

REGULATORY AND OTHER COMMITTEE REPORT

NAME OF COMMITTEE:	Schools' Forum
DATE OF MEETING:	23 January 2013
SUBJECT:	School Funding Arrangements 2013/14
REPORT BY:	Tony Warnock Head of Finance – Children's & Specialist Services
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IS THE REPORT EXEMPT?	No
IS REPORT CONFIDENTIAL?	No

SUMMARY

The purposes of this report are to:

1. brief the Schools Forum on school funding arrangements for 2013/14; and
2. seek support for the Local Authority's (LA) proposals relating to a number of centrally held budgets.

DISCUSSION

Background

As previously reported to the Schools Forum, including at the meetings on held on 10th July 2012 and 10th October 2012, following consultations early last year, the Government intends to alter radically the school funding arrangements from April 2013. As a reminder, the key changes are:

- Three separate blocks will be created within the Dedicated Schools Grant (DSG), i.e. the Schools Block, an Early Years Block and a Higher Needs block.

- The government will simplify the way that LAs distribute funds to schools from 2013/14 by requiring funding to be directed through a maximum of twelve specified formula factors.
- A lump sum, or block allocation, is permitted, but the same rate must be used for both primary and secondary sectors and an upper limit of £0.2m has been set.
- To ensure stability in school funding, the minimum funding guarantee (MFG) has been set at minus 1.5% per pupil for 2013/14 and 2014/15.
- LAs will be required to delegate as many services and as much funding as possible to schools, although de-delegation of some services is permitted.
- That, together with the creation of a new grant to fund academies' additional responsibilities, will end the need for the current LACSEG arrangements.
- LAs will be permitted to retain a ring-fenced grant for pupil growth and all maintained schools and academies will be eligible for this.
- Funding for deprivation will be distributed through a number of set bands.
- A new system of funding will be introduced for higher needs pupils and this will deliver a base allocation, plus a top-up allocation set by the LA.

Members of the Schools Forum will recall that in response to the Government's planned reforms, the LA launched a consultation with all schools on 5th September 2012. The feedback was considered by a working group which met on 24th September. The results of these activities were then considered by the Schools Forum on 10th October 2012. As reported previously, there has been significant support for the LA's proposal throughout this process, with only one major change being made (i.e. the creation of a budget for schools in financial difficulties).

Activities since 10 October 2012

There has been a great deal of work undertaken since the last meeting of the Schools Forum. The activities include:

- Consultation with the Children and Young People's Scrutiny Committee on 19th October 2012. The Committee also supported the LA's recommendations but felt that the LA should use the Looked After Children (LAC) factor because of the poor educational outcomes for this group of young people and the relatively high numbers of LAC that are excluded from school.
- Obtaining formal approval for the proposals from the LA's Portfolio Holder for Children's Services, Cllr Mrs Bradwell.
- Completion and submission by 31 October 2012 of a DfE' proforma outlining the LA's proposals for the funding of mainstream schools from April 2013.
- Responding to various DfE' communications and requests for information, especially relating to special educational needs.
- Discussions with special school representatives over changes to their funding arrangements.
- Costing the SEN units and the PRU in order to determine the top-up funding rates for next year.
- Validation of data taken from the schools census held on 4th October 2012.
- Calculation of the schools' 2012/13 baseline budgets, for the purposes of the 2013/14 MFG calculations.
- Checking and amendment of the DfE's provisional DSG block allocations.
- Checking of the final DSG allocations published in December 2012.

- Reviewing and the setting of provisional DSG centrally held budgets.
A significant amount of work remains to be undertaken in the next few weeks, especially around SEN.

DfE guidance

A technical note recently issued by the DfE confirms:

- The Government intends to introduce a national funding formula during the next spending review period to reduce the funding differences between similar schools in different areas.
- The DSG remains a ring-fenced grant that can only be used in accordance with DfE' Regulations.
- The LA's Chief Finance Officer will continue to be required to confirm final deployment of the DSG in support of the Schools Budget, via the s.251 outturn statement.
- From April 2013, the DSG will include funding for:
 - the bulk of higher needs provision, including post-16 provision up to the age of 25.
 - a share of £10.2m national sum for monitoring and quality assuring NQT induction (this will be delegated to all schools using pupil numbers).
 - the early education of 2 year olds from lower income households.
- The Regulations that set out those formula factors that are automatically excluded from the MFG calculation.
- The DSG will now be based on the preceding October census (however, an uplift will be made to ensure that no LA loses out as a result of a child's deferred entry to Reception).
- The Early Years block for 2013/14 will use the January 2012 census, but will be updated in 2013/14 for the January 2013 census (5/12ths) and for the January 2014 census (7/12ths).
- The new system for funding High Needs post-16 pupils will not be introduced until August 2013.
- Each LA's DSG has been top-sliced by £10 per pupil to fund hospital schools; allocations for each LA's current provision will be funded from this.
- The DfE will purchase a licence with the Copyright Licencing Agency and the Music Publishers Association on behalf of maintained schools and academies. The DfE will charge LAs and they will therefore be able to retain funds centrally rather than delegate them to schools.
- Where growth exists, LAs should make provision for pre and post-opening start-up costs associated with establishing new academies and free schools to put them on a sound financial footing.

2013/14 DSG allocations

The DSG allocations announced by the DfE in December 2012 were derived, in part, from the October 2012 schools census and show:

Table 1: Lincolnshire's 2013/14 DSG block allocations

Block	Lincs £m	Lincs £ per pupil	England £ per pupil
Schools Block	390.983	4,329.10	4,549.96
Early Years block	22.982	3,974.07	4,282.41
High Needs	59.050	n/a	n/a
Additions	5.124	n/a	n/a
Total	478.139	n/a	n/a

Table 2: Analysis of the 'Additions'

Item	Amount £m	England total £m
Funding for early education for 2 year olds from lower income households	4.879	524.995
Transition funding following the ending of the 90% funding floor protection for 3 year olds	0.107	29.373
Induction for Newly Qualified teachers	0.138	10.200

As the underlying funding formula used by the DfE to fund LAs has not changed, the differences between Lincolnshire's figures and the England averages are not unexpected.

At the time of drafting this report, work is on-going to analyse the Higher Needs block. As a consequence, some movement between the blocks may be necessary before school budgets for 2013/14 are finally published.

School Budgets

The LA's intention is that the proposed formula that was supported by schools, the Schools Forum and others last autumn before submission to the DfE on 31st October 2012, will be used for the determination of school budgets shares for the 2013/14 financial year. No substantial changes to that are planned.

At the time of writing this report, work is underway to resolve several minor issues. The DfE's schools census and other data can then be put through the formula to derive the individual schools' allocations. The only key issue that remains outstanding is with respect to the capping level. The total DSG is now known, but work to clarify and resolve a number of issues relating to the Higher Needs block must be completed before the final sum available to schools can be calculated. The outcome of that work will dictate the level at which the cap on any gains to individual schools has to be set, and this will be necessary to ensure that all budgets within the 2013/14 DSG are affordable. Schools can therefore expect their budgets to be similar to the figures published last autumn (other than for changes in demographics) and the MFG will, of course, continue to protect all schools at a per pupil level.

Central budgets

Owing to the unprecedented level of change, it is important that the LA takes a prudent approach to the setting of central budgets. This is necessary for a variety of reasons including:

- From 2013/14, the LA will be able to retain fewer budgets and so there are likely to be smaller underspendings going forward and therefore less capacity to respond to any significant emerging issues.
- Some budgets are new and there is a significant degree of uncertainty about how much funding will be required. These budgets include those for 'schools in financial difficulty', which has been introduced following the Government's decision not to allow LA's to retain a budget for school redundancies; the budget for 2 year old funding, where demand is uncertain, and; the budget for students with higher needs.
- New funding mechanisms are being introduced for PRUs, Alternative Provision, special schools and SEN units and it is not clear how effective these mechanisms will be, or what issues might emerge.
- As the funding of LA finances tightens further, there will be less scope from 2013/14 for the LA to utilise other available funding sources to meet school related costs that can be funded by the DSG.

Many budgets held centrally in 2012/13 must be delegated in 2013/14 and these include most of the Schools Contingency budget. The method by which these funding streams will be distributed to schools was the subject of the consultation with schools on the 5th September 2012 and was reported to the Schools Forum on 10th October 2012. No changes are planned to the previous proposals.

The LA has conducted its annual, detailed review of all the central budgets that can be retained under the DfE's new regulations. The following summarises the most significant changes to the budgets for the current financial year:

Table 3: Main changes proposed to central DSG budgets

Budget	Proposed change to the current budget Increase / (decrease) £	2013/14 Proposed budget £	Explanation
Broadband	(£1.906m)	£2.504m	As reported to Schools Forum last January, this significant saving is due primarily to the new Kcom contract.
Stamford Endowed schools	(£0.345m)	£1.273m	As previously reported, the contract provides for the phased reduction in the number of places purchased.
SEN Out of County Expenditure	(£0.270m)	£5.230m	The savings is expected to be deliverable as a result of careful management of the service.
SEN Statements	£1.240m	£2.231m	This reflects growth in the number and cost of statements for pupils with complex needs.

The new Schools Forum regulations, which were laid before Parliament on 7th September 2012, require the LA to propose, and the Schools Forum to decide, the budgets listed in the table below. Where agreement cannot be reached, the DfE will adjudicate.

Table 4: Budgets requiring Schools Forum decisions

Budget	Key points	Proposed budget 2013/14 £
	<i>Under DfE regulations, the following budgets can be set at any monetary value.</i>	
Funding for significant growth pre-16	<ul style="list-style-type: none"> • This budget is necessary to meet basic need. • There has been major pressure on reception places for the last two years and this looks set to continue. • The precise budget requirement is uncertain, but current year spend is forecast to be £0.985m and the pressure for places is growing. • Funding will be allocated in accordance with the LA's policy, i.e. when, as part of its strategic planning of places, the LA needs to ask a school to take in additional pupils above its planned admission number (PAN) temporarily or permanently. As has happened in the last few years, this could be in either maintained schools or academies. • Without this budget, the LA would be unable to fulfil its statutory duty. 	£1.500m
Places in independent schools for non-SEN pupils	<ul style="list-style-type: none"> • The LA has a contractual agreement to purchase these places in Stamford. • The contract provides for a phased reduction in the number of places purchased over time. • The budget requirement is therefore due to decline by £0.345m next year and will continue to decline thereafter. • Without this budget, the LA would be unable to meet its contractual liabilities and it would remain the LA's responsibility to make education provision available for these young people. 	£1.273m
	<i>For the following items, LAs can propose only up to the value committed in 2012/13</i>	
Admissions	<ul style="list-style-type: none"> • The LA has a statutory duty to operate the admissions arrangements in county schools. • The budget is expected to reduce next year due to the removal of one senior post. • Without this budget, the LA would be unable to fulfil its statutory duties. 	£0.449m
Servicing of the Schools Forum	<ul style="list-style-type: none"> • Historically, the cost has been very modest. • No significant change to the budget is proposed. • Without this budget, the Schools Forum 	£0.020m

	would find it difficult to operate effectively.	
Carbon reduction commitment	<ul style="list-style-type: none"> • This budget funds the carbon tax imposed by Government for carbon emissions in all schools. • The budget requirement is unchanged, but may fall in future years if on-going investment in carbon schemes is successful and the tax rates imposed by Government don't increase. • Without this budget, the LA would be unable to meet its financial commitment to the Government for the carbon emissions tax, without charging individual schools for their share of the cost. 	£0.630m
Central expenditure from revenue (CERA)	<ul style="list-style-type: none"> • This funds the costs of the capital investment made by the LA in schools over previous years, and the PFI contractual commitments for the seven schools built under PFI a decade ago. • Without this budget, the LA would be unable to finance the on-going costs of these historic, contractual commitments. 	£5.146m
Schools centrally funded termination of employment costs	<ul style="list-style-type: none"> • The bulk of the 2012/13 budget must be delegated to all schools from 2013/14. • However, a commitment remains for the Redeployment officer who will continue to help schools avoid costs, by redeploying staff in other schools wherever possible. • Without this funding, this post could not be retained and schools would probably pick-up significantly greater costs from redundancies than would otherwise be the case. 	£0.045m

The budgets proposed above are prudent and have been determined following a detailed review. Most budgets remain stable, but some are falling due to decisions made previously by the LA, and one is growing significantly due to a shortage of places to deal with the significant growth in pre-16 pupils.

Some minor refinements to these budgets may be necessary in light of officers' on-going enquiries, but material changes are not expected. In accordance with established practice, the LA will report to Schools Forum in April 2013 the final budgets for 2013/14, as set out in the s.251 budget statement which has to be published by 31 March 2013. Any material changes from the figures reported here will be communicated to the Schools Forum at that time.

Members from the relevant sections of the Schools Forum agreed the de-delegation of a number of budgets at its meeting on 10th October 2012. At the time of drafting this report, the precise budget requirements are still being assessed but the expectation is that the budget requirements will be similar to 2012/13 levels (albeit the sums returned to the LA will be lower due to academies' retention of their share of these funding streams).

Schools, the LA and Children's Services financial outlook

The DSG is expected to remain 'cash flat' (other than for growth in the Higher Needs block) for the remainder of the four year Comprehensive Spending Review (CSR) period, i.e. until 2015/16. Additional funding will be provided to meet demographic growth and the pupil premium will increase by 50% to £900 next year and is expected to increase by a further 33% to £1,200 per pupil the year after. It remains the case that no allowance has been made for pay awards or inflation in this CSR period.

The LA anticipates that the DSG may underspend modestly in 2013/14. Although an accurate figure cannot be determined at this stage, this will again be due to prudent budget setting, careful monitoring and management of budgets and utilisation of other funds that are available. The final position will be reported to the Schools Forum later in the year, together with proposals for use of any uncommitted funds. Looking further ahead, underspendings are then likely to be considerably lower than in the past, because more budgets will be delegated to schools from April 2013 and because a large element of last year's underspending was recently issued to all schools (i.e. £7m).

As a result of the CSR, Children's Services had to find savings of £11.379m in 2011/12 and £11.138m in 2012/13. This presented a major challenge, but is one that has been met. The savings originally required for the next two years were more modest at £2.013m and £0.995m for 2013/14 and 2014/15 respectively. These savings are expected to be delivered mainly by securing efficiencies in the home to school transport budget and through rationalisation of property. However, two significant additional pressures have arisen in the last six months.

- The first relates to the Early Intervention Grant (EIG). The government announced the top-slicing of the grant by £150m, which reduces the LA's allocation by £1.7m. Furthermore, the unexpected transfer of funding for disadvantaged 2 year olds in to the DSG has combined with the top-slice to reduce the EIG funding by approximately £7m for next year.
- The second pressure relates to the ending of LACSEG and the creation of the Education Services Grant to fund academies for their additional responsibilities. The effect of this is to top-slice the LA's budget for services including Education Welfare, the Music Service, School Improvement, Asset Management and Statutory and Regulatory duties. This creates a budget pressure for the Directorate of c.£2.2m for 2013/14, but this will grow as more schools convert.

The Directorate also continues to face a number of other significant budget pressures.

More broadly, Lincolnshire County Council as a whole will suffer a 25% reduction in government funding over the current CSR period with total savings of £125m being required. The national funding mechanism for local government will change radically from 2013/14 and recent Government announcements indicate that a further 2% saving will be required in 2014/15. Of greater concern is the fact that a new CSR is due to be announced in 2014 – there is an expectation that the level of budget reductions for local government in the period post 2014/15 will be similar to those for the current period (e.g. c.5% p.a.).

Next steps

Officers will continue to refine central budgets based on new information and will firm up the position on higher needs budgets. Checks will also be made against the DfE's new Schools Finance Regulations published in December 2012, to ensure full compliance.

The revised proforma for mainstream school budgets is due to be sent to the EFA on 22nd January 2013. As indicated above, no major changes are expected to the factors used, or the values attributed to them.

The LA does not expect there to be any significant uncommitted funds (or 'headroom') available once all of the details have been finalised. Nevertheless, the sum available will determine the level of cap that has to be placed on the budgets for those schools that are due to gain. That is because the LA has a duty to ensure that all of the budgets are affordable within the DSG totals recently announced by the DfE.

A training programme for early February 2013 has been published. All schools and academies have been invited to attend. The sessions will be led by Mouchel's Schools Finance Team and will seek to explain the key changes to the funding system from 2013/14.

No firm date has been set for formal publication of school budget shares. In view of the new arrangements, the LA remains hopefully that this will be a little earlier than previous years and therefore possibly in late February.

The Mouchel Schools Finance Team will continue to run budget setting courses for schools in March.

The LA will keep the new formula under review and will await with interest any news from the DfE on possible amendments to the new system in 2014/15, including possibly, in relation to the operation of the single block allocation for both primary and secondary schools.

RECOMMENDATIONS

The Schools' Forum is asked to:

- a. Note the content of the report.
- b. Support the LA's proposals for the setting of the central budgets shown in Table 4 above.

BACKGROUND PAPERS			
The following reports were relied upon in the writing of this report.			
PAPER TYPE	TITLE	DATE	ACCESSIBILITY
Report	School Funding Reform: Next steps towards a fairer system	10 th July 2012	County Offices, Newland, Lincoln
Report	School Funding Reform: Next steps towards a fairer system	10 th October 2012	County Offices, Newland, Lincoln

APPENDICES
None