

**REGULATORY AND OTHER COMMITTEE REPORT**

<b>NAME OF COMMITTEE:</b>	Schools' Forum
<b>DATE OF MEETING:</b>	26 January 2011
<b>SUBJECT:</b>	School funding arrangements 2011/12
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<b>IS THE REPORT EXEMPT?</b>	No
<b>IS REPORT CONFIDENTIAL?</b>	No

**SUMMARY**

The purpose of this report is to seek the Schools' Forum's views on school funding arrangements for 2011/12.

**DISCUSSION**

**Introduction**

On Tuesday, 14<sup>th</sup> December 2010, the DfE announced a number of important details relating to LA and school funding. A note summarising the key issues was emailed to Schools Forum members on the 4<sup>th</sup> January 2011 and a copy is attached at Appendix 1 to this report.

Perhaps the most important aspects were that:

- The Dedicated Schools Grant (DSG) per pupil will remain at the same level as 2010/11, i.e. £4,098 per pupil.
- As expected following previous DfE' consultation exercises, the streamlining of grants will take place and that will add a further £699 to that figure in 2011/12.

- The pupil premium will be added to those sums and next year, will be paid at £430 for each pupil eligible for free school meals.
- The minimum funding guarantee (MFG) will continue to operate and no school will see a reduction, compared with its 2010-11 budget (excluding sixth form funding), of more than 1.5% per pupil.
- There will be a significant reduction in Devolved Formula Capital allocated to all schools.

Recent indications from the YPLA are that school sixth forms can expect to see up to a 3% reduction in funding per learner next year as funding rates with Colleges begin to converge.

These issues need to be seen in the context of significant reductions in LA funding which, as indicated recently to all schools, may have an impact upon the support services that the LA is able to offer to them.

As a result of these issues, and other locally planned changes to school funding arrangements (e.g. the introduction of the Early Years Single Funding Formula, the new special schools funding formula, and the phasing out of transition on SEN funding for statements), next year will arguably see the biggest change in school funding arrangements since Local Management of Schools was first introduced in 1990.

This is a one year DSG settlement but, in light of the recent Comprehensive Spending Review, it is clear that future funding of schools will be under significant pressure.

The final DSG will be determined by how many eligible children are registered on the Schools Census in January 2011 and so an estimating error is again inevitable.

The DSG is expected to be c.£0.3m less than in previous years due to the DfE's decision not to fund pupils that are dually registered at schools and PRUs.

### **Issues for 2011/12**

For the LA to be able to calculate school budget shares and publish those in mid March, it is once again necessary to consider a number of important issues relating to:

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

### **School budgets**

There are no plans to introduce new formula factors in 2011/12, however:

- The DfE requires all LAs to introduce the EYSFF.
- There are plans to introduce a new special schools funding formula. This is the subject of a separate report to the Schools Forum today. Under new DfE' rules, this could require approval of the Secretary of State to waive the MFG rules.
- There are plans to make minor modifications to the new SEN funding formula introduced in April 2010 (this too is the subject of a separate report) and there will also be the gradual phasing out of the transitional protection arrangements that were introduced in 2010/11.
- There are plans to begin to introduce two new Designated Support Units for special school children in Lincoln. This is estimated to cost £0.090m in 2011/12.
- In response to the special school review recommendations, it is proposed to develop the outreach offer from special schools through a two year pathfinder. The aim is to develop practice in each of the 7 districts using £0.325m annually, for two years. The initiative will include establishment of a primary BESD satellite in the south of the county. It will also provide a buy back service for academies to access the outreach offer, and this should help offset the cost.

As indicated above, the MFG will continue to apply but for the first time since its introduction, it has been set at minus 1.5% per pupil. The actual change in all schools' per pupil funding is virtually impossible to predict at this stage, as it is dependent upon a number of factors, some of which are as yet unknown (e.g. pupil data). However, the final position may be better than minus 1.5%.

When setting next year's budget, 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.). This is necessary to ensure that sufficient resource is set aside to finance the in-year adjustments to school budgets required under the LA's approved local funding formula.

As indicated in previous reports, the Government has decided to press ahead with the streamlining of a number of grants in to the 2011/12 Dedicated Schools Grant (DSG). Those include SSG, SSG(p) and SDG<sup>1</sup>. The regulations will allow LAs either to distribute those funds in a different way (subject to the application of the MFG), or replicate the current distribution methodology. As some of these funding streams have been locked in place for many years, it seems sensible to review them to ensure that they meet current priorities. However, LAs have been given very little time to develop coherent plans and consult widely, and so the proposal at this stage is to replicate the current funding arrangements in 2011/12, then conduct a thorough review in the summer of 2011, with a view to altering the distribution of those funds from 2012/13. This approach will help minimise the turbulence in school funding in 2011/12 and reduce potential redundancy costs.

### **Centrally held budgets**

Schools Forum members are aware from previous reports, including those on s.251, that the DSG funds a number of centrally held budgets. These are set out in DfE' regulations and include, for example, 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, but the main budget pressures and savings for 2011/12 relate to:

#### **Early Years**

As reported previously, this budget funds the payments to private, voluntary and independent providers. In September 2010, the Government extended the free entitlement to 15 hours and that grant will be streamlined in to the DSG from April 2011. It remains extremely difficult to anticipate how parents might respond to this and therefore what impact it may have on the budget if more children take up much more of their entitlement.

#### **SEN Out of County**

Continued success in reducing expenditure on Out of County placements should allow the budget to be reduced by £0.335m in 2011/12.

#### **School redundancies**

The LA is planning to press ahead with the proposal to increase the financial contribution that schools make towards redundancies from April 2011. Despite that, there are no plans to reduce the budget because tighter financial settlements may give rise to more redundancies in schools.

#### **Redeployment budget**

The LA plans to reduce the £0.250m budget by £0.2m. This will continue to allow employment of the redeployment officer, but will offer much less flexibility to facilitate redeployments through financial incentives to schools, etc.

#### **Carbon scheme**

The Government is planning to introduce a carbon reduction scheme for all large organisations in the country and it appears that this is likely to operate as a carbon tax. Schools could be asked to meet their own costs from their delegated budgets. However, the cost per school is likely to vary due to the age and condition of school buildings which are, to

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<sup>1</sup> In 2010/11, SDG is £27.3m, SSG is £17.7m and SSG(p) is £3.7m. In total, this is £48.7m or the equivalent of 13.8% of the Individual Schools Budget.

a large extent, beyond their control. So, a fairer and perhaps less bureaucratic approach may be to meet those costs from a budget created centrally within the DSG. The cost for 2011/12 is estimated to be £0.650m.

#### Broadband

As reported to all schools in December 2010, the Government reduced the Harnessing Technology Grant by 50% after the election. This grant had been used to support Broadband costs in schools and, due to the way in which the budget had been carefully managed, that loss of grant could be absorbed within this financial year. However, indications are that the grant for next year has ended altogether and this presents a major problem. The shortfall in budget is estimated to be £3.456m. One approach would be to ask all schools to meet their own costs, but as with the carbon scheme, costs vary tremendously between schools, due to no fault of their own. Therefore, applying the principle of fairness to this issue, it may be preferable to finance the cost from a newly created central DSG budget. This would be subject to their being sufficient headroom funds available after each school receives its MFG. This approach may also give rise to a breach in the Central Expenditure Limit.<sup>2</sup> The current contract for Broadband connectivity is due to end in October 2012 and a Project Board has been established to make recommendations on procurement models. A report will be submitted to the Schools Forum in the near future.

#### Other budgets

All DSG central budgets have been scrutinised and more modest reductions to other budgets are planned.

#### Headroom

Once again, 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 2011 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.

By setting the DSG per pupil at the same level as last year and allowing schools to receive a per pupil reduction of up to 1.5%, the DfE has again created a degree of flexibility for LAs to utilise. However, there are a number of further complicating factors this year that mean that predicting the level of headroom is more difficult than ever. Firstly, there will be a residue of headroom from 2010/11 following the Schools Forum's agreement that not all of that be allocated. Secondly, there will be the release of some funds due to the gradual phasing out of transition for the new SEN formula. Thirdly, that will be offset by proposals to provide transition for the new special schools formula. Those issues are in addition to the usual uncertainties at this time of year relating to pupil data, central budgets and schools contingency.

Nevertheless, to enable budget shares to be issued to schools as promptly 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. If headroom funds are available after central budgets have been set and schools have received their MFG, it could be allocated in numerous ways including:

- To finance capital investment in special schools, to help ensure more effective use of the DSG in future years.
- To all schools or specific sectors, via all formula factors or some formula factors (e.g. awpu, deprivation, SEN, etc).

#### **Future years' budgets**

As the DfE has not published LA DSG settlement figures for 2012/13 it will not possible to issue indicative budgets beyond 2011/12. Nevertheless, the LA continues to recommend that all schools

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<sup>2</sup> The LA would then need to seek retrospective approval from the Schools Forum in April 2011.

maintain medium term finance plans that build in modest reductions in future funding levels. The DfE is continuing to review the way in which LAs are funded for schools and changes could be made in 2012/13 or later. This could perhaps signal a move towards a national funding formula.

**Decision making process**

Final decisions on the 2011/12 budgets will be made by Executive member for Children’s Services and post-16 education, in early February 2011. That will follow careful consideration of the School Forum’s views at a meeting of the DMT and Executive member on 31 January 2011.

Due to the unprecedented level of change in school funding arrangements for next year, publication of school budget shares is expected to be a week later than usual, i.e. around the middle of March.

**DSG 2010/11**

A report to the Schools Forum in October 2010 stated that the DSG had underspent by £5m in 2009/10. Due to the uncertainty regarding future funding levels, the Schools Forum supported the proposal that this be carried forward until further details regarding the 2011/12 settlement could be considered. The final carry forward on the DSG at 31 March 2011 cannot be predicted with accuracy at this time, due to a range of unknown factors. However, it is possible that this underspending could increase if some of the central DSG budgets underspend in 2010/11 and the LA is able, once again, to utilise non DSG budgets to finance this year’s school redundancy costs. It is expected that the final position will be much clearer when the next meeting of the Schools Forum is held (April 2011) and that will therefore provide an opportunity to consider how any uncommitted, one-off underspendings can be utilised in light of the school and central budgets that are set for 2011/12.

The underspending could be used for a variety of purposes. For example, it could help finance any increase in school redundancy costs over the next few years if, as a result of funding reductions, the existing budget proves insufficient. Alternatively, the underspend could be used to finance transitional costs that may be required if any redistribution of streamlined grants after 2011/12 warrants that.

<b>RECOMMENDATIONS</b>
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The Schools Forum is asked to:

- a. Note the content of the report.
- b. Consider and comment upon the issues raised in the report and, in particular, with regard to matters relating to the setting of the schools budget, central budgets and use of any headroom funds that may be available.

<b>BACKGROUND PAPERS</b>
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The following reports were relied upon in the writing of this report.

PAPER TYPE	TITLE	DATE	ACCESSIBILITY
Report	Revised Schools Budget 2010/11	13 October 2010	County Offices, Newland, Lincoln

<b>APPENDICES</b>
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Appendix 1 - Briefing note summarising the recent Government announcements (circulated to Schools Forum members on 4 January 2011)

**Briefing note summarising the recent Government announcements  
Circulated to Schools Forum members on 4 January 2011**

**Local Government settlement & Children's Services**

On Tuesday 14 December 2010, the DfE announced a number of important details relating to LA and school funding. The key points are set out below:

**Local Authority and school funding**

- This is a two year settlement for LAs, with one year's details for schools.
- School funding will be maintained at 'flat cash per pupil' until 2014-15 (i.e. funding will rise with pupil numbers). The pupil premium will be additional to that.
- The current distribution methodology for funding LAs remains unchanged.
- The DfE is simplifying arrangements and the Dedicated Schools Grant will now include resources from grants mainstreamed. LAs will be required to take account of the previous level of these grants in constructing their settlement for schools, to prevent turbulence.
- The 2010/11 guaranteed unit of funding in Lincolnshire was £4,098 per pupil. The streamlining of grants will add a further £699 to that in 2011/12.
- Some individual schools may see cash cuts in their budgets due to falling rolls or because of other changes made by the LA to its local funding formula.
- To provide a degree of protection, the minimum funding guarantee has been set so that no school will see a reduction, compared with its 2010-11 budget (excluding sixth form funding), of more than 1.5% (in the previous three year period, schools were guaranteed a 2.1% increase in per pupil funding). The guarantee applies to a school's overall 2010-11 budget including grants that have been mainstreamed.
- The DfE will stop double funding pupils registered at both schools and at pupil referral units. This may reduce funding in Lincolnshire by c.£0.3m.
- New arrangements will ensure that LAs with falling rolls lose no more than 2% of their budget.
- Academies in Lincolnshire currently receive an extra c.£460 per pupil to cover services no longer provided to them by the LA. To date, most of this has been funded by the DfE. Rather than further reducing LA's funding in the near future, the DCLG will make a transfer of funding over the next two years to meet the estimated cost for new academies. This approach recognises the difficulty for LAs in predicting which schools will convert to academy status and the impracticality of targeting the reductions at individual local authorities. The national top slice means that all LAs will have certainty over the funding they will receive over the two year period and will not see unpredictable changes because of variable patterns in the growth of the academy sector.

**Pupil premium**

- The pupil premium is in addition to the underlying schools budget.
- Nationally, the pupil premium will be £625m in 2011-12, rising each year until 2014-15 when it will be worth £2.5bn.
- In 2011-12, it will be allocated to those pupils eligible for free school meals.
- However, from 2012-13 the aim is to extend the reach of the premium to those who have previously been on free school meals (this might record children that were eligible in the previous 5 years).
- The level of the premium in 2011/12 will be £430 per pupil and will be the same for every deprived pupil, no matter where they live.
- The Government's objective is to reform the underlying funding system to ensure that over time deprived children in every part of the country receive the same level of support. Therefore, shire counties may gain more than many other LAs in future years because their overall funding level is currently lower.
- Schools will be free to deploy the pupil premium as they see fit, to raise the attainment of those children.

- However, new measures in the performance tables will help capture the impact at school level.
- As Looked-after children face additional barriers to reaching their potential, those pupils will also receive a premium of £430.
- A premium for the children of armed services personnel will be allocated at a rate of £200 in 2011-12.

### **Early Intervention Grant**

- The Government is ending a number of education related area based and specific grants. The new Early Intervention Grant therefore replaces ABG and Sure Start.
- Nationally, it is worth £2,212m in 2011-12 and £2,297m in 2012-13.
- The aim of the grant is to support LAs to invest in early intervention and prevention, to produce long-term savings and better results for children, young people and families.
- The grant is not ring-fenced and it is for LAs to determine its use. However, the DfE believes the key areas of intervention are: children's centres; free early education for disadvantaged two year olds, and; short breaks for disabled children.
- The DfE's aim has been to allocate the funds objectively to fit with the principles of the grant. The DfE has used a combination of two of the Department's existing formulae: one for Early Years services and a second for youth services. Damping arrangements have then been introduced so that no authority gains or loses unduly and the DfE has said it will work with partners to consider possible improvements to the distribution approach in future years.
- Nationally, this new grant is 10.9% lower than the aggregated, predecessor grants. As a result, Lincolnshire will receive £3.378m less than in 2010/11. Furthermore, the creation of the new formula (under which Lincolnshire would gain) and the application of ceilings and floors means that the county loses a further £2.22m in 2011/12, bringing the total reduction to £5.598m. In 2012/13, the modest lifting of the ceiling results in a rise in funding of £1.485m from that position. Children's Services had already anticipated a reduction in some of the predecessor grants and has reflected that in its core offer and proposals for savings over the next four years.

### **Capital**

- The allocation of over £2bn of capital funding for 2011-12 to schools and local authorities includes: £800m for basic need funding to local authorities to provide school places where needed in their area; £858m of maintenance capital to local authorities to support the needs of the schools that they maintain and for the Sure Start children's centres in their area; £196m of locally-coordinated VA programme capital to support the maintenance capital needs of voluntary-aided schools, and; £185m of devolved formula capital for schools.
- As previously announced, the capital settlement for the DfE is reduced by 60% in 2014-15 compared to the historic high of 2010-11.
- The DfE' priorities are for the provision of additional pupil places where they are needed, and addressing priority building condition needs.
- As a result of national finances, the level of devolved formula capital to schools is very much lower at £185m. All schools will be given the same rate, whether "modernised" or not.
- The national formula for devolved formula capital will be £4,000 per school and a per pupil sum which is weighted for the type of pupil: £11.25 / £16.875 / £33.75 for primary / secondary / SEN pupils will apply. In total, this will equate to £2.637m for Lincolnshire next year (note: over three year period 2008 to 2010, the total funding available has been c.£45m).
- The other funding available to Lincolnshire schools (including voluntary aided schools) next year equates to £22.506m to cover basic need and capital maintenance.
- A Government review of capital funding is due to report next year and so allocations beyond 2011-12 have not been announced but are expected to be at a similar level for 2012-13 until 2014-15.

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