

REGULATORY AND OTHER COMMITTEE REPORT

NAME OF COMMITTEE:	Schools' Forum
DATE OF MEETING:	25/1/12
SUBJECT:	School funding arrangements 2012/13
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IS THE REPORT EXEMPT?	No
IS REPORT CONFIDENTIAL?	No

SUMMARY

The purpose of this report is to seek the Schools Forum's views on school funding arrangements for 2012/13.

DISCUSSION

Introduction

On 14th December 2011, the DfE announced a number of important decisions relating to Local Authority (LA) and school funding.

The key announcements were:

- The methodology underpinning the Dedicated Schools Grant (DSG) will continue unchanged.

- The DSG funding will remain the same in cash terms next year (i.e. £4,797 per pupil).
- LAs with falling rolls will be protected, so that they lose no more than 2% of their budget.
- The Minimum Funding Guarantee (MFG) will continue to apply.
- The MFG will again be set at minus 1.5%.
- As expected, funding for the Pupil Premium will double in 2012/13. However, the amount per pupil will rise from £488 to only £600, to reflect the fact that funding will be extended to pupils that have been eligible for free school meals at any point in the last six years.
- This funding will double again from £1.25bn next year to £2.5bn by 2014/15. Schools will be required to publish information on how the funding has been used and the impact will be reflected in performance tables.
- Following the last consultation exercise, the DfE is continuing to develop proposals for a new system of funding for LAs from 2013/14.
- The transitional protection introduced in 2011/12 for 16-19 provision will continue to apply in 2012/13.
- Devolved Formula Capital will remain at a similar level to last year.

Issues for 2012/13

To enable the LA to calculate school budget shares and publish those in 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

The key points to note in respect of the Schools Budget are:

- There are plans to redistribute £67m of grants that were mainstreamed in to the DSG in 2011/12. This is the subject to a separate report to the Schools Forum.
- The phasing out of transitional arrangements for the SEN funding formula introduced in April 2010 and the special schools formula introduced in April 2011 will continue as planned.
- The MFG will continue to apply and as indicated above, it has again 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% MFG. Indeed, in 2011/12, due to careful management of budgets, there was actually no reduction in the cash value of formula factors.

The LA will need to review carefully all of the budgets within the Schools Contingency, not least as the proposals contained in the separate report to Schools Forum suggest major changes to existing factors, including for Infant Class Size funding and free school meals. It will be important to ensure that sufficient resource is set aside next year to finance the in-year adjustments to school budgets that are required under the LA's approved local funding formula.

Centrally held budgets

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 Educational Needs, Admissions and Independent Schools, etc.

The LA is currently finalising these budgets, but the main issues and budget changes proposed for next year are set out below:

School redundancies

For several reasons, the LA proposes to reduce the budget from c.£2m to £1.3m. Firstly, there are now a significant number of academies in the county and the LA is not responsible for meeting any of their redundancy costs; secondly, the level of overspendings on maintained schools has been falling, and; thirdly, fewer structural re-organisations are planned.

With the mainstreaming of grants in the DSG this year, the financial contributions that schools have to make (i.e. 3% of budget for nursery, primary and special schools, and; 6% for secondary) will have automatically increased under application of that formula. To ensure that schools are not making a greater financial contribution than before grants were mainstreamed in to the DSG, it is proposed that the percentages are reduced for redundancies taking effect after 31 March 2012, to 2.5% for nursery, primary and special schools, and 5% for secondary schools.

Early Years

This budget funds the payments to private, voluntary and independent providers. It has been a priority area for growth by central governments in recent years. In September 2010, the government extended the free entitlement to 15 hours and recently it announced an increase in Early Intervention Grant to provide free entitlement for 2 year olds from deprived areas. Those policies will continue to drive up the budget requirement in the years ahead and it is important to note that the LA cannot limit or control that growth. Once again, it is difficult to anticipate how parents might respond to the availability of free early years provision. Recently, there has been growth of c.6% p.a., but there is still scope for demand to increase if parents access their full entitlement. In recognition of recent growth and the possible acceleration of that given recent government announcements, it is proposed to increase the budget by £1.6m in 2012/13.

SEN Out of County

There is continued success in reducing expenditure on Out of County placements and the budget is expected to underspend this year. However, the average case of a placement is high and if there is a relatively small increase in the number of placements, the budget can easily overspend. Several neighbouring LAs have recently reported major financial challenges with their DSG due to growth in this particular budget. It is therefore proposed that the budget is left unchanged for 2012/13 and is reviewed again next year.

Carbon scheme

As reported last year, the Government introduced a carbon reduction scheme for all large organisations in the country. It was agreed that a central budget of c.£0.6m would be set up to meet those costs, rather than ask schools to meet their own costs from their delegated budgets. A few months ago, the Government announced that no charges would be made in 2011/12, but a double charge will be made in 2012/13. The charges are still expected to be broadly in line with the original budget, so no changes are proposed.

Broadband

Last year, the Schools Forum supported the proposal to establish a £3.4m central budget to meet Broadband costs in all schools. This was considered the fairest approach given that costs vary tremendously between similar schools. As reported then, the current contract for Broadband connectivity is due to end in October 2012. A new contract with Kcom commences on 1 November 2012. Significant savings are expected in the future, with costs falling to c.£1m. However, there will be one-off installation costs and some overlapping of contracts in 2012/13. So, of the current budget will be required next year, plus c.£0.7m of DSG underspending from the current year. The base budget can be reduced from 2013/14, creating additional budget flexibility in that and subsequent years.

Other budgets

All DSG central budgets are being scrutinised. Much more modest changes to some other budgets are expected.

Headroom

Due to the way in which the DSG is calculated, it is not possible to determine the level of uncommitted resource or 'headroom' that will be available until mid to late February. The headroom can only be determined once the pupil number data from the January 2012 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.

Headroom funds are expected to be available as a result of:

- The DSG per pupil figure being set by Government at the same level as last year, thereby allowing schools to receive a per pupil reduction of up to 1.5% under the MFG
- The DSG estimating error for 2011/12 (£1.4m)¹
- Funds released from the phasing out of protection on the SEN factor (£0.6m) and special schools formula (£0.2m)
- Possible de-commitments, etc.

The sum cannot be quantified with any degree of accuracy at this stage, but estimates suggest it could be c.£6m.

To enable budget shares to be calculated and issued to schools as quickly as possible, it is necessary for proposals for the use of headroom funds to be determined at an early stage. Therefore, once central budgets have been set and schools have received their MFG, the LA proposes to use the remaining funds to address three strategic priorities:

1. Creating collaborative partnerships in the primary sector

In light of tighter financial settlements, the new OFSTED inspection framework and the LAs desire to preserve small, isolated rural schools, the case for structural collaborations is compelling. It is proposed that resource is made available both to pump prime and sustain a supportive framework for groups of schools. Small schools particularly need support in the areas of strategic financial management and SENCO work. Input from a co-ordinator is also required to ensure that collaborations of groups of between three and five schools are effective. Schools of up to c.200 on roll would be able to collaborate, with total numbers across each group typically being 400 to 600 pupils. Funding would be made available to share the services of a Business Manager, a SENCO and a Co-ordinator (although the latter would cover three groups, or c.20 schools). Gross salary costs per group are expected to be c.£0.1m p.a.. If all eligible schools took up the offer to collaborate in this way, the annual cost is expected to be c.£3.6m². To ensure that collaborations work effectively from the beginning, it is proposed that pump priming of c.£0.010m per school would be allocated to finance set-up costs, including those relating to early employment of staff and the full costs arising from any restructuring. This pump priming would represent a one-off cost of c.£1.8m and could be met from the underspending on the DSG at 31 March 2011. Further details will be developed in due course.

2. Providing additional support to small and medium sized secondary schools

In the last decade, many small and medium sized secondary schools have struggled and often failed to avoid overspending. Although the block allocation provides a fixed sum of funding to all schools irrespective of size, it represents a very small proportion of the secondary sector's funding. Those schools are unable to secure economies of scale in the same way as much larger schools and so to recognise further the fixed and semi-variable costs in those schools and provide some additional capacity, it is proposed to increase the block allocation for schools below 700 on roll by 50% or c.£0.072m. Funding of c.£1.7m would be needed to finance this.

3. Increasing the funding for special needs across the primary and secondary sectors

The SEN factor was introduced in April 2010. It is one of the most significant and important factors within the local funding formula and, given the pressures placed upon schools, it is proposed to add any remaining headroom to this factor.

Future years' budgets

¹ As reported to Schools Forum in October 2011.

² There are approximately 180 schools will less than 200 on roll. Average groups of 5, would leave 36 groups requiring funding of £0.1m each and £3.6m in total.

The DfE has not published DSG settlement figures for 2013/14 and is unlikely to do so given that it is currently reviewing how LAs are funded and a new system may be introduced from 2013/14. The LA will not be issuing indicative budgets beyond next year and instead, continues to recommend that all schools maintain medium term finance plans that build in modest reductions in future funding levels.

Decision making process

Final decisions on the 2012/13 budgets will be made by Lead Executive member for Children’s Services and post-16 education, in early February 2012, i.e. after the DMT and Lead Executive member have carefully considered the views of the Schools Forum. Once again, school budgets are expected to be published around the middle of March 2012.

DSG 2010/11

In October 2011, the LA reported on the level of DSG underspending in 2010/11. The Schools Forum supported the LA’s proposal that £10m be earmarked to help finance transitional arrangements as mainstreamed grants are redistributed from April 2012. The intention is to allow schools that are to gain, to do so more quickly than would otherwise be the case (although consideration will also be given to protecting all school from losses in 2012/13, as most will again receive only two weeks notice of the change in their funding³). However, great care is needed to ensure that once the underspending is fully spent, the schools funding formula is affordable, i.e. the level of gains in schools can be funded by the losses in others. There is a potential risk that this would not be the case due to the protection offered by the MFG. To minimise this risk, work will be undertaken to assess the number of years over which the £10m should be phased.

Due to prudent and careful management of central DSG budgets in 2011/12, there is a possibility that there could be a further underspending on those budgets this year. The LA recognises that the prudent management of central DSG budgets helps provide stability in school funding. However, it is acutely aware that significant resource should not be carried forward as an underspending year after year. Therefore, the LA may bring forward proposals for immediate distribution of any uncommitted funds to the Schools Forum as early as April 2012 when the position is expected to be clearer.

RECOMMENDATIONS

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.

BACKGROUND PAPERS

The following reports were relied upon in the writing of this report.

PAPER TYPE	TITLE	DATE	ACCESSIBILITY
Report	Revised Schools Budget 2011/12	12 October 2011	County Offices, Newland, Lincoln

APPENDICES

³ This would be consistent with the approach the LA has adopted in the last two years when introducing the new SEN factor, the Early Years Single Funding Formula and the new special schools funding formula.

None