

## REGULATORY AND OTHER COMMITTEE REPORT

<b>NAME OF COMMITTEE:</b>	Schools Forum
<b>DATE OF MEETING:</b>	14 January 2015
<b>SUBJECT:</b>	School Funding Arrangements 2015/16
<b>REPORT BY:</b>	Tony Warnock (Operations and Financial Advice Manager)
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<b>IS THE REPORT EXEMPT?</b>	No
<b>IS REPORT CONFIDENTIAL?</b>	No

### SUMMARY

The purposes of this report are to:

1. brief the Schools Forum on school funding arrangements for 2015/16; and
2. seek support for the Local Authority's (LA) proposals relating to a number of centrally held budgets.

### DISCUSSION

#### Background

Members of the Schools Forum will recall that the government introduced radical reforms to school funding arrangements in 2013/14 and made a number of refinements in 2014/15. The government is not proposing to make any major changes to school funding arrangements for 2015/16.

Nevertheless, at the meeting of the Schools Forum on 8<sup>th</sup> October 2014, the LA proposed changes to special educational needs (SEN) funding for 2015/16. The report entitled 'Proposed changes to SEN funding in 2015/16' explained that these were to deal with a residual issue from the 2013/14 reforms and were necessary to ensure the LA's compliance with the DfE's regulation 11(3). That requires schools to finance the first £6,000 of a pupil's SEN from their existing budgets, before being allocated further funding by the LA. The report to the Schools Forum made a number of proposals including: a

reduction in funding for Band 6 to 8 pupils; the redistribution of some of those funds through specific formula factors to compensate for the underfunding of notional SEN; the provision of targeted support for schools with unusually high numbers of Band 6 to 8 statements, and; the introduction of transitional protection for one year to prevent any losses to school budgets arising in 2015/16. These proposals (and one relating to the setting aside of £2m of the projected increase in Dedicated Schools Grant (DSG) for 2015/16 to help manage any increase in Education, Health and Care plans) were supported by the Schools Forum.

Since that meeting, the LA has:

1. Obtained formal approval for the proposals from the LA's Executive member for Children's Services, Cllr Mrs Bradwell (22<sup>nd</sup> October 2014).
2. Completed and submitted the DfE's Authority Proforma Tool (APT) reflecting these changes and outlining the LA's overall proposals for the funding of mainstream schools from April 2015 (31<sup>st</sup> October 2014).
3. Advised the Children and Young People's Scrutiny Committee of the proposals relating to SEN (28<sup>th</sup> November 2014). The members supported the proposals and expressed their gratitude for the efforts that had been made to minimise the impact upon individual school budgets and children with high levels of SEN.
4. Requested DfE approval for the planned one-off allocation from the 2013/14 DSG underspend to be excluded from future calculations of the Minimum Funding Guarantee (MFG). Schools Forum members will recall that at its meeting on 8<sup>th</sup> October 2014, the Schools Forum also received a report entitled 'Revised Schools Budget 2014/15' in which the LA proposed to allocate £4m of the 2013/14 DSG underspend to all schools. The Schools Forum supported the proposal, but asked that consideration be given to increasing the sum by £1m (and reducing correspondingly the sum set aside to finance a number of pressures that may emerge during the remainder of the 2014/15 financial year). In light of that request, the LA subsequently decided to increase the allocation to schools to £5m. In mid-October 2014, the DfE gave approval for the allocation from the 2013/14 DSG underspend to be excluded from the MFG calculation for next year.
5. Submitted a return to the DfE, outlining a number of material changes to the number of planned places in LA Special Schools and Alternative Provision for 2015/16 (17<sup>th</sup> October 2014).
6. Reviewed the DfE's 17<sup>th</sup> December 2014 announcement on DSG block allocations for 2015/16.
7. Reviewed and proposed provisional DSG centrally held budgets for 2015/16, as set out in this report.

A significant amount of further work remains to be undertaken up to 31<sup>st</sup> March 2015 before school budgets can be published.

### **School funding announcements**

The information published by the DfE on 18<sup>th</sup> December 2014 can be found at:

<https://www.gov.uk/government/publications/dedicated-schools-grant-dsg-2015-to-2016>

The information confirms that the operation of the DSG will remain largely unchanged:

1. The DSG remains a ring-fenced grant that can only be used in accordance with the DfE's regulations.
2. The DSG will continue to be set out in three blocks: an early years block; a schools block, and; a higher needs block.
3. The underlying budget will be kept cash flat for 2015/16. However, 69 of the least fairly funded LAs will receive an increase in their schools block from 2015/16.
4. The MFG will continue to apply and will again be set at minus 1.5% per pupil.
5. The schools block will continue to be based primarily on the preceding October census, but an uplift will be made to ensure that no LA loses out as a result of a child's deferred entry to reception.

6. The Early Years block will again be updated after the start of the financial year. For 2015/16, the block uses data from the January 2014 census, but this will be updated in 2015/16 for the January 2015 census (5/12ths) and for the January 2016 census (7/12ths).
7. The LA's Chief Finance Officer will continue to be required to confirm that the DSG has been deployed in support of the Schools Budget. This duty will be discharged via the s.251 outturn statement and by appending a note to the LA's statements of account.

However, some changes have been made by the DfE and these include:

1. Funding for non-recoupment authorities is being transferred in to the LA's DSG in 2015/16. The main reason for this is to reduce bureaucracy at the EFA which would otherwise continue to operate a dual system for a small number of schools. As a result, LAs will now have to calculate the budget share for all academies in their area, including those previously funded by the EFA as non-recoupment academies. To compensate for this, there will be a transfer of funds in to the DSG, which is intended to be cash neutral for LAs.
2. The early years block includes the early years' premium for which provisional allocations were announced in October 2014. In due course, it will include funding for disadvantaged two year olds which will in future be based on actual participation.
3. The higher needs block for LAs includes any increases in places for the 2015/16 academic year that have been approved by the EFA as a result of their 'exceptions' process, and a share of a £47m top-up fund which has been distributed according to the 2-19 aged population in each LA (this is intended to provide LAs with additional capacity).
4. The DfE has extended the list of licences covered by a single national licence. LAs will be able to continue to hold this funding centrally but, due to the increase in the number of licences now covered and the inclusion of nursery schools and non-recoupment academies, the amount charged by the EFA is expected to increase by two-thirds.

### **Education Support Grant announcement**

The DfE also announced that in line with its announcements in the summer of 2014, it will be reducing the funding for the Education Support Grant (ESG) by £200m from the £1.02bn allocated in 2014/15.

The ESG provides funding for the additional responsibilities that academies acquire upon conversion. The general funding rate will fall from £113 to £87 per pupil in 2015/16. The retained duties rate that LAs receive for all pupils (regardless of whether they are educated at maintained schools or academies), will remain unchanged at £15 per pupil.

In keeping with its stated intention in 2013, the DfE intends to change the protection arrangements for academies, so that their ESG rates converge with those for local authorities. There will be no top-up for academies in the 2015/16 academic year (£27 per pupil was provided in 2014/15), but revised protection arrangements will be introduced. The protection will operate in tapered bands. Academies currently receiving relatively low levels of ESG will not suffer a reduction of more than 1% of their total funding (including post-16). Academies receiving relatively high ESG payments could see a fall in their total funding of up to 3%.<sup>1</sup>

The multipliers for alternative provision and special schools will remain at 3.75 and 4.25 respectively.

Further information on the ESG can be found at:

<https://www.gov.uk/government/publications/education-services-grant-2015-to-2016>

### **Pupil premium announcement**

The funding for the pupil premium in 2015/16 will be:

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<sup>1</sup> It is anticipated that schools converting to academies after 31 August 2015 will receive only the general funding rate, i.e. £87 per pupil.

1. £1,320 per primary pupil who is currently eligible for free school meals (FSM) or has been eligible for FSM in the past 6 years (£1,300: 2014/15).
2. £935 for secondary FSM 'Ever 6' pupils (£935: 2014/15).
3. £1,900 for looked-after children. Eligibility criteria includes those pupils who: have been in care for one day or more; have been adopted from care, or; have left care under a special guardianship order, a residence order and a child arrangement order (£1,900: 2014/15).
4. The service premium is expected to remain at £300.

Further details are available at:

<https://www.gov.uk/pupil-premium-information-for-schools-and-alternative-provision-settings>

A report to the Schools Forum on 8<sup>th</sup> October 2014 entitled 'Early Years Pupil Premium and funding for two year olds' outlined the government's intention to introduce from April 2015 a new Early Years Pupil Premium for three and four year olds, with £300 a year paid for every eligible child who takes up the full 570 hours of free education entitlement. This is intended to complement government-funded early education entitlement by providing nurseries, schools, and other providers with additional funding for each eligible child.

### **2015/16 DSG allocations**

The DSG allocations announced by the DfE on 17<sup>th</sup> December 2014 are set out below.

Table 1: Lincolnshire's 2015/16 DSG block allocations

<b>Block</b>	<b>Lincs £m</b>	<b>Lincs £ per pupil</b>	<b>England £ per pupil</b>
Schools Block	399.265 <sup>2</sup>	4,371.82	4,612.11
Early Years block	24.527 <sup>3</sup>	3,974.07	4,282.61
High Needs	62.313 <sup>4</sup>	n/a	n/a
Additions for non-block funding	0.137 <sup>5</sup>	n/a	n/a
Total	486.242	n/a	n/a

It is clear from Table 1 that there remain significant differentials between Lincolnshire's per pupil funding rates and the national averages. Both the local and national per pupil rates for the early years block remain unchanged from last year. Lincolnshire's per pupil funding for the schools block has increased by £42.72 from £4,329.10 last year. This is as a result of the government's decision to allocate extra resource in 2015/16 to the 69 least fairly funded LAs. However, the national average has also increased by £61.57 from £4,550.54 in 2014/15.

Overall, Lincolnshire's DSG will increase by 1.6% in 2015/16.

### **DSG School Budgets 2015/16**

As highlighted earlier in this report, the LA's main proposal for change to the 2015/16 school funding formula related to SEN and Band 6 to 8 statements. The proposal was supported by the Schools Forum on the 8<sup>th</sup> October 2014 and this was reflected in the LA's APT submitted to the DfE on 31<sup>st</sup> October 2014.

The other proposed change to the school funding formula relates to the government's increase in the LA's DSG funding for 2015/16 referred to above. Members of the Schools Forum will recall that a

<sup>2</sup> This includes a £1.360m transfer for non-recoupment academies that the LA will fund for the first time from 2015/16. £0.599m relates to Boston Pioneers Free Academy and £0.761m relates to Lincoln University Technology College.

<sup>3</sup> This includes £0.472m indicative allocation for the early year's premium.

<sup>4</sup> This includes a £0.581m share of the £47m additional funding provided nationally by government for the higher needs block.

<sup>5</sup> As happened in 2014/15, this provides schools with a share of a £10.2m national sum and is to help them to fund the induction of newly qualified teachers.

report entitled 'Fairer Schools Funding for 2015/16' was presented on 8<sup>th</sup> October 2014. It explained that the government planned to make changes to LA funding for schools in 2015/16, to begin to address the unfairness of the current system and to provide some help to LAs that are least fairly funded. The report stated that to determine whether a LA would qualify for funding, the DfE had calculated the overall minimum funding level by setting minimum funding levels for five pupil and two school characteristics / formula factors. The government had decided to allocate an extra £390m to qualifying LAs in 2015/16. Lincolnshire's share was estimated to be £4.5m, or 1.2% of its 2014/15 DSG. The report proposed that £2m of the increase be transferred to higher needs block to cover potential growth in the base budget for SEN as a result of the DfE' requirement for the LA to delegate some of the funding for Band 6 to 8 statements. It also proposed that the remaining £2.5m be allocated equally between primary and secondary schools, by uplifting the awpus by the same percentage. The proposals were supported by the Schools Forum and were subsequently reflected in the LA's APT submitted to the DfE on 31<sup>st</sup> October 2014.

At the time of writing this report, work is underway to check the budget allocations to individual schools and to identify and address any anomalies that might arise, particularly with respect to the MFG calculations.

### **DSG Central budgets 2015/16**

As stated in previous years, it is important that the LA takes a prudent approach to the setting of central budgets within the DSG. This is necessary because:

1. Since 2013/14, the LA has been able to retain far fewer budgets centrally and so there will inevitably be lower levels of underspendings in future years, and therefore less capacity to respond to any significant emerging issues.
2. There are a number of budgets that are difficult to estimate and control (e.g. SEN related budgets, including out of county placements and for post-16 students with higher needs, and; the demand led early years budget).
3. Under current DfE's regulations, for an overspending on the DSG to be written off in the following year, approval from the Schools Forum would be required. That could be a major problem for the LA, as its non-DSG funding will suffer very significant further reductions over the next four years. There will therefore be no scope for the LA to fund a DSG overspend or supplement it in any way.

The LA has conducted its annual, detailed review of the DSG central budgets. The following table summarises the most significant planned changes.

Table 2: Main changes proposed to DSG central budgets

<b>Budget</b>	<b>Proposed change to the current budget Increase / (decrease) £</b>	<b>2015/16 Proposed budget £</b>	<b>Explanation</b>
Broadband	(£0.161m)	£1.617m	This budget was significantly reduced following the introduction of the new KCom contract in October 2012. The planned reduction for 2015/16 reflects the ending of the VLE maintenance costs.
Places in independent schools for non-SEN pupils (Stamford Endowed	(£0.268m)	£0.658m	The contract provides for a phased reduction in the number of places purchased.

schools)			
SEN Out of County	£2.000m	£7.290m	The increase in Out of County expenditure is largely as a result of the rise in the number of young people with Autistic Spectrum Disorders. Presently, the county's schools are unable to meet their needs. ISOS has been appointed to undertake a detailed review of young people in out of county provision, with a view to identifying how such provision can be made within the county's schools. Two special schools have expressed an interest in assisting with these pupils' more challenging and complex needs. Other local opportunities are also being explored.
Funding for significant pre-16 growth	£0.500m	£2.000	This budget is essential for the LA to fulfil its statutory duty to provide sufficient school places for pupils. In the report for last year, the LA enclosed a copy of its policy for funding an increase in places. Demand has continued to grow and in order to fulfil its statutory duty to provide sufficient school places, further funding is required.

The DfE regulations contain a number of provisions in relation to the setting of central budgets within the DSG:

1. The Higher Needs block and central licences negotiated by the Secretary of State can be retained by the LA before allocating the DSG to school budgets. Schools Forum approval is not required.
2. Funding for significant pre-16 growth to meet basic need, and places in independent schools for non-SEN pupils can be retained centrally with the agreement of the Schools Forum.
3. Budgets for Admissions and servicing of the Schools Forum can be retained, but no increase in expenditure from 2012/13 levels is permitted. The Schools Forum is required to confirm the amount for each budget line.
4. Capital Expenditure from the Revenue Account (CERA) and termination of employment costs can be retained centrally. No new commitments or increase in expenditure above 2012/13 levels are permitted. The Schools Forum is required to confirm the amount for each budget line.

In light of these regulations, Table 3 below sets out the budgets requiring Schools Forum approval.

Table 3: Budgets requiring Schools Forum decisions

Budget	Key points	Proposed budget 2015/16 £
	<i>Under DfE regulations, the following budgets can be set at any monetary value.</i>	
Funding for significant pre-16 growth	<ul style="list-style-type: none"> <li>• This matter was referred to in Table 2.</li> <li>• This budget is essential for the LA to fulfil its statutory duty to provide sufficient school places for pupils.</li> <li>• There has been major pressure on reception places for the last four years and this looks set to continue.</li> <li>• Funding is allocated in accordance with the LA's policy. This is when, as part of its strategic planning of places, the LA needs to ask a school</li> </ul>	£2.000m

	<p>to take in additional pupils above its planned admission number (PAN) temporarily or permanently. The policy was attached to last year's report and has not changed.</p> <ul style="list-style-type: none"> <li>• It will continue to be the case that funding could be allocated to maintained schools or academies.</li> <li>• The number of new school places required and their location is uncertain and difficult to predict. The circumstances and hence the costs will vary from school to school. It is therefore important that a prudent budget is set. Based on current commitments and expected growth next year, which is difficult to predict, it is estimated that a prudent budget of £2.0m is required, i.e. this represents an increase of £0.5m on the 2014/15 budget. Any underspend on this or the rest of the DSG will be considered by the Schools Forum in October 2016.</li> </ul>	
Places in independent schools for non-SEN pupils (Stamford Endowed schools)	<ul style="list-style-type: none"> <li>• This matter was referred to in Table 2.</li> <li>• The LA has a contractual agreement to purchase these places in Stamford.</li> <li>• The contract provides for a phased reduction over time in the number of places purchased.</li> <li>• The budget requirement is therefore due to decline by £0.268m next year and will continue to decline thereafter.</li> <li>• 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 for these young people.</li> </ul>	£0.658m
	<i>For the following items, LAs can propose budgets only up to the value committed in 2012/13</i>	
Broadband	<ul style="list-style-type: none"> <li>• This is explained in Table 2 above.</li> <li>• The budget requirement is £0.161m lower than 2014/15.</li> </ul>	£1.617m
Admissions	<ul style="list-style-type: none"> <li>• The LA has a statutory duty to operate the admissions arrangements in county schools.</li> <li>• Without this budget, the LA would be unable to fulfil its statutory duties.</li> <li>• The budget proposed for next year is the same as that set for 2014/15.</li> </ul>	£0.449m
Servicing of the Schools Forum	<ul style="list-style-type: none"> <li>• Historically, the cost has been very modest.</li> <li>• Without this budget, the Schools Forum would find it difficult to operate effectively.</li> <li>• It is proposed that the same budget for 2014/15 is set for 2015/16.</li> </ul>	£0.020m
Central expenditure from revenue (CERA)	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Without this budget, the LA would be unable to finance the on-going costs of these historic, contractual commitments. The proposed budget is slightly lower than that for 2014/15 (£5.126m).</li> </ul>	£5.045m

Schools centrally funded termination of employment costs	<ul style="list-style-type: none"> <li>• The bulk of the 2012/13 budget had to be delegated to all schools from 2013/14, but a commitment remained for the Redeployment officer who continues to help schools avoid redundancy costs by redeploying staff in other schools wherever possible.</li> <li>• 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.</li> </ul>	£0.045m
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The budgets proposed above are prudent and have been determined following a detailed review.

Some minor refinements to these budgets may be necessary in light of officers' on-going work, but material changes are not expected. In accordance with established practice, the LA will report to Schools Forum in April 2015 the final budgets for 2015/16, as set out in the s.251 budget statement which has to be published by 31 March 2015. 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 8<sup>th</sup> October 2014. Those decisions will be reflected in the Authority Proforma Tool that will be submitted to the DfE in January 2015.

### **The financial outlook for schools, the Council and Children's Services**

School budgets have been protected by the government over the last four years. The DSG has remained 'cash flat', but significant additional funding (£2.5bn) has been added via the pupil premium. The DSG for 2015/16 is also protected in cash terms and, as indicated above, some LAs, including Lincolnshire, will see an increase in DSG funding in 2015/16. The position beyond 2015/16 is not known, but the new government may seek to protect school budgets from 2016/17.

The Council has for some time been anticipating having to reduce the £476m non-DSG budgets by c.£90m over the next four financial years. However, due to uncertainty associated with local government funding (partly because of the forthcoming general election and radical changes to Adult care funding), the Council is planning to set only a one year budget in 2015/16. The position will be reviewed when the new government announces details of its Comprehensive Spending Review next autumn.

The provisional local government finance settlement for 2015/16 was announced by the government on 18<sup>th</sup> December 2014. There are four main components of the Council's non DSG funding: local retention of business rates; Revenue Support Grant (RSG); other grants, and; council tax. The reduction in the RSG component in 2015/16 is **£33.6m** or 26.3%, which will leave the Council's 2015/16 RSG at £93.7m. Clearly, this represents a major reduction in funding for 2015/16 and comes on top of the major reductions suffered in the previous four years. Although the Council has identified savings of £30m for 2015/16, it is facing budget pressures of £29m, most of which relate to Adult Care. The Council therefore plans to use £32m of one-off reserves in 2015/16 (these have been built up over the last few years for this specific purpose) as a temporary measure to balance the budget. Further significant permanent savings will nevertheless have to be found for the period beyond 2015/16 and total savings of c.£90m over the next four years may still be required.

The situation for the Council obviously has a major bearing on Children's Services budget. In the four year period 2010/11 to 2014/15, the Directorate has successfully delivered £30.2m of savings. This figure is significant in the context of its non-DSG budget which currently stands at £102m. Children's Services contributed to the corporate budget setting process in 2014, and £39m of budgets (mainly relating to children's social care), were considered high priority and warranted protection in future years. This protection is important because, like other LAs, Lincolnshire has been managing

significant and growing pressures on those budgets in recent years. The pressures are perhaps best illustrated by the fact that between November 2013 and November 2014, the number of looked after children rose from 571 to 641. The consequences for children's social care budgets are very significant. The challenge of contributing to the Council's savings target is much more difficult for Children's Services in Lincolnshire, given that the home to school / college transport budget is significant (£25m p.a.) and much greater than almost all other LAs. Nevertheless, plans have been developed that will contribute £4.257m towards the Council's savings target for 2015/16. So, in conclusion, Children's Services has been successful in delivering very significant savings over the last four years, whilst continuing to deliver a high standard of services over that period. However, the Council faces very significant challenges beyond 2015/16 and this is likely to have a major impact upon Children's Services budgets in future years.

### **Next steps**

Checks will be made against the DfE's new School and Early Years Finance Regulations published in December 2014, to ensure full compliance.

The revised proforma for mainstream school budgets is due to be sent to the EFA by 20<sup>th</sup> January 2015. It will reflect the proposals reported to and supported by the Schools Forum on 8<sup>th</sup> October 2014.

Under new DfE regulations, the LA is required to publish mainstream schools budgets (excluding sixth form funding) by the 27<sup>th</sup> February 2015. The budgets for all schools must be published by 31<sup>st</sup> March 2015 for them to be included in the s.251 budget statement. The LA will however endeavour to publish all budgets as early as possible.

Since April 2014, the Schools Finance Team has been employed by the LA. The LA is planning to introduce a new finance system in April 2015 and 96% of maintained schools have elected to use the new system. The Schools Finance Team will therefore be providing extensive additional support to those schools over the coming months.

The LA will keep the school funding formula under review and will bring forward to Schools Forum any proposals for modifying the formula.

<b>RECOMMENDATIONS</b>
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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 3 above.

<b>BACKGROUND PAPERS</b>
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The following reports were relied upon in the writing of this report.

PAPER TYPE	TITLE	DATE	ACCESSIBILITY
Report	Proposed changes to SEN funding in 2015/16	8 <sup>th</sup> October 2014	County Offices, Newland, Lincoln
Report	Revised Schools Budget 2014/15	8 <sup>th</sup> October 2014	County Offices, Newland, Lincoln

Report	Fairer Schools Funding for 2015/16	8 <sup>th</sup> October 2014	County Offices, Newland, Lincoln
Report	Early Years Pupil Premium and funding for two year olds	8 <sup>th</sup> October 2014	County Offices, Newland, Lincoln

<b>APPENDICES</b>
None