



CABINET

11 JUNE 2013

DIRECTOR OF CHILDREN, CUSTOMERS, AND EDUCATION

CABINET MEMBER WITH RESPONSIBILITY FOR FINANCE, PERFORMANCE AND LGSS: COUNCILLOR BILL PARKER; AND

CABINET MEMBER WITH RESPONSIBILITY FOR CHILDREN, YOUNG PEOPLE AND EDUCATION: COUNCILLOR CATHERINE BOARDMAN

Subject:	2012-13 Schools Outturn report
Recommendations:	This report is for information only and for Cabinet to note the outturn position for schools, the Dedicated Schools Grant (DSG) and school reserves at the end of the 2012-13 financial year.

1. Purpose of Report

1.1 The purpose of the report is to:

- a) Set out the resources that were available through the Dedicated Schools Grant (DSG) for the 2012-13 financial year;
- b) Summarise the position in respect of the DSG spent on central services and the amount delegated to schools;
- c) Present the 2012-13 outturn position on school balances for both committed and uncommitted balances; and
- d) Outline issues facing Schools funding for 2013-14 and beyond.

1.2 It should be noted that this report has been prepared on the organisation structure at the start of the 2012-13 financial year.

2. Relevant Priority Outcomes

2.1 The content of this report supports the delivery of the following corporate outcomes:

Perspective	Outcome
Customers & Community - to achieve our vision, what will our customers see?	<ul style="list-style-type: none"> • Ambitious young people
Finance – to finance our vision, what must we do efficiently, effectively and economically?	<ul style="list-style-type: none"> • Optimised delivery costs • Maximised income and new funding mechanisms • Exploited fixed assets

3. Background

- 3.1 The DSG is allocated to the authority by the Government to fund schools and related educational services where appropriate under the School Finance Regulations. The DSG funding for Northamptonshire in 2012-13 was allocated by the local authority in one of three ways, either:
- a) Directly to schools in their individual school budgets through the schools funding formula (the majority of the DSG is allocated to individual school budgets);
 - b) To schools during the year by way of funding top ups from school specific contingency budgets; or
 - c) To central services provided by the authority in support of schools and education.
- 3.2 The total DSG that the Council receives is currently based on all schools in the county whether maintained or academy. Maintained schools continue to receive funding directly from the authority through the DSG. However, the authority's DSG grant is reduced in respect of academies which receive their funding direct from the Department for Education (DfE). This reflects the shift in responsibility for funding academies which are independent of the local authority and are accountable directly to the DfE. From 1st April 2012 the DfE agency responsible for all school related funding was the Education Funding Agency (EFA).
- 3.3 The total DSG for Northamptonshire was £476m in 2012-13 of which £128m was recouped by the DfE to fund directly to academies.
- 3.4 The funding that schools receive is known as their individual school budgets as driven by the school funding formula. which in 2012-13 was an activity led funding model underpinned by pupil numbers.
- 3.5 The main elements of the central services funded by the DSG in 2012-13 were:
- a) Early years and Extended schools within Community Services in the previous Customers, Community and Learning (CCL) directorate;
 - b) Admissions, 14 to 19 education, school improvement, school based redundancies, and school private finance initiatives in Learning, Skills and Education within CCL; and
 - c) Out of county SEN, complementary education centres, hospital and outreach education, support for pupils with SEN and hearing and visual impairment support in Children's Services within the previous Adult and Childrens Services (ACS) directorate.

4. Consultation and Scrutiny

- 4.1 The authority consults with Schools Forum each year on the allocation of DSG funding in accordance with the legislation and guidelines issued by the Department for Education.

5. Alternative Options Considered

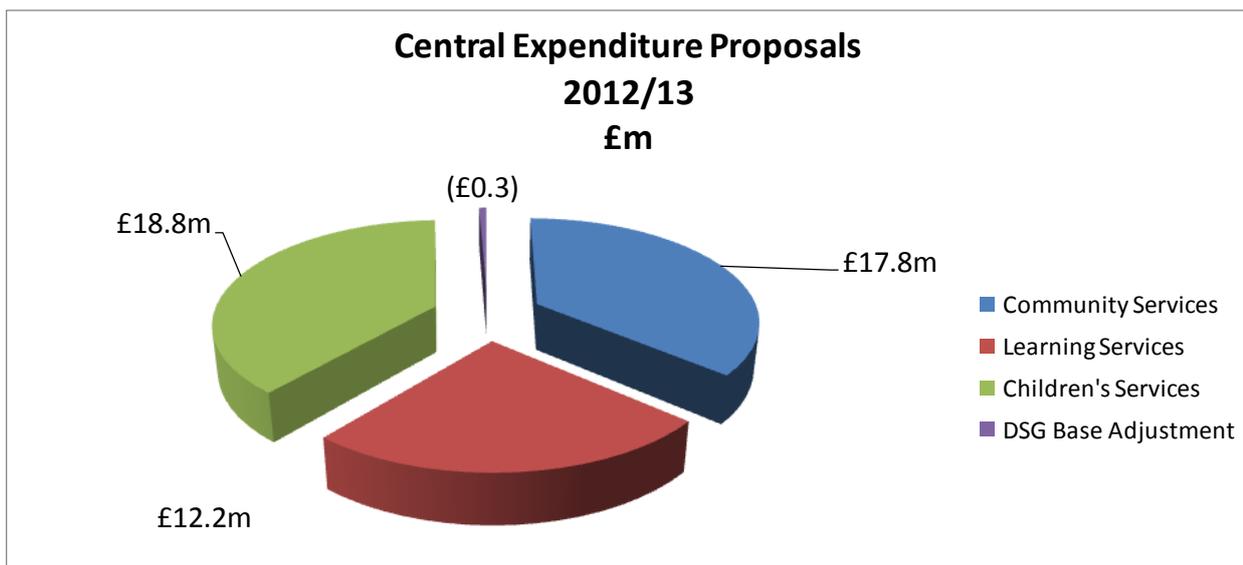
- 5.1 No alternative options are applicable to this report.

6. Financial Position

Central Funded DSG Budgets

- 6.1 The DSG funds schools and a variety of schools related activities that are undertaken by the authority. It is vital that we account for and report on this major funding source effectively and in particular how variances are reported. Where budgets utilise DSG funding the authority applies the grant contribution first and then any under or over spend in central DSG areas is reported in the NCC accounts for budget managers to manage. The breakdown of central expenditure by service for 2012-13 is provided in Diagram 1, which are the budgets used to support the activities outlined in paragraph 3.5.

Diagram 1 – 2012-13 Central Expenditure Breakdown by Service



School Specific Contingency budgets

- 6.2 These are budgets which are held to allocate to schools during the year and as such they are excluded from the LA's monthly financial reporting arrangements. In 2012-13 a further £20m was delegated to schools in their individual school budgets at the start of the year, which was previously held in school specific contingency budgets and released to schools during the year. This change in approach firmly put as much DSG funding as possible in school budgets at the start of the year so that schools could more effectively plan and manage their financial resources. This

also meant that school specific contingency budgets were kept at a minimum. During 2012-13 an underspend of £2.5m occurred in the contingency budgets. The main reasons for the underspend were that:

- a) Some school specific contingency budgets (including School Improvement Group, Advanced Skills Teachers and Newly Qualified Teachers and Carbon reduction) were not fully allocated to schools in 2012-13 (£0.7m); and
- b) Savings in the schools budget as a result of schools becoming academies, particularly around business rate savings (£1.8m) occurred.

6.3 Officers discussed the utilisation of the 2012-13 school specific contingency carry forwards with the Schools Forum on 21 May 2013, the outcome of which was not known at the time of finalising this Cabinet report.

School Balances

6.4 In May 2013 schools submitted information on their 2012-13 carry forwards. The returns show the purposes for which funds are held by schools which are either earmarked for specific purposes or non earmarked. The majority of the school balances are earmarked and are held in respect of capital funds, cluster or area based funds held by schools and Children’s Centres amongst other categories. The figures stated in this report have been adjusted to take account of schools that have converted to academy status and the change in the balances from 2011-12 to 2012-13 is therefore on a like for like basis.

School Balances – Capital

6.5 The balances held by schools for capital has increased by £1.0m between 2011-12 and 2012-13. This reflects special schools allocating increasing funds to improve their school facilities and standards. The analysis by each school phase is provided in Table 2.

Table 2 – Breakdown of 2012-13 capital balances by school phase

School sector	2011-12 (£m)	2012-13 (£m)	Movement (£m)
Nursery	0.3	0.3	0.0
Primary	3.3	3.2	(0.1)
Secondary	1.0	1.1	0.1
Special	0.7	1.7	1.0
Total	5.3	6.3	1.0

6.6 The majority of the capital funding that was previously devolved to schools is now paid by the DfE directly to the LA as capital grant to maintain the school estate from a strategic perspective. As schools are in receipt of less devolved formula capital grant it is likely that schools capital balances are being built up from individual schools revenue resources.

School Balances – Community Focused Reserves

- 6.7 The balances held by schools for community focused reserves predominantly relate to amounts held in respect of Children’s Centres. Overall these balances have reduced in all school phases by £1.3m between 2011-12 and 2012-13. This is mainly due to the increased utilisation of Children’s Centre balances by schools in 2012-13. The analysis by each school phase is provided in Table 3.

Table 3 – Breakdown of 2012-13 community focused reserves by school phase

School sector	2011-12 (£m)	2012-13 (£m)	Movement (£m)
Nursery	2.0	1.4	(0.6)
Primary	1.6	0.9	(0.7)
Secondary	0.0	0.0	0.0
Special	0.0	0.0	0.0
Total	3.6	2.3	(1.3)

School Balances – Committed Revenue Balances

- 6.8 Significant elements of school budgets are committed for particular purposes at any point in time including the year end. The LA’s school balances control scheme allows schools to identify commitments on a limited range of areas. This includes funds held for school partnerships, small schools, Special Educational Needs and earmarked external revenue funding and funding set aside for the repair and maintenance of the school buildings. The committed balances held by schools reduced in total by £2.3m between 2011-12 and 2012-13. The analysis by each school phase is provided in Table 4.

Table 4 – Breakdown of 2011-12 committed revenue balances by school phase

School sector	2011-12 (£m)	2012-13 (£m)	Movement (£m)
Nursery	0.7	0.3	(0.4)
Primary	9.0	7.1	(1.9)
Secondary	1.7	2.3	0.6
Special	1.8	1.2	(0.6)
Total	13.2	10.9	(2.3)

School Balances – Uncommitted Revenue Balances

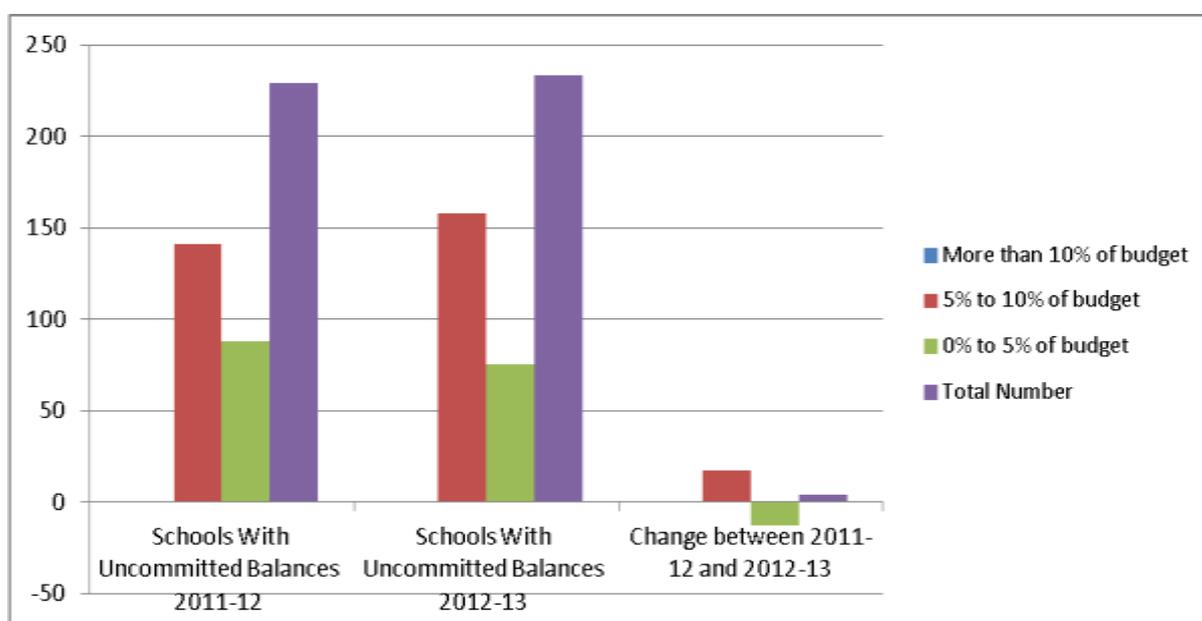
- 6.9 The Government guidance and NCC local school balances scheme allows schools to carry forward uncommitted balances which are not greater than 8% of the school budget for Primary, Special and Nursery schools and 5% for Secondary schools. From the 2012-13 submissions the total uncommitted balances increased by £1.9m. Three schools had uncommitted balances in excess of the 8% and 5% thresholds and these are being followed up although they are only just in excess of the thresholds. The analysis of uncommitted revenue balances by each school phase is provided in Table 5. The uncommitted revenue balances include schools in deficit, which are outlined further in section 7.

Table 5 – 2012-13 uncommitted revenue balances by school phase

School sector	2011-12 (£m)	2012-13 (£m)	Movement (£m)
Nursery	0.2	0.2	0.0
Primary	8.0	9.2	1.2
Secondary	0.6	0.8	0.2
Special	0.7	1.2	0.5
Total	9.5	11.4	1.9

- 6.10 Schools are continuing to manage their finances on a prudent basis given the constantly changing landscape of schools financing as outlined in section 7. Diagram 2 shows the number of schools that have uncommitted surplus revenue balances in both 2011-12 and 2012-13. The schools are categorised into those that have uncommitted balances of 0% to 5%, 5% to 10% or more than 10% of their budget as uncommitted. This analysis excludes any schools in deficit, which are summarised separately in section 7.

Diagram 2 – Number of schools with positive uncommitted balances as a percentage of their budget for 2011-12 and 2012-13



7. Risks, Business Continuity Management and Future Funding Developments

- 7.1 The landscape of schools funding and finance is changing dramatically through a number of variables. These include amongst others the academy agenda, the school funding reforms that have been introduced from 2013-14 and an increasing focus and assurance on schools with deficits. The following paragraphs outline further the current and forthcoming issues.

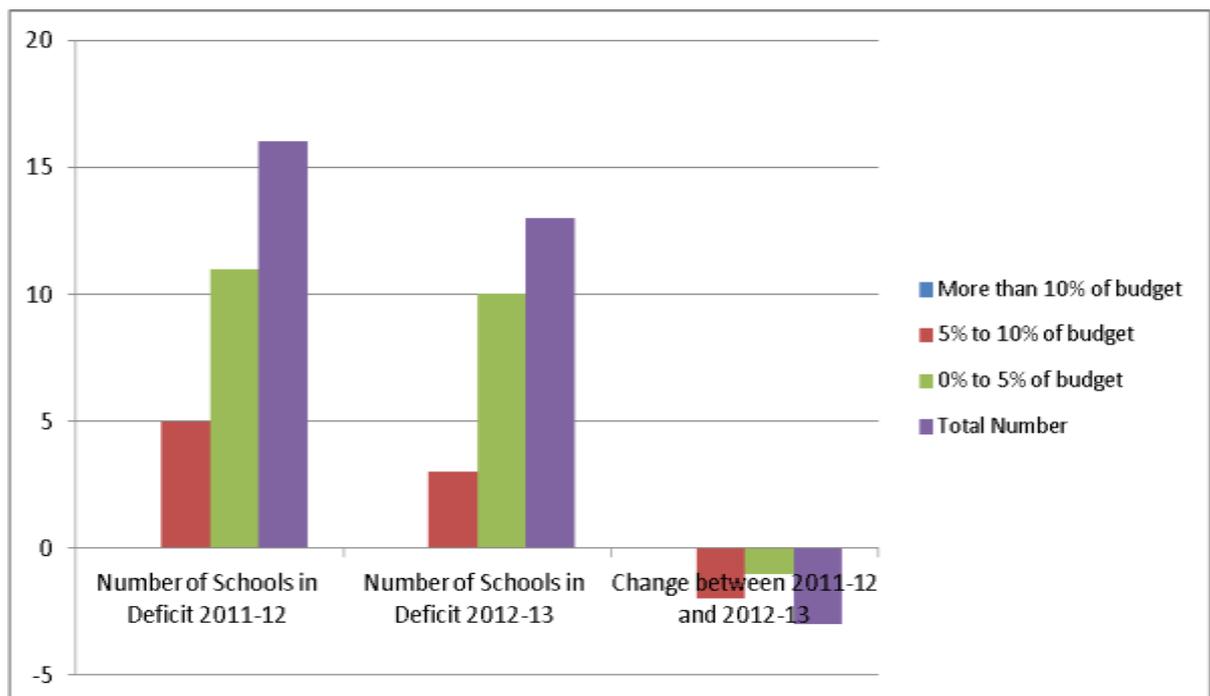
School Deficits

- 7.2 School deficits occur due to a number of factors. Some of the significant factors are falling pupil numbers resulting in a reduced budget allocation, reduced 6th form funding allocations from the Government for schools, and school staff and

governors not actively planning for changes in future income and funding levels or constraining costs where necessary to remain within budget.

- 7.3 The number of schools in deficit at the end of the 2012-13 financial year is 13, a reduction of 3 from the 16 at the end of 2011-12. It should be noted that a number of these deficits are for relatively small amounts. Importantly the total value of deficits has reduced by £0.2 million from £1.1 million to £0.9 million at the end of 2012-13. Diagram 3 shows the number of schools in deficit in both 2011-12 and 2012-13. The schools are categorised into those that have deficits of 0% to 5%, 5% to 10% or more than 10% of their budget.

Diagram 3 – Number of schools with deficits as a percentage of their budget for 2011-12 and 2012-13



- 7.4 Schools in deficit are a risk to both the authority and the schools concerned both financially and in terms of the potential impact on the pupils within those schools and their education. Usually schools with deficits will need to reduce their expenditure in order to recover the deficit. Taking such action often requires a review of the staffing structure within the school.
- 7.5 All schools with a deficit are required to submit a financial recovery plan and progress against this is monitored by the school, its governors, Schools Finance and where relevant the Learning, Skills and Education Division.
- 7.6 Although schools are autonomous bodies the authority has increased the accountability and reporting requirements on schools in deficit from 2012-13. Schools with deficits are already required to submit for review and approval a financial recovery plan. From April 2012 schools in deficit were also required to submit either monthly or quarterly monitoring reports, depending on the scale of the deficit, so that the authority can review whether the school is on target to meet the

financial recovery targets it has agreed to. The first year (2012-13) of applying these new procedures has shown the benefits of the regular sharing of information in these circumstances. This has allowed both schools and the authority to better track financial performance against each school's agreed recovery plan and ensure prompt action is taken if projections indicate the planned targets are projected not to be achieved. The success of the improved approach by both the Local Authority and the schools concerned is evidenced in the reduction in both numbers and the overall size of the deficits between the 2 years.

A National Schools Assurance Framework

- 7.7 The Government previously undertook a consultation on Improving the Assurance System for financial management in local authority (LA) maintained schools.
- 7.8 In response to the National Audit Office's report on "Oversight of financial management in local authority maintained schools", the Government agreed to strengthen their assurance system for financial management in LA maintained schools. The Government now uses the information they already collect, to identify in which LAs there may be problems with the LAs' or their schools' financial management. Included in the areas on which the Government challenges authorities are schools in deficit since 2007-08 and where more than 5% of schools have a revenue surplus of greater than 15% since 2006-07.
- 7.9 The consultation document stated that "if a school has a very large surplus for several years, this suggests that they do not have a clear plan for how this will be deployed and so are not using their allocated funding to fully benefit today's pupils. LAs continue to have a key role in supporting and challenging schools on excessive surplus balances. This is why LAs are able to include a provision in their local schemes to claw back excessive, uncommitted, revenue surpluses. Although LAs are no longer required to operate a claw back mechanism, we do expect authorities to effectively challenge any schools that have very high, uncommitted surpluses." For Northamptonshire schools a claw back mechanism has continued to be operated which is reviewed annually with the Schools Forum.
- 7.10 The Government have contacted the authority regarding the 28 schools who have had a surplus of greater than 15% for the 5 years ending 2011-12. Northamptonshire have responded that the Government's methodology in identifying these schools is inappropriate as all of these schools had uncommitted balances of less than the 5% or 8% thresholds. The 'flaw' in the calculation is that the Government include committed and community focused balances in their calculations.
- 7.11 A further assurance threshold by the Government is for schools in deficit. This is where the Local Authority has 2.5% of its schools that have been in deficit of 2.5% or more for the last 4 years and their individual deficit must have been at least £10,000 each year. The DfE only ask LAs for more information where at least three schools in the Authority meet the criteria. Northamptonshire did not exceed this assurance threshold and has not been contacted by the DfE on this.

Academy Conversions

- 7.12 The number of schools converting to academy status in Northamptonshire

continues to rise, which is consistent with national trends. Table 6 outlines the number of academies in Northamptonshire at the end of 2012-13 compared to 2011-12.

Table 6 – Academy Numbers as at 31st March 2013

	2011-12	2012-13	Change
Secondary	14	26	12
All Through	3	4	1
Primary	4	29	25
Special	2	3	1
Alternative Provision	0	1	1
Total	23	63	40

- 7.13 In some instances schools converting to academy status do so with a sponsor. Academy conversions of this type have the potential to create financial pressure for the LA where they convert as a sponsored academy and have a deficit. In these situations the LA under legislation are responsible for the deficit. Where such a situation arises the LA seeks to discuss with the sponsor ways in which the deficit liability can be shared. The appetite of different sponsors to such discussions is variable but the LA has in certain cases been able to share the liability of a deficit in respect of sponsored academies. The LA will continue to hold these discussions to minimise as far as possible the impact of this risk as well as managing robustly those maintained schools with deficits as set out in 7.2 to 7.6.

Local Authority Central Spend Equivalent Grant (LACSEG)

- 7.14 In 2012-13 and previous years the DfE have operated a mechanism called LACSEG, which in effect reclaims funding from the LA for the Department for Education (DfE) to fund directly to academies. LACSEG has been overly complex and not wholly transparent.
- 7.15 For 2013-14 the LACSEG mechanism has been replaced with a transfer of financial responsibility for all relevant central education services from the Department for Communities and Local Government (DCLG) to the DfE. This means that the LA's Formula Grant has been reduced by the value of all expenditure on the relevant central education services. In turn the LA then receives a specific grant (the Education Services Grant) from the DfE for the funding net of the amount that will be due to academies. The impact of the change has been factored into the Medium Term Financial Plan (MTFP) for 2013-14 but will need to be carefully monitored as the ESG poses a risk to the LA since the LA as the value of the ESG will reduce during the year as more schools convert to academy status. .

School Funding Reforms

- 7.16 Following extensive consultation the LA has implemented the DfE School Funding Reforms as of 1 April 2013. An update on the School Funding Reforms was presented to Cabinet's April 2013 meeting. The reforms were designed to create greater simplicity, transparency and consistency in schools funding in readiness for a national funding formula for schools. The DfE are continuing to work towards a

national funding formula the detail of which is expected to emerge during 2013-14 and beyond.

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Background Papers:	
Does the report propose a key decision is taken?	NO
If yes, is the decision in the Forward Plan?	n/a
Will further decisions be required? If so, please outline the timetable here	NO
Is this report proposing an amendment to the budget and/or policy framework?	NO
Have the financial implications been cleared by the Strategic Finance Manager (SFM)? Have any capital spend implications been cleared by the Capital Investment Board (CIB)	YES Name of SFM: Jon Lee n/a
Has the report been cleared by the relevant Corporate Director or ACE?	YES Name of Director: Alex Hopkins Name of Director: Matt Bowmer
Has the relevant Cabinet Member been consulted?	YES Cabinet Member: Councillors Parker and Boardman
Has the relevant scrutiny committee been consulted?	NO
Has the report been cleared by Legal Services?	YES Name of solicitor: Shahin Ismail
	Solicitor's comments:
Have any communications issues been cleared by Communications and Marketing?	NO Name of officer:
Have any property issues been cleared by Property and Asset Management?	NO Name of officer:
Has an Equalities Impact Assessment been carried out in relation to this report?	n/a – report for information only
Are there any community safety implications?	No
Are there any environmental implications:	NO
Are there any Health & Safety Implications:	NO
Are there any Human Resources Implications:	NO
Are there any human rights implications:	NO
Constituency Interest:	