

**REGULATORY AND OTHER COMMITTEE REPORT**

<b>NAME OF COMMITTEE:</b>	Schools' Forum
<b>DATE OF MEETING:</b>	10 July 2012
<b>SUBJECT:</b>	Revised Schools Budget 2012/13
<b>REPORT BY:</b>	Tony Warnock (Head of Finance – Children's and Specialist Services)
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<b>IS REPORT EXEMPT?</b>	No

**SUMMARY**

The purpose of this report is to notify the Schools' Forum of the revised Schools Budget for 2012/13 and to seek support for the proposed use of the underspending from 2011/12.

**DISCUSSION**

Ordinarily, this report is presented to the Schools' Forum in October. However, given the level of uncommitted underspending, the Local Authority (LA) wishes to consult the Schools' Forum now on its proposals for use of those funds.

The Dedicated Schools Grant (DSG) is a ring-fenced grant that can only be spent for the 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. Under DfE'

regulations, underspendings are carried forward automatically to the following financial year and the LA must consult with the Schools' Forum over its plans to utilise or address any under or overspendings.

### **2010/11 underspending**

The Schools' Forum will recall from the report on 12 October 2011 that the underspending at 31 March 2011 had increased significantly to c.£16m. In previous years it had typically been c.£5m. The report explained why the underspending had increased. It documented how the underspending had been accumulated over the previous two years; explained that this was from taking a cautious approach to DSG funding ahead of the Comprehensive Spending Review in October 2010, and; stated that these decisions had been taken with the support of the Schools Forum. The report then stated that there were c.£4m of commitments; it proposed c.£2m of developments, and; recommended that the balance of c.£10m be set aside to help finance the transition arising from the redistribution of mainstreamed grants in April 2012.

Looking back, much of the £10m set aside for the mainstreaming of grants was not needed. This was largely because a key principle adopted as part of that exercise was to maintain stability in school funding. Other than for certain elements of the School Development Grant, that was largely achieved and so very little of the £10m underspending was actually needed to finance transition.

### **2011/12 DSG centrally held budgets**

Once again, due to careful and prudent management of central DSG budgets, a significant underspending (£7.094m) arose in 2011/12. The main under and overspendings are set out in Appendix 1. The positive impact from the LA's historic approach of utilising other available funds was even more significant in 2011/12.

### **2011/12 Schools Contingency**

The Schools Contingency is used to finance in-year adjustments to school budget shares, as required under the approved funding formula. The total underspending was £1.319m and the main under and overspendings are set out in Appendix 2.

### **2011/12 total underspend**

The total underspending at 31 March 2012 is £24.948m, the highest it has been. This represents 5.3% of the current DSG. Its size reflects the prudent approach that the LA and Schools Forum have jointly taken to management of the DSG in recent years. Two years ago, the economic outlook was bleak and yet by carefully managing underspendings from previous years; not committing all of the headroom funds; driving down the costs of centrally held budgets; fully utilising all other resources available to Children's Services, and; seeking to minimise the transitional funding required for the mainstreaming of grants, the underspending is now at a significant level. By adopting this prudent approach, Lincolnshire has avoided the situation that some LAs now find themselves in, i.e. of having an overspending on their DSG which has to be clawed back, either from school budgets or important services that directly support schools.

Whilst it is important to avoid overspending the DSG, it is equally important to avoid carrying forward significant uncommitted sums indefinitely. The DSG is intended to support schools both directly and indirectly and so any available funds should be allocated wherever possible and not be held in reserves.

## **Proposals for use of the uncommitted underspending**

The LA has carefully considered the current position and how best to utilise these one-off funds, having regard to the following:

- Existing commitments.
- Emerging pressures.
- The LA's priorities.
- Government plans for school funding reform.
- Government plans for the future funding of schools.
- The need to be prudent but also commit underspendings rather than retain an excessive level of reserves.

The commitments total £15.510m and are set out in Appendix 3.

The LA proposes to use the uncommitted balance to finance developments, then distribute the balance to schools. Details are set out below:

## **Proposed developments**

These total £2.5m and are set out in Appendix 4.

## **Distribution of the balance to schools via Devolved Formula Capital (DfC)**

It is proposed that the balance of the funding is distributed via DfC. There are several reasons for this:

- Following the CSR in 2010, there was a very significant reduction in DfC allocations to schools amounting to c.75%.
- DfC had become increasingly important to schools, not least as they had been expected to use it to help fund investment in I.T. in recent years.
- There is a significant level of work needed for minor capital repairs and maintenance in many schools across the county and the fabric of the buildings needs to be maintained.
- There is limited money available through the LA's capital repairs and maintenance budget to finance such work and following the CSR in 2010, the Council's non DSG budgets are under tremendous and increasing pressure.
- Schools may be inclined to squeeze their own revenue repairs and maintenance budgets in future years as finances tighten.
- The DSG underspending is a one-off sum of money and there will be less risk of schools making permanent additions to their revenue base budgets and creating financial problems in the medium term if the funding is added to DfC.
- There are an increasing number of local investment opportunities available to schools in solar and other carbon efficient technologies which will generate savings and help to reduce pressure on future revenue budgets.
- Schools reserves are large and have been increasing significantly in recent years. More schools are already carrying forward more than the 5% or 8% level prescribed under the LA's policy. It seems sensible to avoid simply adding to their revenue reserves and so the addition of funds to DfC is more likely to result in that funding being spent soon for the benefit of pupils.
- The DSG is used to finance and support all schools. As this approach will deliver funding to all schools (compared to proposals that target funding at specific projects), it is likely to secure a broader level of support in schools.

The DfE's DfC formula provides a fixed block allocation and an amount per pupil to all schools. Both elements were reduced significantly, and by a similar percentage, following the CSR in October 2010. The current formula is a lump sum of £4,000 per school with per pupil allocations of:

Primary: £11.25

Secondary: £16.88  
Special: £33.75

It is proposed that the uncommitted funds are allocated using this formula, with both the block and per pupil elements being uplifted by the same percentage.

Should this proposal be supported by the Schools Forum, the LAs intention would be to distribute the funding to schools early in the autumn term. To help ensure that the funds are spent soon and put to good use, the LA would issue information and guidance with the funding, to help the schools deploy that effectively. For example, this would include information regarding the most effective schemes for reducing carbon emissions and future energy costs. The mechanism for distributing those funds to academies would also be clarified with the EFA.

### **2012/13 DSG estimating error**

Lincolnshire's final DSG for 2012/13 (£466.789m) was determined by multiplying the number of children recorded in schools during the January 2012 schools census by £4,797 (i.e. the per pupil amount that Lincolnshire receives, as determined by the DfE). As in previous years, the timing of events is such that for the purpose of setting the 2012/13 budget, an estimate of the January 2012 PLASC pupil numbers had to be made. The final DSG for 2012/13 has just been published and is £2.058m (0.44%) more than the LA's prudent estimate.

The LA is required by the DfE to discuss with the Schools Forum how it plans to deal with the estimating error.

It is proposed that the estimating error on the DSG for 2012/13 is not allocated at this time. This funding will be required from 2013/14 onwards to allow the previous decision to support small school collaborations to continue (should that still be permitted somehow, in light of DfE' school funding reforms). Therefore, this one-off underspending can be set aside to provide some flexibility, which may well be needed for transition if the DfE presses ahead with its move to using just ten formula factors to fund schools from April 2013.

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

- a. Note the contents of the report;
- b. Support the proposals for use of the 2011/12 DSG underspending.
- c. Support the proposal for the treatment of the 2012/13 DSG underspending arising from the estimating error.

The views of the Schools' Forum will be reported to the DMT and Lead Executive Member before final decisions are made.

<b>APPENDICES (If applicable) - these are listed below and attached at the back of the report.</b>
Appendix 1 - Central DSG Budgets 2011/12 – Explanations for major variances
Appendix 2 - Schools Contingency 2011/12 – Explanations for major variances
Appendix 3 - 2012/13 DSG commitments
Appendix 4 - Proposed Developments

<b>BACKGROUND PAPERS</b>			
<b>PAPER TYPE</b>	<b>TITLE</b>	<b>DATE</b>	<b>ACCESSIBILITY</b>
Report to Schools Forum	Revised Schools Budget 2011/12	12 October 2011	County Offices, Newland, Lincoln, LN1 1YQ

**Central DSG Budgets 2011/12 – Explanations for major variances**

The main variances were:

<b>Service / Budget</b>	<b>Underspending/ (overspending) £m</b>
<b>1. Broadband Costs</b> The underspending has occurred due to a number of factors, namely: a credit to help fund LAs EMBC costs, as a result of Nottinghamshire leaving the group; a reimbursement of broadband costs due to an over-estimate of original forecasts for 2010/11 and 2011/12; utilisation of the Harnessing Technology Grant to ensure it was fully spent at August 2011, and; a programme reimbursement. The budget will be revised downward next year to reflect the new contract.	0.765
<b>2. Special Recoupment</b> Income levels exceeded the budget. Lincolnshire is a net 'importer' of children with SEN.	0.542
<b>3. Out of County Expenditure</b> The number of placements continues to fall. The LA will continue to review the base budget on an annual basis.	0.718
<b>4. Utilisation of other income</b>	3.931
<b>5. Stamford Endowed</b> Recovery of threshold payments in line with the contract.	0.211
<b>6. Teaching &amp; Learning Centre</b> Re-modelling of the PRUs and implementation of the core offer resulting in a number of vacant posts. This is a one-off underspending due to vacancies which will be recruited to.	0.396
<b>7. Carbon Tax &amp; Energy Meters</b> The actual charge for carbon tax is lower than anticipated. Energy meter running costs start in 2012/13.	0.112
<b>8. Preventing Exclusions</b> This underspending arose as new initiatives were being developed.	0.119
<b>9. CRB &amp; Union Payments</b> A revised formula was introduced for trade union payments. The budget requirement for CRB was lower than expected, although changes to CRB will necessitate a review of this budget.	0.126
<b>10. Miscellaneous</b>	0.174
<b>Total</b>	<b>7.094</b>

**Schools Contingency 2011/12 – Explanations for major variances**

The main variances were:

<b>Service / Budget</b>	<b>Underspending / (overspending) £m</b>
1. Free School Meals	0.104
2. Admissions & Exclusions	0.119
3. KS1 Class Size	0.186
4. NQTs	0.157
5. September Trigger	0.122
6. Threshold Payments	0.120
7. Special Schools – Overcapacity	0.107
8. Mandatory Rate Relief Applications	0.246
9. Maintained Early Year's funding	0.448
10. EAL	(0.290)
<b>Total</b>	<b>1.319</b>

**2012/13 DSG commitments**

<b>Service / Budget</b>	<b>Commitment £m</b>
1. Broadband Costs of the over-lapping of broadband connectivity contracts, one-off installation costs and EMBC closure costs	2.620
2. Carbon management Balance of the previously agreed allocation of £0.250m	0.140
3. Special schools outreach The second year's funding for the previously agreed allocation	0.580
4. School development projects including the Bacculaureate The year 2 funding and the balance of year 1 funding	2.638
5. VLE Balance of the previously agreed £0.5m allocation	0.308
6. School re-organisations Estimated costs of several school re-organisations currently underway	5.618
7. Schools Contingency allocations Balances due to schools following cessation of a number of in-year adjustments, implemented alongside the mainstreaming of grants in 2012/13 (including NQTs, Infant Class Size, etc)	1.552
8. Small schools collaborations Commitment agreed in January 2012.	1.442
9. Miscellaneous	0.612
<b>Total</b>	<b>15.510</b>

Note: most of these costs are expected to be incurred in this financial year but approximately 25% will not be spent until after 2012/13.



## Proposed developments

### Proposals

It is proposed that investment is made as follows, to reduce carbon emissions and improve energy efficiency:

- £0.4m is set aside to appoint 2 graduates over a four year period to support schools with energy management.
- £2m is used to invest in carbon savings schemes, including boiler optimization and insulation.
- £0.1m is set aside to finance the interest on LCC loans to schools to support energy efficient investments.

The total cost would therefore be £2.5m.

### Background

It is estimated that school energy bills currently exceed £9 million a year. In addition to those costs, under the Carbon Reduction Commitment Energy Efficiency Scheme (CRC), Lincolnshire County Council is responsible for reporting on, monitoring and annually purchasing allowances to cover CO<sub>2</sub> emissions (including **all** school emissions). On 2010-11 figures approximately £660,000 will be needed to do so.

As part of an East Midlands collaboration, a SCORE pilot was run from May 2011 to January 2012 with two school clusters in Lincoln and Caistor. Working with these clusters we explored the most effective means of providing whole school (estate and curriculum) support and advice to reduce energy consumption (and thereby bills) and CO<sub>2</sub> emissions. Briefly the process included

- Schools signing up to term long programme of work and making a commitment to support
- Twilight briefing for school head teacher, Chair of Governor, bursar/caretaker, teachers in preparation
- Training day for pupils, teachers including basic building energy audit training
- Action week involving whole school (carrying out quick wins, energy audit, in school activity etc.)
- School Council/Eco Committee agreeing Action Plan detailing both behavioural and investment opportunities
- Twilight sessions as required on heating systems etc.

On 30<sup>th</sup> January 2012 we held a celebration/feedback event at the Macaulay Centre with Cllr Mrs Bradwell in attendance. Lincolnshire Young Journalists Academy were also involved and are producing DVD for future use. The conclusions of the feedback were that schools had found the programme useful and effective and had all carried out actions to reduce energy consumption.

It is estimated that the pilot schools put in place measures that will save **£39,000** from annual bills and identified investments that would realise a further **£45,000** annual savings. On average implemented and identified measures would reduce energy spend by about 30% in pilot schools.

The approach is similar to, and could work alongside, the recent agreed Collaborative Partnerships proposal; supporting the business management strand through improving energy efficiency and reducing costs.

Using our work with these pilot schools as a typical sample we have prepared a business case on how the service can be rolled out and the potential savings (both energy costs and CRC). There are three strands to the programme

- Behavioural and low cost savings
- Strategic investment in best value technologies
- Identifying and supporting revolving fund investment in proven technologies

With existing resources we can only deliver to two clusters per term at most. In light of the benefits outlined above there is an option to add extra resource which could achieve a roll out of the programme to all Lincolnshire schools over a four year period (approximately 30 schools a term). If

that were done there would also be a need to increase funds available to schools to carry out energy efficiency investments identified as a part of the process.

Working in geographic clusters of 5-6 schools we will provide a whole school (estate plus curriculum) approach, supporting schools to become energy aware, energy efficient and making significant reductions in their energy bills and CO<sub>2</sub> emissions. Activities in the programme will include those listed above, modified and improved by feedback received.

The programme will assist schools to access existing funding available and seek to better integrate council services relating to schools energy use (utilising automatic metering; Caretaker training; Building condition surveys, procurement etc.). To maximise savings it is recommended that additional funds are made available from LCC's loan scheme for schools.

Subject to appropriate budget being made available the programme could be rolled out to all Lincolnshire schools over a four year period as described in the draft Business Plan.

To do so the following will be required

- £100,000 per year to provide two SCORE officers (to add to the resource currently available in the Sustainability Team), publicity and marketing.
- £500,000 per year (for the four year programme) for investment in boiler optimisation and boiler room insulation
- £100,000 to meet the interest charges on LCC loans.

It will be crucial to augment that with funds for energy efficiency investment. That will be a mix of

- Schools own funds and DFC allocations
- Salix Revolving Fund (although we are virtually fully committed on this at present repayments are due in August 2012 and additional funds could be made available via LCC loans scheme. This would support continued availability for investment after the programme ends.
- One off fund from the DSG underspend for rolling programme of boiler optimisation and boiler room insulations (investments with good payback periods are likely to be applicable to most schools). £500,000 per year during the four year programme would be needed.

The funds would be deployed for the benefit of all maintained schools and academies in Lincolnshire.