both the Schools Forum and headteachers, the LA is developing proposals to amend the way in which the lower bands of statements of special educational needs are funded. This is the subject of a separate report to this meeting of the Schools Forum. Subject to those discussions and any further work, it is possible that changes to the funding mechanism will require a revision to the MFG methodology in 2010/11. If so, the agreement of the Secretary of State may be needed before any changes can implemented in 2010/11. The LA is required by law to publish school budget shares by 31 March and whilst that deadline will be met, publication may be a little later than in previous years because of this.

Due to continued growth in schools' demand for statements and the decision not to increase the base budget in the last two years, the budget is forecast to overspend by c.£1.4m this year. At the last meeting, the Schools Forum supported the proposal to use some of the 2008/09 DSG underspending (£0.3m) to help finance this. However, unless the shortfall is offset by underspendings elsewhere within the DSG, the overspending will have to be financed from next year's DSG. Furthermore, whether a new system for funding the lower bands of statements is introduced or not, a realistic budget will have to be set. A sum of c.£1.4m may therefore be needed. It is noteworthy that the projected cost in 2009/10

suggests that there has been no growth in the cost of statements, other than the inflationary element added at the start of the year.

If a new system of funding statements is introduced, then transitional arrangements may be important to prevent individual schools losing significant sums in the first year. Modeling of various options is still underway, but it could require a significant amount of headroom. This could be c.£1m depending upon the degree of protection offered. Having said that, the setting aside of funding for this purpose is likely to provide added flexibility in later years, when the transitional arrangements are phased out; this will be at a time when funding settlements are much tighter.

Centrally held budgets

With respect to centrally held budgets, the main budget pressures for 2010/11 relate to:

- Early Years
This budget mainly funds the payments to private, voluntary and independent providers. Currently, the LA pays a standard rate per session and, where demand increases, additional costs are simply unavoidable. A risk of overspending arises from the Government's planned extension to 15 hours in September 2010. Whilst the increase in hours will be funded by grant, the flexibility that another 2.5 hours per week offers may increase pressure on the core budget. Presently, the take up of the full 12.5 hours is c.70%, but the move to 15 hours free entitlement could increase expenditure on the existing budget if all children take up their full entitlement. As indicated above, there is unlikely to be significant headroom in future years to fund either overspends from 2010/11 or establish more realistic budgets. Setting a prudent budget now will be important and so the LA proposes to increase the budget by £1m to cover both the recent trend in historic growth and make provision for increased take up in September.
- School Redundancies
As reported in previous years, it is extremely difficult to forecast accurately future costs. The LA has introduced a range of measures to help reduce expenditure, including the Managing Change policy, the review panels and the charging of individual schools for a share of redundancy costs, etc. This appears to be having a positive impact. Last year, the Schools Forum supported the addition of £0.5m to the base budget, with a further £0.25m added to support the introduction of a redeployment scheme.

The LA proposes to use the 2010/11 headroom to increase the base budget from £1m to £2m. There are several reasons for this: the budget is projected to overspend this year; there appears to be a worrying trend with more schools expected to overspend in 2009/10; there are falling rolls in some areas; tighter funding settlements are expected in future years, and; the limited headroom in future will reduce the LA's ability to increase this budget. It would therefore be prudent to set an increased budget now. If underspendings arise, they will be carried forward automatically.
- Special Needs Out of County
This budget has underspent in recent years and is expected to do so again this year. Individual cases can prove very expensive and therefore prudence is needed. Nevertheless, the LA proposes to reduce the budget by £0.3m in 2010/11.

Headroom

Due to the way in which the DSG is calculated, the amount of uncommitted resource or headroom available will not be known until at least mid February. The headroom can only be determined once the pupil number data from the January 2010 SLASC has been verified; centrally managed budgets funded by the DSG have been set, and; an appropriate level of Schools Contingency has been determined to provide for the in-year adjustments to school budgets, as required by the approved formula.

Nevertheless, to enable budget shares to be issued to schools as quickly as possible, it is important that proposals for the use of any headroom funds are determined at an early stage, so that they can be factored in to the school budget share calculations. Ordinarily, the funds available each year after deducting funds for the MFG and demographic changes has been £4m - £5m. However, that will be reduced by the £0.7m estimating error on the 2009/10 DSG, as reported to the last meeting of the Schools Forum. Furthermore, as set out above, the adjustments to base budgets for:

- SEN statements (c.£1.4m);
- Transition, if a new system of funding some banded statements is introduced (c.£1m);
- Early Years growth (c.£1m);
- School redundancies increase (c.£1m);
- Out of County reduction (£0.3m)

would utilize most, if not all, of the estimated headroom. This would, however, allow the fundamental problems with banded statements to be addressed. It would use this last opportunity for some time, to set prudent base budgets for early years and school redundancies, in advance of tighter funding settlements. Furthermore, the phasing out of transition in subsequent years would provide a degree of flexibility. The use of funds in this way should ensure that the CEL is not breached in 2010/11.

This approach to use of headroom funds is considered prudent. If modest funds remain after the aforementioned allocations, it is proposed that these are retained within the School Contingency, to provide a degree of flexibility in 2010/11 and beyond.

Multi-year budgets

As 2010/11 marks the last of the three year settlement period and as the funding arrangements after that are unknown, the LA cannot issue indicative budgets beyond 2010/11. Nevertheless, the LA continues to recommend that all schools maintain medium term finance plans and it appears sensible for schools to build in to those, provisional plans for delivering efficiency savings at various percentage rates.

DSG - 2011/12 and beyond

As previously reported to the Schools Forum, the DCSF is currently undertaking a review of school funding arrangements. This may very well affect the way in which funding is distributed to LAs from 2011/12 onwards, as well as perhaps altering various regulations that govern each LA's approach to school funding. The DCSF is expected to launch a consultation exercise in the next few months. Reports will be presented to the Schools Forum as significant developments arise.

Decision making process

Final decisions on the proposals set out in this report are expected to be made by the Portfolio Holder in early February 2010. The views expressed by the Schools Forum will be carefully considered as part of that decision making process.

RECOMMENDATION

The Schools' Forum is asked to comment on the proposals set out in this report.

BACKGROUND PAPERS			
PAPER TYPE	TITLE	DATE	ACCESSIBILITY
None			