

## REGULATORY AND OTHER COMMITTEE REPORT

<b>NAME OF COMMITTEE:</b>	Lincolnshire Schools Forum
<b>DATE OF MEETING:</b>	8 October 2014
<b>SUBJECT:</b>	Revised Schools Budget 2014/15
<b>REPORT BY:</b>	Tony Warnock (Operations and Financial Advice Manager)
<b>NAME OF CONTACT OFFICER:</b>	Tony Warnock
<b>CONTACT OFFICER TEL NO:</b>	01522 553250
<b>CONTACT OFFICER EMAIL ADDRESS:</b>	tony.warnock@lincolnshire.gov.uk
<b>IS REPORT CONFIDENTIAL?</b>	No

### SUMMARY

1. The purpose of this report is to notify the Schools Forum of the revised Schools Budget for 2014/15 and to seek support for the proposed use of the underspending from 2013/14.

### DISCUSSION

#### Introduction

2. 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 and adjustment to the DSG once the Early Years figures have been confirmed. 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 2012/13

3. By way of reminder, the Schools Forum will recall that last year's report highlighted:
- A total underspending on the DSG at 31<sup>st</sup> March 2013 of £16.688m.
  - Commitments against that sum totaling £9.550m.
  - The setting aside of £3m to cover uncertainties including in relating to ongoing and significant demographic growth in the primary sector; the potential cost of major school re-organisations; the acquisition of new responsibilities for Learners with Learning Difficulties or Disabilities (LLDD) placements, and; unpredictable growth in the funding provided to the Private Voluntary & Independent (PVI) sector for the free early years entitlement.
  - A recommendation that the £4m balance of the underspending be distributed to all county schools using, once again, the DfE's formula for Devolved Capital.
- The proposals were supported by the Schools Forum and, to ensure compliance with new DfE' regulations, the £4m was allocated to schools on 1 April 2014.

### The carry forward for 2013/14

4. The underspending carried forward at 31 March 2014 was **£15.454m**. This is equivalent to 3.1% of the 2014/15 DSG (£485.898m). To simplify this report, the £15.454m figure assumes that the £4m set aside from the 2012/13 DSG underspend had been allocated to schools, even though it wasn't actually allocated until the day after year end.
5. The movement between the opening and closing carry forward positions for 2013/14 can be explained as follows:
- Some of the funds earmarked as commitments became payable in 2013/14 with **£3.565m** being spent against them.
  - Centrally held DSG budgets underspent by **£5.844m** in 2013/14. The most significant underspendings and overspendings are explained in detail in Appendix 1. Once again they have arisen because of the LA's prudent management of the centrally held DSG budgets and the LA's ongoing strategy to utilise wherever possible, all other available funds before the DSG.
  - The DfE's adjustment to the 2013/14 Early Years' block increased the DSG by **£0.487m**. The Early Years block for 2013/14 initially used the January 2012 census, but was updated in 2013/14 for the January 2013 census (5/12ths) and the January 2014 census (7/12ths).

### Existing commitments

6. A thorough review of commitments has taken place and prudent estimates have been made where necessary. The current commitments total **£6.846m**. Details are set out in Appendix 2.

### Proposed developments

7. The LA proposes to use some of the DSG underspending from 2013/14 to finance a number of developments. These are set out in Appendix 3. They total **£2.055m**.

### Proposals for use of the uncommitted sum

8. The uncommitted sum, after the existing commitments and proposed developments have been deducted, is **£6.553m**.

DSG Underspend at 31 March 2014	£15.454m
Less: Commitments	£ 6.846m

Less: Proposed developments	<u>£ 2.055m</u>
Uncommitted sum	£ 6.553m

9. Before deciding how the uncommitted sum should be used, it is again important to recognise that there are several reasons why the LA must act prudently to avoid overspending the DSG in future years. Several of the budgets are large, demand-led and uncontrollable (e.g. early years and demographic growth). A number of existing budgets are tight and under pressure (e.g. the Learners with Learning Difficulties or Disabilities and SEN Out of County budgets). Furthermore, under current DfE' regulations, the Schools Forum has to approve the writing off of any DSG overspend against the future year's DSG. Given the considerable reductions in the LA's non-DSB funding over the past four years, and those scheduled for the next four, this is a major risk, as it is inconceivable that the LA would be able to fund an overspend. Budgets must therefore be set prudently to avoid overspending the DSG. In view of these and other uncertainties, it is therefore proposed that c.£2.5m of the DSG underspending for last year is set aside to finance any pressures that emerge as a result of these uncertainties. This sum equates to 0.5% of the 2014/15 DSG.
10. The LA is clear that all remaining funding should be put to good use. The LA therefore proposes to repeat the approach of the last two years and distribute the remaining balance (£4m) to schools in a way that mirrors as far as possible 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 £4m allocated on 1 April 2014 was distributed as follows:

	Delegation of £4m one-off monies in 2014/15
Nursery	£0.38 per hour (spring census)
Primary	£16.15 per pupil plus £4,000
Secondary	KS3: £30.72pp and KS4: £37.86pp
Special	13% of Non-staffing Block

The reasons for adopting this approach remain unchanged from those explained in the previous years' reports. At its heart, this proposal recognises that as part of the government's four year Comprehensive Spending Review in 2010, schools' revenue funding was projected to stay cash flat, but their DfC was being reduced by 75%. The distribution of funding in this way may encourage the recent investment in school buildings to continue. The funds would be allocated to schools as soon as DfE' regulations allow, i.e. when the budgets for 2015/16 are published on 1 April 2015.

11. As predicted in last year's report, it may be that such allocations are repeated in future years. The LA recognises that whilst the allocations of these one-off funds have been welcomed by schools, they would prefer extra funding to be added *permanently* to their base budgets. However, that is simply not possible. As indicated above, underspendings are one-off funds and so can't be added to schools' base budgets, especially when the minimum funding guarantee is operational. Furthermore, there are so many significant, unpredictable and uncontrollable budgets within the DSG that it is simply not possible to predict with a high degree of confidence that budgets will continue to underspend. Also, as explained above, the LA cannot risk allowing the DSG to overspend. Although this would be the third consecutive year that an element of the DSG underspending has been allocated to schools, they must not begin to rely upon it as it cannot be guaranteed every year. Indeed, the LA's monitoring of the 2014/15 centrally held DSG budgets suggests that pressures are growing on a number of them, and so the level of underspending in future years is likely to be much lower.

## RECOMMENDATIONS

The Schools Forum is asked to:

- 1) Note the contents of the report;
- 2) Support the LA's proposals for:
  - a) the developments, as set out in Appendix 3; and
  - b) use of the uncommitted sum, as outlined in paragraphs 9 and 10 above.

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

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

Appendix 1 - Central DSG Budgets 2013/14 – Explanations for major underspendings and overspendings

Appendix 2 - 2013/14 DSG commitments

Appendix 3 - Proposed developments

## BACKGROUND PAPERS

PAPER TYPE	TITLE	DATE	ACCESSIBILITY
Report to Schools Forum	School funding arrangements 2013/14	23 <sup>rd</sup> January 2013	County Offices, Newland, Lincoln, LN1 1YQ
Report to Schools Forum	Revised Schools Budget 2013/14	9 <sup>th</sup> October 2013	County Offices, Newland, Lincoln, LN1 1YQ
Report to Schools Forum	School funding and performance	25 <sup>th</sup> June 2014	County Offices, Newland, Lincoln, LN1 1YQ

**DSG Central Budgets 2013/14 – Explanations for major underspendings and overspendings**

The main underspendings and overspendings were:

<b>Budget</b>	<b>(Underspend) / Overspend £m</b>
<p><b>Early Years – PVI free entitlement</b> This was more of a timing issue than a genuine overspend. Funding is provided for 38 weeks per year but the way Easter fell in 2013/14 meant that 39 weeks were payable within that financial year.</p>	0.409
<p><b>Birth to Five Staffing</b> This underspend was caused by vacancies in the Birth to Five service.</p>	(0.233)
<p><b>Early Years – 2 year old trajectory funding</b> From September 2013, the government extended free early years provision to 2 year old children from the 20% most deprived areas. £1.357m of trajectory funding was allocated to the LA to help establish the capacity needed across the county for this provision. Not all of that funding could be fully spent by the year end, hence the underspending, but plans are in place to use the remaining sum. The underspend is therefore fully committed. The government has provided a further £0.937m in 2014/15 to extend the entitlement, from September 2014, to 2 year olds from the 40% most deprived areas. No further one-off funding for pump priming is expected to be received after this year.</p>	(0.518)
<p><b>Nursery Classes funding formula</b> As happened in the previous year, this underspend arose because the forecast growth in both the number of children accessing early years provision and the hours taken up were less than expected. Although this budget is uncontrollable and demand is difficult to forecast, the LA reduced this budget in 2014/15.</p>	(0.557)
<p><b>Nursery Schools funding formula</b> The explanation for the underspending on nursery schools is the same as that given for nursery classes above.</p>	(0.296)
<p><b>SEN Out of County Placements</b> The number of out of county placements is difficult to predict at the start of the year. Individual placements can be expensive. This overspend should be seen in the context of the c.£5m budget.</p>	0.149
<p><b>Learners with Learning Difficulties or Disabilities (LLDD) placements</b> The responsibility for this budget transferred to the LA in 2013/14. Historically, Lincolnshire's spending had been comparatively high and the funding transferred to the LA reflected that. The LA's careful management of the budget helped reduce expenditure, thereby giving rise to last year's underspend. However, for 2014/15, the DfE revisited its allocations to LAs and Lincolnshire's budget for 2014/15 is similar to that for 2013/14, despite the fact that there are now 12 months to finance, not 8 months. In light of this, the level of last year's underspending will not be repeated.</p>	(0.486)
<p><b>Special schools, Hospital schools and SEN Units in-year adjustments</b> Budgets are held centrally to provide top-up funding to various providers and this overspend simply highlights the cumulative difference between the budget that was set and the final allocations made to schools.</p>	0.244
<p><b>Admissions &amp; Exclusions</b> DfE' regulations require the LA to reduce school budgets where pupils are permanently excluded. Some of these pupils are not necessarily enrolled with other schools within the financial year and so the balance of funding can give rise to an</p>	(0.220)

underspending at the end of the year.	
<b>Broadband related costs</b> This is one of the budgets that cannot, under the DfE' school funding reforms from 2013/14, be increased. In view of the commitment to the existing contract, it is therefore important that this budget is set prudently. That approach enables modest pressures to be funded (such as costs arising from the opening of new schools), but an underspending can arise at year end, as happened in 2013/14.	(0.142)
<b>Admin Recharge to the DSG</b> LAs are expected to charge the full cost of services to the DSG. Each year, that requires a charge for the corporate overheads relating to those services (e.g. Early years, SEN, Admissions, etc). This underspend has arisen because of the LA's decision and its wish to help maximise the funding available to schools.	(0.336)
<b>Uncommitted sums and one-off Teacher's pay grant</b> The report entitled 'School funding arrangements 2013/14' presented to Schools Forum in January 2013 described the unprecedented level of change to school and LA funding arrangements for 2013/14. It referred to the introduction of the three new blocks within the DSG, the transfer in to LAs of additional responsibilities, the radical simplification of the school funding formula, the introduction of top-up funding for special schools, and the requirement to de-delegate funding for some services - to highlight just a few. Not surprisingly the report stressed the need for prudence and caution whilst budgets were refined and issues were being clarified. As a result of that approach, and receipt of a final payment of £0.328m from the DfE for the former teachers' pay grant, this underspending has arisen.	(3.366)
<b>School re-organisations</b> The opening and closing of schools is a common occurrence and as each one is unique, it is difficult to set an accurate budget at the start of a financial year to cover all of the associated costs. Underspends or overspends are therefore inevitable.	0.556
<b>Carbon energy saving scheme</b> In reality, an underspending did not occur on this budget in 2013/14. At the start of the financial year, it was anticipated that the funding held in reserves for previously agreed commitments would be drawn down for spending in 2013/14. However, those payments were not actually necessary last year and yet from an accounting perspective, it appears that an underspending had arisen because funds were drawn down from reserves. The original commitments still remain and indeed, plans have been developed to accelerate the spending, to deliver savings to schools more rapidly.	(0.878)
<b>Underspends &amp; overspends of £0.1m or less</b>	(0.170)
<b>Total</b>	<b>(5.844)</b>

**2013/14 DSG commitments**

The commitments are:

<b>Budget</b>	<b>Commitment £m</b>
<p><b>Early years trajectory funding for two year olds</b> As indicated in Appendix 1, the funding provided by government to pump prime the creation of capacity to deliver early years provision to two year olds in the most deprived areas was not fully spent in 2013/14, but commitments remain against it.</p>	0.518
<p><b>School improvement</b> This is the remaining balance of funding for various projects, including those previously referred to under the heading 'Baccalaureate'.</p>	0.187
<p><b>School re-organisations, including new schools and closures</b> These are the estimated commitments for various historic school reorganisations and the start-up costs for new primary schools, etc.</p>	3.300
<p><b>PFI Life cycle costs</b> The county's seven PFI schools are required to fund their furniture life cycle costs. These costs can vary from year to year under the current contract. The setting aside of this sum would simply allow the charges to be spread much more evenly over the remaining life of the contract and that would provide welcome stability for the PFI schools.</p>	0.300
<p><b>Carbon management</b> These are the remaining commitments for the various carbon management projects that the Schools Forum has supported in previous years. They include: the future years' commitments for the cost of the graduates and apprentice support (£0.262m); the remaining commitments for the energy meters (£0.078m), and; the remaining commitments for the boiler optimisation programme in schools (2.201m).</p>	2.541
<b>Total</b>	<b>6.846</b>

**Proposed developments**

The proposed developments are:

<b>Budget</b>	<b>Commitment £m</b>
<p><b>Review of the Funding Formula</b> This sum is intended to fund an independent review of the LA's school funding formula, as agreed at the meeting of the Schools Forum in June 2014.</p>	0.020
<p><b>Sector led improvement</b> The LA is currently working with headteachers to develop ideas and plans for new and imaginative ways of securing school improvement in the medium term. Consideration is being given to developing a sector led approach that would provide both local support and challenge for school improvement. It will be necessary to pump prime this initiative over the next two to three years. The proposed sum should be sufficient for that purpose.</p>	0.500
<p><b>Amendments to SEN provision</b> A number of reviews are currently being undertaken by external consultants. They are looking at residential placements in special schools, special units, portage, etc. Depending on the outcome of the reviews, funding may be required to initiate the proposed changes. The Schools Forum will, of course, be consulted on any proposed changes to school funding arrangements that arise from this work.</p>	1.000
<p><b>Notional SEN</b> A report to this meeting of the Schools Forum outlines the DfE's requirements for the LA to alter the funding arrangements for Band 6 to 8 statements. The report proposes that transitional protection is offered to all schools in 2015/16 to avoid immediate losses, which they will not be aware of at present.</p>	0.535
<b>Total</b>	<b>2.055</b>