

**REGULATORY AND OTHER COMMITTEE REPORT**

<b>NAME OF COMMITTEE:</b>	Schools' Forum
<b>DATE OF MEETING:</b>	27 April 2011
<b>SUBJECT:</b>	School Funding 2011/12
<b>REPORT BY:</b>	Tony Warnock (Head of Finance – Children's Services)
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<b>IS REPORT EXEMPT?</b>	No
<b>IS REPORT CONFIDENTIAL?</b>	No

**SUMMARY**

The aims of this report are to:

- Provide an update to the Schools' Forum on the key outcomes from the publication of school budget shares for 2011/12.
- Outline the latest position regarding the publication of s251 and the Central Expenditure Limit (CEL).
- Consult on a number of proposals for use of the projected underspending on the Dedicated Schools Grant (DSG) for 2010/11.
- Seek assistance with the LA's proposed review of school funding following the DfE's decision to streamline a number of grants in to the DSG in 2011/12.

**DISCUSSION**

**Key outcomes from publication of school budget shares for 2011/12**

School budget shares for 2011/12 were published on Monday 21<sup>st</sup> March 2011.

The headlines were:

- For 2011/12, Lincolnshire's base line DSG remained unchanged at £4,098 per pupil. With regard to the level of DSG funding for future years, the Chancellor's Comprehensive Spending

Review in October 2010 indicated that this would remain flat, with increases in funding over the next four years limited to growth in pupil numbers and the £2.5bn pupil premium.

- The Government decided to streamline a number of former grants in to the DSG. These total £67m in 2010/11 and add a further £699 per pupil to Lincolnshire's DSG. Due to the limited time available, the LA issued those funds in broadly the same way as 2010/11, with an undertaking given to schools that unless a national funding formula looks likely to be introduced in the short term, the LA will begin work with schools in the summer to consider how those funds might be distributed from 2012/13.
- The DfE set the Per Pupil Guarantee (PPG) at minus 1.5%. This applied both to streamlined grants and the budget share. Although that meant that schools across the country might have expected to lose up to 1.5% in per pupil funding, Lincolnshire's prudent management of the budget in previous years meant that no reduction was necessary in 2011/12.
- The pupil premium was introduced with a sum of £430 being allocated to each pupil that was eligible for free school meals at the time of the January 2011 census. A sum of £200 was added to school budgets for children of armed service personnel and, in due course, £430 will be paid to schools for Looked After Children. Although the Government may in future years make modifications to the f.s.m. formula, it plans to increase total funding for the pupil premium from £0.6bn to £2.5bn over the four year period.
- Owing to careful management of the DSG and, more specifically, the uncommitted headroom funds in 2010/11 and the easing out of SEN transitional protection in 2011/12, the LA was able to finance centrally both school Broadband costs (following the Government's ending of the c.£4m Harnessing Technology Grant), and the new carbon tax introduced by Government at an estimated cost for Lincolnshire schools and academies of £0.6m.
- Due to those two significant commitments, no uncommitted or headroom funds were available in 2011/12.
- A number of relatively minor modifications were made to the SEN formula introduced in April 2010. The changes included the phasing out of protection arrangements. For 2011/12 the floor for primary schools is £20k or 2% of budget, with a ceiling of £80k. For secondary schools, the floor is £50k or 2% of budget, with an £80k ceiling. In 2012/13, primary schools will have a floor of £40k or 4% of budget, with a £120k ceiling. Secondary schools will have a floor of £100k or 4% of budget, with a £120k ceiling. No transitional protection will be available in 2013/14.
- The Early Years Single Funding Formula (EYSFF) was introduced in April 2011.
- A new special schools formula was also introduced from April 2011. Protection arrangements have been built in to ensure that special schools suffer no losses in the first financial year.
- The YPLA 6<sup>th</sup> form funding leaves a number of secondary schools facing significant financial challenges in future years, even allowing for transitional protection arrangements.
- Devolved Formula Capital allocations are significantly lower from 2011/12.

## **S251 and CEL**

The s.251 budget statement shows the LA's planned spending on Children's Services for the new financial year. Ordinarily, the LA has a statutory duty to publish the statement by 31 March preceding the start of the financial year. That is then reported to the April meeting of the Schools Forum. However, this year, the DfE extended the deadline to 8<sup>th</sup> April 2011 because their new on-line COLLECT system was still being tested. The LA asked for a further extension to allow officers to consider carefully, the DfE's extended information requirements regarding how much of the central DSG budgets are targeted at deprivation. As a consequence, the s.251 budget statement for 2011/12 was not available at the time of drafting this report. It will however be included in a report to the next meeting of the Schools Forum in June.

The Schools' Forum is aware from reports in previous years that its role is not to approve the budget. However, each year, the LA consults the Schools Forum on all key proposals relating to the DSG, i.e. changes to the school funding formula; changes to central budgets, and; the use of headroom funds. Indeed, for 2011/12, the Schools Forum was consulted on those issues at its meeting on 26<sup>th</sup> January 2011. It supported the proposals. Then, following the DMT and the Portfolio Holder's consideration of the Schools Forum's views, the proposals were implemented in 2011/12.

As indicated in the 26<sup>th</sup> January report, it is possible that the Central Expenditure Limit (CEL) will have been exceeded in 2011/12. The CEL is designed to ensure that central budgets do not increase by a greater percentage than the overall DSG. If a breach occurs, the approval of the Schools Forum is required. However, as s.251 had not been completed at the time of drafting this report, it is not possible to confirm whether the CEL has been exceeded. Having said that, we know that school budgets for 2011/12 remained largely unchanged; that the budget for Early Years increased (for the purposes of the CEL, this is treated as part of the Individual Schools Budget), and; that central budgets were increased by £3m and £0.6m to finance schools' and academies' Broadband and Carbon tax costs respectively. It is therefore possible that the CEL will have been exceeded. However, if that is the case, it should be noted that the LA has already consulted and received the support from the Schools Forum on all the key decisions that will have given rise to that situation.

### **The projected underspending on the DSG and proposals for its use**

The DSG is a ring-fenced grant and can only be spent for purposes outlined in DfE' regulations. A revision to the Schools Budget is necessary each year to reflect, firstly, the final DSG announced by the DfE in the summer and, secondly, the under or overspending arising on the DSG in the previous financial year. The LA is required to consult the Schools Forum on its use and, traditionally, such reports are presented to the Schools Forum in October each year, after the accounts have closed.

The accounts for 2010/11 are not yet closed and so the figures set out here are provisional and may be subject to change. However, to fulfil the promise made in the report to Schools Forum on 26<sup>th</sup> January 2011, and given the anticipated level of underspending, it is important to bring forward now some initial consideration of its use.

The projected underspending on the DSG at 31 March 2011 is **£14.338m**. This equates to c.4% of the annual DSG and, as explained below, this has accumulated over several years. The underspending has arisen for several reasons. These are explained below and reflect decisions that have received the backing of the Schools Forum at various times.

The main reasons for the projected underspending are explained below:

**1. 2009/10 DSG underspending: £5.352m**

In the report to the Schools Forum on 13<sup>th</sup> October 2010, it was reported that the DSG underspending at 31 March 2010 was £5.352m, with a further £2.173m committed. Due to the uncertainty regarding the future of school funding and the pending Comprehensive Spending Review announcement on 20<sup>th</sup> October 2010, the Schools Forum supported the LA's proposal not to commit this underspending at that point in time.

**2. 2010/11 Uncommitted headroom: £1.749m**

In the report to the Schools Forum on 27<sup>th</sup> January 2010, the LA proposed a number of changes to budgets including SEN statements, early years, school redundancies and, most notably, transition to help protect school budgets when the new SEN formula factor was introduced. It was not possible to quantify precisely at that time the cost of SEN transition and so the report proposed that if any headroom funds remained after the school and central budgets had been finalised in March 2010, it would be retained within the Schools Contingency to provide a degree of flexibility in 2010/11 and beyond. The uncommitted sum from 2010/11 headroom is £1.749m.

**3. 2010/11 central budget underspendings: £4.602m**

The LA has continued to deliver efficiency and other savings across a number of budgets including those within the DSG. Most notably, projected savings include £0.4m on SEN Out of County placements and £0.5m on special recoupment. Furthermore, the LA has continued to take full advantage of resources available outside of the DSG, by transferring costs that would otherwise be charged to the DSG. The impact of this is to increase the resource that would otherwise be available to support schools and it is important to note that this practice, which has been adopted in previous years, accounts for a significant element of the projected underspending on the DSG at 31 March 2011.

**4. 2010/11 Schools Contingency underspending: £2.635m**

This budget is typically set at c.£12m p.a. and is used to finance the in-year adjustments to school budget shares required under the LA's approved school funding formula. It

includes funding for additional statements of special educational needs, threshold payments for teachers, NQT allocations, infant class size, free school meals, hard to place pupils, English as an additional language, etc. It is not possible to estimate precisely (either at an individual school or county wide level) the allocations required for the forthcoming financial year and so a prudent budget is set each year. Although the accounts for 2010/11 are not yet closed, an underspending of £2.635m is projected, with the main underspendings being on Early Years (£0.332m), free school meals (£0.181m), NQTs (£0.180m) and Threshold payments (£0.557m). In addition, there were several decommitments (£0.656m).

A significant sum is therefore available for use and now that there is, arguably, a little more certainty regarding future funding following the Comprehensive Spending Review, it is important that consideration is given to its use.

The following commitments remain:

EMBC re-procurement costs	£0.295m
Energy meters in school	£0.185m
PRU management commitments	£0.096m
Outreach programme for special schools <sup>1</sup>	£0.664m
Virtual Learning Environment training <sup>2</sup>	£0.500m
School reorganisations	£1.591m
Other miscellaneous	£0.431m
Total	£3.762m

It is important to note that the underspending is a one-off sum of money and therefore cannot be added permanently to any base budget.

There are however, a number of developments that the LA wishes the Schools Forum to consider. These include:

Primary Baccalaureate	£2.600m
Secondary Baccalaureate	£0.840m
Enhanced SIP work	£0.270m
Olympics legacy	£0.060m
Total	£3.770m

No distinction would be made between academies and maintained schools in the use of these funds.

The projected underspending, less the commitments and proposed developments above, would leave £6.8m available. However, before that underspending is fully committed, it is important to recognise that retention of a sum may be prudent to avoid future reductions to schools budgets. The key risks include:

- **DSG estimating error**  
Under the current system, the DSG has to be estimated prior to the financial year and projections can prove to be inaccurate by c.£1m. Without a reserve, a reduction to school budgets in the following financial year would be required if an overestimate occurred.
- **School Contingency**  
As indicated above, this budget is used to finance the in-year adjustments to school budget shares required under the LA's approved school funding formula. Whilst a prudent budget is set each year, any overspending would have to be clawed back from the DSG in the following financial year.
- **School Redundancies**  
Although a £2m budget currently exists, the size of some schools' overspends, the tightening of school funding and the potential losses to some schools' sixth form funding, may mean that this budget is insufficient, even with the new policy that requires schools to meet 50% of

<sup>1</sup> This was proposed in the 'School Funding arrangements 2011/12' report to Schools Forum on 26 January 2011. The sum covers two years.

<sup>2</sup> This was supported by the Schools Forum in the 'Revised Schools Budget 2009/10' report dated 7 October 2009.

redundancy costs. Any overspending on the central DSG budget would have to be carried forward and recovered at the start of the following financial year and the possibility to offload costs to non DSG budgets in future is likely to diminish significantly due to major reductions to Council funding.

- **Other Central DSG budgets**

Most centrally held DSG budgets can be controlled to a significant degree. However, the budget for Early Years exceeds £10m. It is funded using an hourly rate and the LA must respond to parental demand, which could increase if more parents choose to take up more of their child's 15 hours per week free entitlement.

- **School Reorganisations**

The Schools Forum previously supported the creation of a budget to help support major school re-organisations. This remains important as structural changes are likely to be necessary in a tighter financial climate, to ensure that schools are able to continue to deliver at least a satisfactory education to pupils and remain financially viable. Although such re-organisations will help deliver more effective use of resource in the medium term, there are often transitional costs, redundancies and occasionally deficits to be financed.

- **Streamlining of grants**

As indicated previously and further below in this report, the LA plans to consult on how the £67m of streamlined grants are distributed from 2012/13. Some headteachers feel that the previous allocations were unfair and need to be reviewed. If the subsequent proposals prove radical and the LA and Schools Forum wish to phase in such change by offering financial protection to school budgets, a considerable sum may be required. As an indication, the changes to the £15m SEN funding introduced in April 2010 will cost £2.3m, £0.8m and £0.2m over three years, or 22% of the SEN budget. A similar level of transition for £67m of grants would require c.£14m, although ceilings could be lowered to help further finance the losses.

- **Changes in Government funding**

The Comprehensive Spending Review indicated that there is unlikely to be any spare capacity or headroom funds in the next three years, without cutting school budgets. Furthermore, despite the planned funding now being clearer, the Government has since made several reductions to a number of major funding streams. Most recently, this included an announcement that £2m of the Standards Fund payments for 2010/11 would no longer be paid. This approach may continue and with the recently launched consultation on how LAs and schools might be funded, it could be that there are future reductions to DSG funding in Lincolnshire.

On balance, it may appropriate to allocate some of the uncommitted underspending on the 2010/11 DSG to the development projects listed above, but retain the £6.8m balance in reserve (this is c.1.5% of DSG) to help respond to future challenges and thereby ensure a greater degree of stability in school funding than would otherwise be the case. The Schools Forum is asked to comment upon this. Those views will then be considered by the DMT and Portfolio Holder, before final decisions are made.

### **Streamlining of Grants**

As reported to the Schools Forum on 26<sup>th</sup> January 2011, the Government decided to press ahead with the streamlining of grants in to the 2011/12 DSG. Although the regulations allowed LAs to distribute those funds in a different way, the Schools Forum supported the LA's proposal to replicate the 2010/11 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.

A review is necessary as the grants are considerable (£67m). Some have been locked in place for many years and may no longer be appropriate in the current era. It is proposed that meetings are arranged with school representatives in late summer or early autumn to consider this, prior to a full consultation with the Schools Forum and, possibly, all maintained schools and academies. This work may not prove necessary if subsequent announcements from Government indicate that a national funding formula is likely to be implemented in the short to medium term.

Schools Forum members are asked to indicate whether they would be interested in participating in this work.

## RECOMMENDATIONS

The Schools' Forum is asked to:

- a. Note the contents of the report;
- b. Comment on the proposed use of the uncommitted underspending on the 2010/11 DSG.
- c. Indicate if any of its members would like to participate in the work to review the streamlining of grants.

**APPENDICES (If applicable) - these are listed below and attached at the back of the report.**

None

## BACKGROUND PAPERS

PAPER TYPE	TITLE	DATE	ACCESSIBILITY
Report to Schools Forum	Revised Schools Budget 2009/10	7 October 2009	County offices, Newland, Lincoln, LN1 1YQ
Report to Schools Forum	School Funding Arrangements 2010/11	27 January 2010	County offices, Newland, Lincoln, LN1 1YQ
Report to Schools Forum	Revised Schools Budget 2010/11	13 October 2010	County offices, Newland, Lincoln, LN1 1YQ
Report to Schools Forum	School Funding Arrangements 2011/12	26 January 2011	County offices, Newland, Lincoln, LN1 1YQ
Letter to all Headteachers	Budget information 2011/12	21 March 2011	County offices, Newland, Lincoln, LN1 1YQ