

**READING BOROUGH COUNCIL**  
**REPORT BY FINANCIAL SERVICES**

<b>TO:</b>	Reading Schools Forum		
<b>DATE:</b>	9 July 2015	<b>AGENDA ITEM:</b>	4
<b>TITLE:</b>	Dedicated Schools Grant (DSG) 2014/15 Outturn & 2015/16 DSG		
<b>SERVICE:</b>	Education, Children & Early Help Services	<b>WARDS:</b>	All
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**1. PURPOSE AND SUMMARY OF REPORT**

- 1.1 This report identifies the position on the provisional outturn for the schools budget in 2014/15 which is largely the same as identified at the last meeting and is subject to detailed review by the Council's external auditor KPMG. It also identifies the latest position with regard to the DSG in 2015/16 and any other schools budget related budget issues.

**2. RECOMMENDED ACTION FOR SCHOOLS FORUM**

To note:

2.1 The pre audit financial outturn position for 2014/15 is the same as reported at the last meeting (Table 1 refers)

2.2 The pre audit funding of the High Needs Deficit for 2015/16 is the same as reported at the last meeting. (Table 2 refers)

2.3 The pre audit carry forward of DSG into 2015/16 (Table 1 & para 5.7 refers) is the same as at the last meeting, noting that the majority of this funding relates to the early years block. There is very little flexibility on the budget going forward and it is important that the High Needs Funding Sub Group develops a savings plan (being reported at this meeting) to address the £0.9m funding gap in 15/16 otherwise schools budget shares could be seriously impacted for 16/17 and beyond.

2.4 The DSG grant allocations by block 15/16 post recoupment (Table 4 Refers)

2.5 To advise an additional funding requests made by a Schools from the Falling Rolls Fund (Section 7 refers) and for Schools Forum to make a decision as to whether this should be approved on an exceptional basis for onward referral to the Education Funding Agency for approval.

2.6 To consider an application for additional Growth Fund from a primary school.

2.7 To note the potential risk to the DSG budget of schools which are not good or outstanding leaving deficits should the schools become academies.

### 3 POLICY CONTEXT

3.1 The Council has strategic aims to establish Reading as a learning city and a stimulating and rewarding place to live and visit, to promote equality, social inclusion and a safe and healthy environment for all. Education and the funding of education is a key factor in the achievement of this aim.

### 4 BACKGROUND

4.1 The DSG funds schools and is ring fenced for school pupil activity. The DSG is based upon actual pupil numbers from the October pupil count preceding the actual financial year. The grant received is split between the:

- Individual School's Budget - the ISB or delegated budget - this is formula driven;
- Centrally Retained School's Budget - the non delegated budget.

4.2 Overspends on the DSG are carried forward and are a first call on the new year's allocation of DSG. Underspends on the DSG are carried forward to support the future year's school's budget.

4.3 The Authority must ensure that DSG is correctly spent and needs to describe the outturn position as to inform the impact upon the new year's budget position. The budget monitoring of the Authority distinguishes between how services are funded, namely by DSG or by the Local Authority.

### 5 PRE AUDIT OUTTURN ON SCHOOLS BUDGET 2014/15

5.1 The table overleaf is the pre audit outturn position as at the end of 2014/15. This is the same position as reported to the May meeting of Schools Forum.

**Table 1: RBC's pre audit outturn position on the Schools Budget as at 31 March 2015**

	Budget (£m)	Outturn (£m)	Variance (£m)
brought forward DSG surplus (Non 2YO)	0.000	(0.371)	(0.371)
brought forward DSG surplus (2YO)	0.000	(1.281)	(1.281)
Schools Block	49.818	49.762	(0.056)
High Needs Block	14.655	15.875	1.220
Early Years Block	9.758	8.928	(0.830)
<b>Total</b>	<b>74.231</b>	<b>72.913</b>	<b>(1.318)</b>

Attributed to:

brought forward DSG surplus (Non 2YO)	0.000
carried forward DSG surplus (2YO)	(1.318)

- 5.2 All delegated funds are transferred to schools, and any overspends or underspends on individual schools budgets are carried forward on the schools budget. There was a separate report on the agenda of the last meeting on Individual Schools Budget outturn (part of the Schools Block) called schools balances as at 31 March 2015. There is a report on the agenda of this matter which considers schools which have reported excess balances.
- 5.3 The in year variances on the Centrally Retained Budget were highlighted at the last meeting. The pre audit outturn position was largely in line with the forecasts being made with regard to underspending and overspending budget areas at the March meeting of Schools Forum. As forecast there has been a significant pressure on the High Needs Block of £1.2m during the year and there is a separate report at this meeting on measures to address the ongoing budget gap into 2015/16.
- 5.4 As reported at the last meeting, there was an underspend on the Early Years Block of £0.8m largely associated with the later phasing of 2 year old places.
- 5.5 In addition, as reported at the last meeting, there was a small underspend on the Schools Block in year of £0.1m.
- 5.6 In order to fund the deficit of £1.2m on the high needs block the following action was taken by the LA, as reported at the last meeting:

**Table 3: Financing of the High Needs Block Deficit 14/15 as determined by the LA in consultation with Schools Forum and the EYSFF Sub Group**

	<b>(£m)</b>
High Needs Deficit	1.2
B/F DSG Surplus 13/14 applied	(0.4)
Schools Block Underspend 14/15 applied	(0.1)
Early Years Block Underspend 14/ 15 applied	(0.7)
<b>Balance Carried Forward</b>	<b>0</b>

5.7 After taking into all of the above, the carry forward of DSG into 15/16 will be £1.3m within the early years block (as noted at table 1) and whilst this is un-ring-fenced it is anticipated that there are significant commitments and contingency requirements (with the move to participation funding in 15/16 for 2 year olds) within the early years block for up to £1.2m.

5.8 The impact of the above is that going forward there is very little flexibility within the DSG to sustain another in year deficit on the high needs block. As Schools Forum will recall all available DSG headroom was transferred to the high needs block for 2015/16, however there is still a budget gap on the high needs block of circa £0.9m. Without measures coming forward from the working group to address the gap it is likely that budget shares for schools will be directly reduced in 2016/17 onwards. It is therefore imperative that there is a fully costed package of saving measures from Sept 2015. There is a separate report on the agenda on this matter.

## 6 DSG 2015/16

6.1 The final allocations of DSG will be notified to the council from the EFA by the end of July, changes will be around academy recoupment and Early Years funding. The current allocation is summarised in the table below.

**Table 4: RBC’s final DSG allocations for Schools and Early Years Blocks for 2015-16**

	<b>Allocations after recoupment (£m)</b>
Schools Block (includes ISB)	51.4
Early Years Block	9.4
High Needs Block	14.6
<b>Total</b>	<b>75.4</b>

### **7 SCHOOLS BUDGET 2015/16 ISSUES**

- 7.1 We have received a request for funding from the John Madejski Academy for falling rolls funding. This submission is included at Appendix 1 to the report.
- 7.2 The submission meets the criteria approved by Schools Forum except for the fact that the JMA is not at least a 'Good' school but is 'Requires Improvement' school. Therefore Schools Forum is asked to consider whether there are sufficient exceptional circumstances to approve such funding. If this is agreed then a case would then need to be made to the Secretary of State. The School will be present at the meeting to present their submission to Schools Forum.
- 7.3 As this is an academy, the financial implications of such a decision are slightly different namely 12 months would need funding unlike 7 months for maintained schools. The split would be £56k in 2015/16 and £32k in 2016/17. Whilst the latter amount could be from budget in that year which has yet to be set aside, for the former amount on the current basis this may result in a budget pressure, which is not currently recognise at 7.5 and Appendix 2. Any such decision might also set a precedent for other similar schools to access such funding.
- 7.4 The budget monitoring for 2015/16 is shown at Appendix 2 to this report. The highlights of this are a £0.9m pressure on the high cost block flowing from the funding gap previously identified. This pressure is being addressed by the report elsewhere on the agenda on the high cost block. We are expecting further pressures to flow through in the high cost block and will be in a position to quantify these at the October meeting of Schools Forum. As noted above the carry forward of £1.3m on the early years block is also shown on the table.
- 7.5 The other key risk on the DSG budget is that schools which are not good or outstanding may be forced to become academies and if they also have deficits will leave the schools budget with the deficits and this will effectively mean the deficit being left by the converter being funded by the remaining school. Based upon the outturns reported for 2014/15 at the last meeting, the budgets returned by schools for 2015/16 and the latest categorisation of schools this is becoming a significant risk to the budget.

### **8 HIGH NEEDS BLOCK 2015/16**

- 8.1 There is a report which considers this topic elsewhere on the agenda.

### **9 EARLY YEARS BLOCK 2014/15**

## Outturn and Budget Update

9.1 At the last meeting it was agreed to block fund £50k for business rates and rent costs within nursery schools. In addition as highlighted in Section 5 above it was noted that there was a transfer of £0.7m from the early years block to the high needs block.

9.2 A meeting will be held with the EYSFF group shortly to consider:

- The overall position on the schools block and the agreed actions on central retentions
- The terms of reference for the EYSFF review to be implemented on 1 April 2016
- Issues related to the early years pupil premium
- Representations to be made to the Council with regard to business rate reliefs

### Appendix 1: JMA Submission to access falling rolls funding

#### Draft - Application for Falling Rolls Fund

#### John Madejski Academy

#### Summary

John Madejski Academy is an 11-19 secondary school that serves South Reading. The school wishes to make an application to the Falling Rolls Fund in 2015/16 given the exceptional funding circumstances that the school faces. The school does not meet the mandatory requirement to be judged Good or Outstanding. We are therefore asking Schools Forum to approve an application to be made to the Secretary of State to waive this criteria and, if the Secretary of State agrees, a further request will be made to Schools Forum to make an award under the Falling Rolls Scheme.

The application to the Falling Rolls Fund using the agreed methodology is set out below:

<i>Maximum intake for Year 7</i>	<i>180</i>
<i>Estimated Sept. 2015 intake</i>	<i>150</i>
<i>Variance between max and estimate</i>	<i>30</i>
<i>AWPU for 15-16</i>	<i>£3,949.51</i>
<i>75% of AWPU rate</i>	<i>£2,962.13</i>
<i>Variance multiplied by rate</i>	<i>£88,863.90</i>

The school meets all the Falling Rolls Fund criteria as approved by Schools Forum in January 2014 other than that the school must be judged Good or Outstanding at its last Ofsted inspection. The school was placed in special measures in January 2012 at the end of the previous leadership team's tenure. The school came out of special measures in December 2013 and was judged Requires Improvement.

The DFE visited school in December 2014 and reported to the Regional Schools Commissioner that good progress was being made. We are optimistic that a Good judgement will be received at the next Ofsted inspection some time during 2015-16.

The current difficult financial situation is a direct result of the reduced roll which originated with special measures in early 2012 and led to reduced pupil intake in October 2013 and 2014 – which is now working its way through the school. The school had 1,006 pupils on roll in

## Outturn and Budget Update

October 2012 but this had fallen to 920 in October 2013 with significant reductions in Year 7 and Year 12.

Pupil numbers are now beginning to increase with October 2015 forecast of 931 pupils (but this still represents a total of 145 pupils below PAN for Years 7-11). The school is also seeing continued growth in Sixth Form numbers.

### Background

Recent pupil number trends are show below.

	<b>October 2012</b>	<b>October 2013</b>	<b>October 2014</b>	<b>October 2015 (F)</b>
Key Stage 3	507	450	408	415
Key Stage 4	338	335	341	323
Post 16	161	135	174	193
<b>Total</b>	<b>1,006</b>	<b>920</b>	<b>923</b>	<b>931</b>

Projected figures indicate a steady build-up of numbers over the next few years.

### Financial impact

The pupil number shortfall has placed significant pressure on school finances which has been addressed through a range of cost saving measures (see below). The school serves an area with very high levels of deprivation and low levels of prior attainment (SEN levels 2.5 times national average, 51% low prior attainment). This context requires the school to commit additional resources to help ensure that students are secondary fit.

In-year deficits in 2012-13 and 2013-14 were recorded as the school took critical steps to come out of special measures. All costs associated with these changes were met from school reserves. No EFA or local authority support was received.

Major savings have been implemented in response to the current deficit position. A staff restructuring exercise was implemented in summer 2015. Thirteen posts were made redundant including teaching assistants (five), technicians (three), teaching staff (three), administrators (two). This will generate annualised cost savings of £170k with redundancy costs of £55k (of which £50k will be met by the school and only £5k by the EFA).

This has been part of a longer term cost reduction programme. Many teaching staff have not been replaced when they have the left the school. There will have been be a reduction in FTE teachers from 80 in September 2014 to 65 in January 2016 and the Academy has reduced the number of teaching assistants from 18 in 2012/13 to nil.

Further restructuring is planned for Autumn Term 2015 with a number of additional leadership scale teaching posts to be lost and up to three further administration posts to be made redundant.



## Outturn and Budget Update

Total costs for 2015-16 are forecast to be £0.9m lower than in 2014/15. However, the best that can be achieved for 2015/16 is a forecast deficit of £144k. This reflects the impact of changes to the local funding formula (impact £150k), reductions in FSM eligibility, increases to TPS / NI (full year cost increase c£240k pa) as well as redundancy costs associated with restructuring (£55k).

We anticipated the financial challenges facing the school at an early point and have been in protracted discussions with EFA over the past year to agree a support package, if required. This has involved submitting various Business Cases and our cost saving programme has been developed in consultation with EFA. We are extremely keen to avoid a Financial Notice to Improve (FNtI) being issued by the EFA (which is usually attached to any support package). This will cause reputational damage at a time when the impact of special measures is now receding.

Support in the form of access to the Falling Rolls Fund will help the school manage the burden of redundancy costs and go a long way to eliminating the need for EFA deficit funding and a potential FNtI.

### Falling Rolls Scheme Criteria

Judged Good or Outstanding	Currently Requires Improvement – anticipate Good judgement in next Ofsted visit
Surplus capacity exceeds 30 pupils or 20% of PAN	Confirmed by RBC Admissions
Local planning data shows requirement for at least 50% of surplus places within next 2 years	Confirmed by RBC Admissions
Formula funding available to school will not support provision of appropriate curriculum for existing cohort	2014-15 and 2015-16 both forecast in-year deficit
School will need to make redundancies in order to contain spending within its formula budget	Redundancy programme implemented Summer Term 2015 –thirteen posts lost from organisation
Does not have surplus balance in excess of 5% of SBS at 31/8/14 or 31/8/15	Confirmed

## Appendix 2: 2015/16 DSG BUDGET MONITORING (£m)

*Budget is before any changes within High Cost Block*

Description	Total Budget	15-16 Estimated	15-16 Variance	Early Years	High Needs Block	Schools
Schools With Weakness	0.300	0.300	0.000	-	-	-
Behaviour support services	0.135	0.135	0.000	-	-	-
Support to UPEG and bilingual learners	0.085	0.085	0.000	-	-	-
Staff costs supply cover	0.051	0.051	0.000	-	-	-
Top up funding - maintained providers	4.570	4.870	0.300	-	0.300	-
Top up funding - Academies and Colleges	2.691	2.991	0.300	-	0.300	-
Top up and other funding - independent	2.830	3.130	0.300	-	0.300	-
Other AP provision	0.080	0.080	0.000	-	-	-
SEN support services	0.988	0.988	0.000	-	-	-
Hospital education services	0.135	0.135	0.000	-	-	-
Support for inclusion	0.498	0.498	0.000	-	-	-
Central expenditure on children under 5	0.255	0.255	0.000	-	-	-
Contribution to combined budgets	0.630	0.630	0.000	-	-	-
School Admissions	0.101	0.101	0.000	-	-	-
Servicing of schools forums	0.020	0.020	0.000	-	-	-
Termination of employment costs	0.025	0.025	0.000	-	-	-
Capital expenditure from revenue (CERA)	0.197	0.197	0.000	-	-	-
Prudential borrowing costs	0.050	0.050	0.000	-	-	-
Equal pay - back pay	0.550	0.550	0.000	-	-	-
Pupil growth/ Infant class sizes	1.028	1.028	0.000	-	-	-
SEN transport	0.100	0.100	0.000	-	-	-
Exceptions agreed by Secretary of State	0.165	0.165	0.000	-	-	-
<b>Total</b>	<b>15.484</b>	<b>16.384</b>	<b>0.900</b>	<b>0.000</b>	<b>0.900</b>	<b>0.000</b>
Individual Schools Budget	51.550	51.550	0.000	-	-	-
SEN Placements (First 10k)	2.473	2.473	0.000	-	-	-
Early Years 2-3 year old Funding	5.716	7.034	1.318	1.318	-	-
Central Establishment Charges	0.239	0.239	0.000	-	-	-
14-15 C/FWD (Surplus) - 2YO	0.000	(1.318)	(1.318)	(1.318)	-	-
<b>Total</b>	<b>59.978</b>	<b>59.978</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>Total ALL</b>	<b>75.462</b>	<b>76.362</b>	<b>0.900</b>	<b>0.000</b>	<b>0.900</b>	<b>0.000</b>

### Note

High Cost budgets are under serious pressure and work will be done over the Summer Holidays to give the first indication on the SEN Placement Outturn for 15-16 that will be reported in October Schools Forum. The SEN Group has been tasked with £900k saving that won't be achieved in year.

First review of SEN Placements shows a continuing increase in Special and Independent resources that will only increase the pressure for the future.

## Outturn and Budget Update