

## REGULATORY AND OTHER COMMITTEE REPORT

<b>NAME OF COMMITTEE:</b>	Schools Forum
<b>DATE OF MEETING:</b>	9 October 2013
<b>SUBJECT:</b>	Revised Schools Budget 2013/14
<b>REPORT BY:</b>	Tony Warnock (Head of Finance – Children’s and Specialist Services)
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<b>IS REPORT CONFIDENTIAL?</b>	No

### SUMMARY

The purpose of this report is to notify the Schools Forum of the revised Schools Budget for 2013/14 and to seek support for the proposed use of the underspending from 2012/13.

### DISCUSSION

#### Introduction

The Dedicated Schools Grant (DSG) is a ring-fenced grant that can only be spent for the purposes outlined in the DfE’s regulations. A revision to the Schools Budget is necessary each year to reflect the under or overspending arising on the DSG in the previous financial year. In previous years, such reports also had to consider the adjustment to the DSG once the final figure was confirmed. However, the DfE’s 2013/14 school funding reforms now use the October schools census and so the size of the DSG is confirmed before the start of the 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 underspendings, or address overspendings.

### **The carry forward for 2011/12**

The Schools Forum will recall that last year's report highlighted:

- A total underspending on the DSG at 31 March 2012 of £24.948m.
- Commitments against that sum totaling £15.510m.
- Proposed developments of £2.5m.
- A recommendation that the balance of the underspending be distributed to all schools using the DfE's formula for Devolved Capital.

The proposals were supported by the Schools Forum and, as a consequence, £7m was distributed to schools mid-year.

### **The carry forward for 2012/13**

In total, the underspending carried forward at 31 March 2012 was **£16.688m** (equivalent to 3.5% of the current DSG).

Included within this figure was an underspending of £3.345m on the 2012/13 centrally managed DSG budgets. The main underspendings are set out in Appendix 1. They have arisen due to the LA's prudent management of the budgets and its ongoing strategy of utilising all other available funds before the DSG.

### **Existing commitments**

The current commitments total **£9.550m**. They are summarised in Appendix 2. Some of the commitments are difficult to predict accurately and so for reasons explained later in this report, a prudent estimate of those has been made.

### **Proposed developments**

The LA has no plans to use the underspending from last year to finance new developments.

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

It is critical that the LA acts prudently to avoid overspending the DSG. There are several areas of significant uncertainty regarding the current year's budgets. These include:

- The need to finance the revenue costs for the on-going and significant demographic growth in the primary sector, including for many expansions and several new schools.
- The potential costs of major school re-organisations.
- The Learners with Learning Difficulties or Disabilities (LLDD) placements budget for which the LA first became responsible this year.
- Growth in the funding provided to the Private Voluntary & Independent (PVI) sector for the free early years entitlement. This is a demand-led budget which cannot be controlled. Inward migration and the potential for parents to take up more of their 15 hours per week entitlement are key but unpredictable variables, and there has been significant growth in the summer term of 2013.

In view of these and other uncertainties, it is therefore proposed that **£3m** of the DSG underspending for last year is set aside until the position becomes clearer.

The LA recognises that any uncommitted DSG funds should be put to good use and should not be retained indefinitely. The LA therefore proposes to distribute the remaining balance (c.**£4m**) to schools. The LA proposes to distribute that funding through the approved funding formula, but in a way that once again mirrors the DfE's Devolved Formula Capital (DfC) distribution mechanism, i.e.

A lump sum of £4,000 per school

Per pupil allocations of:

Primary:	£11.25
Secondary:	£16.88
Special:	£33.75

The rationale for this proposal is the same as last year:

- In the Government's four year Comprehensive Spending Review of 2010, schools' revenue funding was projected to increase by 13% (due to demographic growth and the pupil premium) but there was a very significant reduction in DfC allocations to schools of c.75%.
- DfC remains extremely important to schools because it needs to fund the growing demands for investment in schools I.T. equipment.
- There remains a need for significant investment in minor capital repairs and maintenance in many schools across the county. 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 earmarked as being for DfC type purposes.
- There remain a 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 schools' future revenue budgets.
- Maintained 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 therefore seems sensible to avoid simply adding to their reserves. Distributing the funds via a DfC mechanism 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 (including academies), compared to proposals that target funding at specific projects, it is likely to command a broader level of support across all types of schools.

The LA therefore proposes to allocate £4m of uncommitted funds to schools using the formula for devolved capital, with both the block and per pupil elements recorded above being uplifted by the same percentage.

Should this proposal be supported by the Schools Forum, it is not presently clear when those funds will be allocated to schools. Last year, the funds were distributed mid-year. However, the DfE's school funding reforms for 2013/14 may prevent that. The reforms are designed to simplify school funding arrangements and the DfE believes it can achieve that, in part, by limiting the number of in-year adjustments that are made by LAs to schools. However, it appears from recent correspondence that the DfE recognises that its position on this matter is unclear and so it is reconsidering this. Having said that, even if the DfE advises that LAs cannot issue such funds mid year, the LA could still notify each school of the funds that will be made available on 1<sup>st</sup> April 2014. This would still enable schools to develop their plans for use of those funds and it will probably not delay developments for too long.

As happened last year, it will be necessary for the LA to first obtain the DfE's prior approval to exclude these payments from the Minimum Funding Guarantee (MFG) in future years. This is a one-off sum of money and so cannot be sustained beyond one year - the proposed payments cannot become locked in by the guarantee. That would be nonsensical and so the LA remains confident that the DfE will once again approve this as an exception when the LA applies the MFG.

If payments are made to school budgets mid-year, they are very likely to affect maintained schools' carry forwards once again. To help ensure that this funding is spent sensibly and in a carefully planned way, the LA will adopt the same approach as for 2012/13, and exclude such sums when determining whether a school has exceeded the LA's carry forward limit.

Looking ahead, it may be that such in-year allocations are repeated in future years. The LA recognises that whilst the allocation of one-off funds will be welcomed by schools, they would prefer for planning purposes for such funding to be allocated in the base budget and at the start of each financial year. However, that is simply not possible. As indicated above, these are one-off funds and so can't be added to schools' base budgets. Also, there are now fewer centrally held DSG budgets and the

prospect is that DSG underspendings in future years will be much lower than they have been in the recent past. In addition, there remain a number of highly volatile and unpredictable budgets which must continue to be set prudently.

In future, prudent budget setting will be even more important because the DfE's new regulations now give Schools Forums the power to decide whether DSG overspends are to be carried forward to the following financial year. With mounting pressure ahead on non-DSG budgets, the LA could not afford to finance a deficit on the DSG. The LA therefore proposes to continue setting prudent budgets at the start of the financial year and, if there is an uncommitted underspend at the end of the year, consideration can be given to distributing it to schools in this way. Schools must not, however, come to rely on such funding, as it cannot be guaranteed every year.

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

- a. Note the contents of the report;
- b. Support the LA's proposals for use of the 2012/13 DSG underspending.

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>
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Appendix 1 - Central DSG Budgets 2012/13 – Explanations for major underspendings
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Appendix 2 – 2013/14 DSG commitments
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<b>BACKGROUND PAPERS</b>			
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<b>PAPER TYPE</b>	<b>TITLE</b>	<b>DATE</b>	<b>ACCESSIBILITY</b>
Report to Schools Forum	Revised Schools Budget 2012/13	10 July 2012	County Offices, Newland, Lincoln, LN1 1YQ

**Central DSG Budgets 2012/13 – Explanations for major underspendings**

The main underspendings were:

<b>No.</b>	<b>Service / reason for underspend</b>	<b>Underspend</b>
1	<b>Early Years – PVI free entitlement</b> The underspending arose because the growth in both the number of children accessing the provision and hours taken up were less than forecast.	£1.430m
2	<b>Nursery Classes funding formula</b> As above	£0.759m
3	<b>Nursery Schools funding formula</b> As above	£0.624m
4	<b>Pupil Referral Unit</b> The underspending was largely due to staff vacancies.	£0.198m
5	<b>Early Years Staffing</b> This underspending was due to vacancies in the Birth to Five service.	£0.177m
6	<b>LAC Education Support</b> This underspending was due to the number of hours tuition provided being less than forecast	£0.157m
	<b>Total</b>	<b>£3.345m</b>

2013/14 DSG commitments

	<b>Service / Budget</b>	<b>Commitment £m</b>
1	<b>Broadband</b> This is to finance the residual costs from the migration to the new broadband contract.	0.336
2	<b>Various school development and support projects</b> This is the balance of funding for various projects, including those previously referred to under the heading 'Baccalaureate', the special schools outreach programme, and work on KS2 moderation, etc	1.992
3	<b>School re-organisations, including new schools, closures</b> These are commitments for various historic school reorganisations and the start-up costs for new primary schools, etc	4.214
4	<b>Carbon management</b> These are commitments for various carbon management projects supported by the Schools Forum last year.	3.008
	<b>Total</b>	<b>9.550</b>