

TO: SCHOOLS FORUM
DATE: 20 JUNE 2019

2018-19 PROVISIONAL OUTTURN ON THE SCHOOLS BUDGET
Executive Director - People

1 PURPOSE OF REPORT

- 1.1 The purpose of this report is to inform members of the Schools Forum of the provisional outturn on the 2018-19 Schools Budget, including the allocation of balances and use of Earmarked Reserves. These funds are ring-fenced for the support of schools and pupils.

2 EXECUTIVE SUMMARY

- 2.1 2018-19 saw changes in financial performance compared to recent years. Aggregate surplus school balances increased for the first time in 7 years, albeit by a modest £0.187m, and the significant under spending recently experienced on High Needs Block (HNB) Budgets ending and being replaced with a modest surplus of £0.088m.
- 2.2 Increased spending on HNB Budgets is being experienced across the country and was recognised by the government with additional funding being provided to all LAs. Without the unexpected in-year increases in HNB grant income from the Department for Education (DfE), the HNB would have over spent by £0.461m.
- 2.3 The overall balances currently held on the council managed elements of the Schools Budget amount to £4.610m, with £3.033m in earmarked reserves that have been created to fund an anticipated future cost and are therefore committed, with £1.577m unallocated in the Schools Budget General Reserve.

3 RECOMMENDATIONS

That the Schools Forum NOTES:

- 3.1 **that the outturn expenditure for 2018-19, subject to audit, shows net income of £0.437m which represents an under spending of £0.797m before allocation of reserves and balances (paragraph 6.7);**
- 3.2 **that after transfers to and from earmarked reserves, the Schools Budget under spent by £0.177m (paragraph 6.8);**
- 3.3 **the main reasons for budget variances (paragraph 6.9);**
- 3.4 **as at 31 March 2019, the aggregate surplus on balances and Earmarked Reserves within the Schools Budget amounts to £6.220m which reduces to £4.610m when school balances are excluded (paragraph 6.10);**
- 3.5 **transfers to and from Earmarked Reserves (paragraph 6.12 and 6.13);**

3.6 the £1.577m surplus balance held in the Schools Budget General Reserve (paragraph 6.14);

4 REASONS FOR RECOMMENDATIONS

4.1 The recommendations are intended to inform the Schools Forum of financial performance against budget in the 2018-19 financial year including the year end transfers to and from balances and Earmarked Reserves.

5 ALTERNATIVE OPTIONS CONSIDERED

5.1 Not appropriate.

6 SUPPORTING INFORMATION

2018-19 Schools Budget Revenue Expenditure and Funding

6.1 Based on recommendations of the Schools Forum, the Executive Member for Children, Young People and Learning approved the initial Schools Budget for 2018-19 with £96.642m of grant funding. This comprised the estimated amount of Dedicated Schools Grant (DSG) income that would be received from the DfE at £90.162m, anticipated income of £2.318m to reflect sixth form and post 16 SEN grant income from the Education and Skills Funding Agency (ESFA), £2.370m from the Pupil Premium grant, £1.278m from the Universal Infant Free School Meal grant and £0.514m from the Primary PE and Sports grant. In addition to grant funding, there is also a budget of £0.122m for other receipts making total income of £96.764m.

6.2 Subsequent to this decision, anticipated DSG income has been updated to reflect revised grant notifications from the DfE, including reductions arising from academy schools where the amount due from the BF Funding Formula for Schools is recouped from the council for the ESFA to directly fund relevant schools. After making the following adjustments, the final DSG allocation amounted to £70.646m:

- £20.796m deduction for academy schools.
- £0.549m increase to HNB spending power following changes to the original allocation by the ESFA. This included:
 - Deducting £0.248m less from the DSG for places provided by providers directly funded by the ESFA compared to the estimate included in the original budget i.e. in respect of other LA schools, academies, other non-maintained specialist providers
 - £0.301m new funding representing the BF share of the £125m national in-year increase in funding to LAs from the government in recognition of the cost pressures being experienced throughout the country.
- £0.328m increase in HNB funding following a change to the way the ESFA would fund purchased places at Bracknell and Wokingham College (B&WC). Rather than continuing with current arrangements of deducting the amount from the BF HNB DSG and paying B&WC direct, the council would now be making payments directly to the college. Consequently, there is an identical increase in grant income and payment to B&WC. It has a net nil financial effect on the budget.

- £0.402m increase to the Early Years Block. This reflects the normal in-year recalculation of funding by the ESFA from the January 2019 census where head count data for BF is higher than estimated when the budget was set. The increase in head count also triggered additional payments to providers of the free entitlement to early years childcare.
- 6.3 Furthermore, there have also been changes to sixth form funding with an overall increase of £0.011m. This arises from updated funding notifications from the EFSA.
- 6.4 There are 2 further budget adjustments to report:
- As part of the Schools Block budget setting process, on 18 January 2018, the Forum agreed that £0.394m should be released from the New School Start up / Diseconomies Reserve to meet the additional cost arising from new schools that was not reflected in the DfE funding settlement.
 - In accordance with Local Government Accounting code of practice, where schools use their revenue funding for capital related expenditure, both the funding and spend need to be transferred to the capital accounts. The Council was notified by schools that of a total of £0.034m of funding needed to be converted to capital through a transfer from revenue. There is a net nil effect on school budgets from this as both the funding and costs are transferred out of delegated budgets.
- 6.5 The net effect of the budget changes set out above is that the final net Schools Budget totalled £0.360m.
- 6.6 In accordance with DfE Funding Regulations, a number of self-balancing budget adjustments have also been made during the year to reflect the transfer of funds from centrally managed budgets to schools where they have met qualifying criteria or original estimates are revised following verified data. The most significant adjustments reflect funding for the free entitlement to early years education and childcare, changes in SEN funding for named pupils i.e. Element 3 top up funding, allocations from the Growth Fund, mainly in respect of increases in pupil numbers and managing the financial impact of Key Stage 1 Class Size Regulations, and support to schools in financial difficulty.

Provisional Outturn Position

- 6.7 The provisional final accounts for the Schools Budget, as summarised at Annex A, shows a net budget of £0.360m, net income of £0.437m and therefore an aggregate under spend of £0.797m. This comprises over spendings of £1.648m against approved budget allocations and under spendings of £2.445m. These figures remain subject to change, pending external audit, although no significant movement is anticipated.
- 6.8 Some expenditure in the Schools Budget is ultimately financed from accumulated balances and earmarked reserves. Annex A sets out the transfers required as part of the accounts closedown process which is explained in more detail in paragraphs 6.12 to 6.14. Taking account of these financing adjustments, there was a net in-year under spending of £0.177m.
- 6.9 An explanation of the main changes (+/- £0.025m) from the approved budget plan, after transfers to or from reserves and balances are as follows, many of which are consistent with the update on budget performance that was reported to the Forum in September:

LA Managed Budgets:

Schools Block - £0.209m over spend:

- i. **Pupil behaviour - £0.033m under spend.** The main savings arose from staffing as a result of vacancies
- ii. **Official staff absence - £0.038m over spend.** There is one significant area of budget variance. The scheme to manage the cost of maintained school classroom staff on maternity leave through a collective de-delegated budget over spent by £0.055m from a combination of increased incidence of maternity leave absence and higher average costs. The on-going viability of this scheme will need to be determined a part of the 2020-21 budget setting process.
- iii. **Other Schools Block provisions and support services - £0.178m over spend.** There are 2 significant budget variances being reported in this area of the accounts. Firstly, there was a net under spending of £0.092m on the Growth Fund of which there are 3 elements; based on the actual pupil numbers on the October 2018 census, *in-year growth allowance payments* were made for 9 fewer classes at schools experiencing significant increases in pupil numbers, rather than the 11 assumed from a roll forward of October 2017 pupil numbers which was used to calculate the original budget requirement and resulted in an under spending of £0.061m; secondly, top up funding allocations to schools experiencing additional teaching costs as a result of *Key Stage 1 maximum class size regulations* under spent by £0.043m; and thirdly, pre and post opening funding allocations to new schools over spent by £0.012m. The second significant variance relates to the school building programme to deliver sufficient school places which creates a pressure from increased rates liabilities for which there is no budget provision and which has consistently been financed from within other under spendings. The pressure in 2018-19 was calculated at £0.251m with a further increases of £0.052m from changes at existing schools. The Inland Revenue has still to make determinations on re-valuations for a number of new and expanded schools, meaning the provision is an estimated amount.

High Needs Block - £0.088m under spend:

Members of the Forum will be aware that budget items iv to vii below represents the most unpredictable and volatile education budgets that the council is responsible for. Placement requirements can change at short notice and new pressures can emerge that can together result in large movements in costs between budget lines.

- iv. **Maintained schools and academies - £0.468m over spend.** The cost of additional Element 3 top up support i.e. individual support needs above £0.010m exceed the budget and reflects the support arrangements agreed for schools. The most significant cost increases occurred in respect of increasing numbers of BF students needing to be placed in out of borough in other LA maintained schools, mainly in special schools.
- v. **Non-Maintained Special Schools and Colleges - £0.738m under spend.** This is the most significant area of budget variation and various reports have previously been provided to the Forum to explain the changing legislation, transfer of funding responsibilities to the Schools Budget and volatility on this high cost budget area. In terms of the outturn variances, an analysis of the external placements budget shows:
 - As set out above in paragraph 6.2, the final amount of High Needs Block DSG was £0.549m higher than that anticipated in the original budget which results in a saving.

- There was a total of 186.6 FTE placements (was 165.4 in 2017-18). This was 2.2 FTE more than anticipated in the budget. Based on the original estimated average placement cost of £27,203, this resulted in an over spending of £0.060m.
 - At £26,522m the average actual cost of placement is £681 less than the original estimate. This results in a £0.127m under spending.
 - The provision to enable the purchase of additional places (Element 2 charges) above the number deducted directly by the ESFA under spent by £0.122m.
- vi. **Education out of school - £0.348m over spend.** There were 2 significant budget variances. There was an increase in the number of pupils requiring home tuition that resulted in a £0.210m over spending. There was also an increase in the average cost of support as agency tutors rather than BF contract staff were required to meet the increase in demand. There was also a £0.155m over spending on externally commissioned alternative provision (£0.062m for primary aged pupils, £0.093m for secondary aged). Demand also increased for these provisions.
- vii. **Other SEN provisions and support services - £0.157m under spend.** The main change relates to a £0.088m saving on the Early Opportunities initiative that was agreed as a new development for 2018-19 but could not proceed due to increased demand for places at Kennel Lane Special school reduced capacity to run this new development. There was also less demand than expected for specialist therapies which together under spent by £0.068m, with the Support for Learning Service under spending by £0.027m, mainly as a result of staff vacancies. There was one significant area of over spending at £0.105m which related to the purchase of medical support needs where more pupils were identified as requiring provision.

Early Years Block - £0.301m under spend:

- viii. **Free entitlement to early years education - £0.236m under spend.** Payments to providers delivering the free entitlement to early education and childcare under spent by £0.236m as the in-year increase in DSG funding exceeded the cost increase which rose steadily during the year, with the DSG funding calculated towards the end of the financial year when head count was reaching a peak.

Dedicated Schools Grant:

- ix. **Dedicated Schools Grant - £0.051m under spend.** ESFA have recalculated the 2017-18 Early Years Block DSG allocation for the period September 2017 to March 2018 on the validated January 2018 census data. This was confirmed in June and shows £0.051m less grant than the amount anticipated when the 2017-18 accounts were closed. The timing of announcing the actual change in funding means the variance falls into 2018-19 accounts.

Year-end balance:

- x. **Transfer to Earmarked Reserve - £0.177m under spend.** The unspent balance of net aggregate spending on budgets centrally managed in the Schools Budget. This amount is transferred to the Schools Budget General Reserve.

Annex A sets out the full Schools Budget at a summary level, with the above notes referencing to the appropriate lines with budget variances.

Balances and reserves

- 6.10 As part of the financial planning process, there is the opportunity to establish and maintain reserves and balances. Earmarked Reserves are sums of money which have been set aside for specific purposes and the Schools Forum has agreed a number of Schools Budget reserves should be created. Each year these reserves can have funds added or deducted depending on financial performance and the purposes for which they were created. Balances reflect year end unspent funds and can be held separately as an unring-fenced amount or are transferred to Earmarked Reserves.
- 6.11 Table 1 below provides a summary of movements last year together with current balances on the earmarked reserves of which column 5 shows total available funds at 31 March 2019 of £6.220m, an increase of £0.402m. This reduces to £4.610m when school balances are excluded.

Table 1: Earmarked reserves related to the Schools Budget

Reserve	Balance B/Forward 01-Apr-18 (1) £ 000	Movement in year (2) £ 000	Initial Balance 31-Mar-19 (3) £ 000	Year end Transfers (4) £ 000	Final Balance 31-Mar-19 (5) £ 000
<u>School Balances - Earmarked:</u>					
Primary	-1,987	0	-1,987	-73	-2,060
Secondary	-106	0	-106	336	230
Special	-38	0	-38	-281	-319
Outstanding School loans	858	0	858	-268	590
College Hall PRU	-91	0	-91	40	-51
(b)	-1,364	0	-1,364	-247	-1,610
<u>Earmarked Reserves</u>					
SEN Resource Provision Reserve (c)	-337	0	-337	-122	-459
New school start up / diseconomies (a), (d)	-800	394	-406	-594	-1,000
School Meals Re-tender Reserve	-40	0	-40	0	-40
School Expansion Rates Reserve (e)	-841	0	-841	-251	-1,092
SEN Strategy Reserve	-439	0	-439	0	-439
Grants unapplied	-3	0	-3	0	-3
	-2,460	394	-2,066	-967	-3,033
<u>Schools Budget General Reserve</u>					
Brought forward balance	-1,994	0	-1,994	0	-1,994
New school reserve to £1million (d)	0	0	0	594	594
2018-19 in-year under spend (f)	0	0	0	-177	-177
	-1,994	0	-1,994	417	-1,577
Total reserves	-5,818	394	-5,424	-797	-6,220
Total reserves excluding school balances					-4,610
<u>Memorandum item: School Balances</u>					
School balances from (b) above				-247	-1,610
Exclude loans to academy schools (i.e. were outstanding at conversion)				60	-118
Mainstream schools balances				-187	-1,728

6.12 Column 2 from Table 1, movement in year at note (a) relates to the £0.394m transfer from the New School Start up / Diseconomies Reserve that was agreed by the Forum on 18 January 2018 as part of the original budget setting proposals:

6.13 A number of year-end transfers, as set out in column 4 of Table 1 have been processed in accordance with accounts closedown:

Note b: School balances: Statutory Regulations require balances on school budgets to be earmarked to individual schools for use in a future financial year. There was an aggregate £0.187m transfer to balances during the year schools spending less than their budgets. In addition, academy schools with outstanding loans at the point of their conversion repaid the £0.060m of advances that were due, resulting in a net overall increase in balances of £0.385m. Academy schools now owe £0.118m on outstanding loans. A separate item on tonight's agenda provides further detail on school balances.

Note c: 14 March 2018 Forum agreed: that £0.122m is transferred from the DSG allocation into the SEN Resource Units Reserve as a contribution to future year start-up costs.

Note d: 6 December 2018 Forum agreed: that to meet the expected financing requirements of the medium term funding strategy arising from new schools, that funds in the New School Start up / Diseconomies Reserve are increased to £1m.

Note e: School expansion rates reserve: a further £0.251m has been put aside in this reserve to cover the full estimated cost due on outstanding, back-dated rates re-valuations relating to new and recently expanded schools which have yet to be reassessed.

Note f: Schools Budget General Reserve: the aggregate in-year under spending on centrally managed budgets of £0.177m.

6.14 Column 5 of Table 1 shows that the accumulated unused balance on the Schools Budget General Reserve totals £1.577m. Annex B provides a summary of the purpose and policy of each reserve together with recent levels of funds.

This funding can only be used to support expenditure in the Schools Budget.

Proposed use of Schools Budget General Reserve

6.15 In managing the Schools Budget General Reserve, the Director of Finance has determined that a minimum level of funds should be maintained to manage unforeseen circumstances and to also plan for any future known changes that may have a significant financial impact. This helps to manage risks in a planned, rather than reactive manner and also assists in longer term financial planning.

6.16 Taking account of the assessed risk in terms of budget volatility and value of those items managed by the Council on behalf of schools, a sum of £0.660m is considered the minimum level of balance that needs to be held. This means £0.917m is held above the minimum prudential level.

6.17 At this stage, no proposals are being made in respect of the potential use of the unallocated surplus balance pending:

- Information from the DfE on the 2020-21 financial settlement for schools, including the future funding of the 2018 Teachers' Pay Award and 2019

employers increase in contribution rate to the Teachers' Pension Scheme, of which costs for both are currently being part funded through specific grants.

- Any revisions to the medium term cost forecast for supporting new schools, where an agreed funding strategy is in place.
- Any cost pressures that emerge in 2019-20, in particular in relation to rising demand on HNB budgets.

Conclusion

- 6.18 Taking account of the proposals in this report, balances and Earmarked Reserves held in the Schools Budget are considered sufficient to meet future the immediate known cost pressures from local factors, although other pressures will arise from national factors, of which the actual cost, and availability of new resources to fund them is not know at this stage.

7 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 7.1 The relevant legal provisions are contained within the body of the report.

Director of Finance

- 7.2 The financial implications arising from this report are set out in the supporting information. The budget variances were reviewed during the year and where appropriate, have been built into the 2019-20 budget, most notably relating to the increasing pressure on High Needs Budgets.

Equalities Impact Assessment

- 7.3 There are no specific impacts arising from this report.

Strategic Risk Management Issues

- 7.4 There is a risk to the Schools Budget from not having sufficient reserves to manage unforeseen in-year cost pressures. This is mitigated by holding a minimum prudential level of reserves of £0.66m and other earmarked reserves where future pressures will occur.

8 CONSULTATION

- 8.1 Not applicable.

Background Papers

None

Contact for further information

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**2018-19 PROVISIONAL BUDGET MONITORING STATEMENT FOR THE
SCHOOLS BUDGET AS AT THE END OF MAY 2019**

Service Area	Approved Budget			Outturn Net Spend	Estimated Variance			Transfer to(+)/ from (-) reserves	Final Variance	Note
	Spend	Income	Net		Under spending	Over spending	Net variance			
	£000	£000	£000		£000	£000	£000			
Schools Block										
<u>Delegated and devolved funding:</u>										
Delegated Mainstream School Budgets	55,217	0	55,217	55,211	-6	0	-6	6	0	
School Grant income	0	-5,983	-5,983	-5,983	0	0	0	0	0	
Schools Block	55,217	-5,983	49,234	49,228	-6	0	-6	6	0	
<u>LA managed items:</u>										
Retained de-delegated Budgets:										
<i>Behaviour</i>	247	-7	240	207	-34	1	-33	0	-33	i
<i>Schools in Financial Difficulty</i>	53	0	53	51	-5	3	-2	0	-2	
<i>Official Staff Absences</i>	251	0	251	289	-17	55	38	0	38	ii
<i>English as an Additional Language</i>	99	0	99	112	-4	17	13	0	13	
<i>PRC / Licence Fees / FSM checking</i>	63	0	63	78	0	15	15	0	15	
Combined Service Budgets:										
<i>Education Attainment and School Transport for LAC</i>	176	0	176	176	-15	15	0	0	0	
<i>Family Intervention Project / Domestic Abuse</i>	106	0	106	102	-4	0	-4	0	-4	
<i>CAF Co-ordinator</i>	42	0	42	45	0	3	3	0	3	
<i>SEN Contract Management</i>	33	0	33	33	0	0	0	0	0	
<i>Education Health / Sport</i>	48	0	48	48	0	0	0	0	1	
Statutory and Regulatory Duties	489	0	489	489	0	0	0	0	0	
Other Schools Block provisions and support services	645	0	645	572	-389	316	-73	251	178	iii
LA managed items:	2,252	-7	2,245	2,202	-468	426	-42	251	209	
Sub total Schools Block	57,469	-5,990	51,479	51,430	-474	426	-48	257	209	

**2018-19 PROVISIONAL BUDGET MONITORING STATEMENT FOR THE
SCHOOLS BUDGET AS AT THE END OF JUNE 2019**

Service Area	Approved Budget			Outturn Net Spend	Estimated Variance			Transfer to(+)/ from (-) reserves	Final variance	Note
	Spend	Income	Net		Under spending	Over spending	Net variance			
	£000	£000	£000		£000	£000	£000	£000	£000	
High Needs Block										
Delegated Special Schools Budgets	3,967	0	3,967	3,677	-290	0	-290	281	-9	
Post 16 SEN and other grants	0	-509	-509	-509	0	0	0	0	0	
Maintained schools and academies	1,600	-22	1,578	1,924	-290	636	346	122	468	iv
Non Maintained Special Schools and Colleges	5,958	0	5,958	5,220	-738	0	-738	0	-738	v
Education out of school	1,284	-3	1,281	1,669	-26	414	388	-40	348	vi
Other SEN provisions and support services	1,766	-68	1,698	1,541	-275	118	-157	0	-157	vii
Sub total High Needs Block	14,575	-602	13,973	13,522	-1,619	1,168	-451	363	-88	
Early Years Block										
Free entitlement to early years education	5,347	-3	5,344	5,109	-277	41	-236	0	-236	viii
Other Early Years provisions and support services	229	-19	210	199	-24	13	-11	0	-11	
Sub total Early Years Block	5,576	-22	5,554	5,308	-301	54	-247	0	-247	
Dedicated Schools Grant	0	-70,646	-70,646	-70,697	-51	0	-51	0	-51	ix
Surplus for the year								177	177	x
TOTAL - Schools Budget	77,620	-77,260	360	-437	-2,445	1,648	-797	797	0	
Net under spending before use of reserves					-797					

See paragraph 6.9 for an explanation to the notes to variances. Note roundings may result in totals not cross checking

Earmarked reserves relating to the Schools Budget

Reserve	Purpose	Policy	Year-end value
School Balances	These funds are used to support future expenditure within the Schools Budget relating to individual school balances.	Balances are permitted to be retained by Schools under the Schools Standards & Framework Act 1998. Policies are set and the reserves are managed by schools and the LA has no practical control over the level of balances.	March 15 £4.087m March 16 £3.407m March 17 £1.746m March 18 £1.363m March 19 £1.610m
SEN Resource Units	To set aside in a reserve for building adaptations to allow for the creation of SEN resource units on school sites.	To finance capital expenditure to assist with the development of local, cost effective provisions to support pupils with SEN.	March 15 £0.490m March 16 £0.316m March 17 £0.304m March 18 £0.337m March 19 £0.459m
New school start-up / diseconomies	To set aside an earmarked reserve to support the additional costs that will arise from the new school places building programme.	To help finance the diseconomy costs that will arise from new schools that will open with relatively low numbers of pupils as housing developments progress.	March 17 £0.300m March 18 £0.800m March 19 £1.000m
School Meals Catering Re-tendering Reserve	To set aside an earmarked reserve for the School Meals Catering Re-tendering exercise	To help finance costs arising from future Schools Meals Catering tendering exercises.	March 15 £0.040m March 16 £0.040m March 17 £0.040m March 18 £0.040m March 19 £0.040m
Schools Expansion Rates Reserve	To set aside an earmarked reserve for the rates costs associated with school expansions.	To help finance costs arising from the school expansion programme.	March 15 £0.196m March 16 £0.445m March 17 £0.595m March 18 £0.842m March 19 £1.092m

Reserve	Purpose	Policy	Year-end value
SEN Strategic Reserve	To set aside funding to contribution to costs arising from implementation of the SEN Strategy, assisting with the early implementation of change to improve the outcomes of children.	To help finance start-up and one-off initiatives arising from the SEN Strategy.	March 18 £0.439m March 19 £0.439m
Grants unapplied Reserve	To set aside in a reserve for unspent Schools Budget related grants where there are no restrictions applied to the spending from the grant awarding body.	To facilitate the transfer of unspent grant balances between financial years.	March 15 £0.014m March 16 £0.008m March 17 £0.003m March 18 £0.003m March 19 £0.003m
Schools Budget General Reserve	The Schools Budget is a ring fenced account, fully funded by external grants, the most significant of which is the Dedicated Schools Grant. Any under or overspending remaining at the end of the financial year must be carried forward to the next year's Schools Budget.	This reserve is held for specific accounting reasons. The funds in this reserve are ring fenced and cannot be used for any other purpose than a future years' Schools Budget.	March 15 £0.208m March 16 £1.373m March 17 £1.779m March 18 £1.994m March 19 £1.577m