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Report title:	DSG budget monitoring 2016-17 and 2017-18 DSG	
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Executive Summary

This report sets out the position regarding the 2016-17 in-year budgetary position for the Dedicated Schools Grant (DSG) and the next steps relating to the formula and budget for the 2017-18 with the key decisions to be made at the January 2017 Schools Forum meeting.

Schools Forum Actions

The Schools Forum is asked to note:

- The position on the DSG 2017-18 over-recoupment for academies, the reasons for it and the steps in place to mitigate this in-year and for 2018-19;
- The in-year budget monitoring position for DSG 2016-17, the firm commitments for the use of the DSG reserve and the flexibilities on the reserve to manage the in- year pressures;
- The projection of the DSG 2017-18 settlement, the formula and the priorities for any DSG headroom to be considered at the January 2017 meeting.

DSG Grant Shortfall

1. As noted at the last meeting the Education Funding Agency (EFA) recouped more than had been anticipated.

Table 1 - 2016-17 DSG Allocation (after recoupment and excluding NQTs)

	£m (Initial Allocation)	£m (July Adj)	£m (Adjustment)
Schools Block	128.13	124.59	(3.54)
High Needs Block	37.15	37.13	(0.02)
Early Years Block	27.22	27.56	0.34
Total	192.50	189.28	(3.22)

2. Following a review it appears that this has flowed from a number of issues:
 - The assumptions made in the budget setting process for DSG academy recoupment only made allowances for one academy converter and some pupil growth. No provision appears to have been made for growing free schools and non

basic need academies. This is not funded by the EFA other than for the first year for free schools (although a change is being consulted on by EFA that the DSG has to fund the first year as well). Any growth for Sept 2016 to March 2017 has to be funded out of the DSG 2016-17 settlement which is in turn driven by the October 2015 census. In effect the pupil growth has to be lagged funded for each year of expansion until the school is full. Therefore the academy recoupment estimate in setting the 2016-17 budget was understated by around £1.7m and that position will need to be managed against the reserves allowing for the in-year budget monitoring position and any 'firm' commitments made against the reserve.

- Funding to free schools and non basic need academies was driven by the January 2016 APT return which included estimates of pupil growth. When compared to the October 2017 provisional figures the estimated pupil numbers were overstated in some cases. However, there is a clawback mechanism in place to recover these funds by adjusting the January 2017 APT pupil estimates. The "APT" is the Authority Proforma Tool completed by the LA giving details of estimated pupil numbers. This clawback mechanism is estimated to yield £0.7m to be set against the grant shortfall.
 - We also noted that a non basic need academy had been funded on the basis of estimated growth when it should have been lagged funded. Adjustments can be made to correct this issue by moving the funding into the correct years amounting to £0.4m.
 - Incidental to the review, we noted that growing maintained and basic need academies are funded via the approved Growth Fund mechanism, of which £0.7m was set aside in the 2016-17 budget. It has been identified that a number of these schools have been funded on the January 2016 APT with estimates for pupil growth (no growth fund payments had gone out to the affected schools). As a result it is anticipated that the Growth Fund budget will be underspent by £0.5m which is reflected in the budget monitoring. However by using the incorrect funding method there has been an overfunding of these schools by £0.2m. The two areas taken together can be set against the DSG grant shortfall noted previously, namely as sum of £0.7m.
 - An error was made in the submission of APT by including a secondary school opening a sixth form school as estimated pre 16 pupil growth. This was the incorrect funding mechanism. We are reviewing the extent of any potential overfunding and the mechanism for recovering this potential over-funding.
3. Clearly this is a complex technical area that will require re-checking and verified with the EFA for final confirmation at the January meeting and thus these estimates may be subject to some change. However, when taking the above into account the net pressure requiring to be set against the in year position and reserve is estimated to be c £1.7m. This excludes the sixth form funding issue.
 4. As well as seeking to correct the above issues, the Authority is taking steps to ensure that this issue is not repeated for the 2017-18 schools budget. This will be achieved by:
 - Making a provision within the 2017-18 DSG settlement for growing and expanding free schools and non basic need academies, building in the first year for any new free schools opening September 2017, as seems likely to happen flowing from the consultation. This work is already underway and will be reported back at the January 2017 meeting. This will underpin the estimate of DSG for 2017-18 to be

recouped for academies and free schools, together with appropriate provision for in year converters and any normal growth.

- Checking that estimates submitted for pupil growth in the above schools are realistic and robust and have both Director level finance and service sign off before submission.
- Ensuring that expanding maintained schools and basic need academies are funded via the approved Growth Fund and not by using pupil growth estimates on the January 2017 APT.
- The APT January 2017 submission being subject to an independent check by an experienced senior finance officer from another local authority.
- Undertaking a reconciliation of the DSG post recoupment settlement from estimate to actual in July 2017 to ensure that it agrees to the assumptions made in the budget setting process and reporting any shortfall to Schools Forum and ensuring that the necessary adjustments are made.

DSG Budget Monitoring 2016-17 and DSG reserve review

5. The in-year budget monitoring position is shown in the table below. In summary the Schools Block is estimated under pressure by c£1.7m due to the grant shortfall issue identified above in paragraph 2. With regard to the High Needs block there is a forecast pressure of £2.2m due to the need/demand led nature of the service. With regard to the early years block, the move to full participation for 2,3 and 4 year olds and the in year census funded nature of the service, in effect meaning that it is lagged funded, may mean that this will start to come under pressure. However, taking that underspend of £0.5m into account the blocks forecast is:

	£m Initial Allocation	£m Over/ Under spends
Schools Block	128.13	1.7
High Needs Block	37.15	2.2
Early Years Block	27.22	(0.5)
Total	192.50	3.4

Table above excludes the use of reserves – this is considered later in the report.

6. There is an ongoing line by line review of DSG budgets to identify any further potential pressures underspends and savings and also a technical review of the accounting arrangements as stated previously. A further update will be given to the January meeting.
7. As with all forecasts these need to be treated with caution particularly with regard to demand driven areas such as SEN and Behaviour Services. In addition, areas that are lagged funded on a participation basis such as early years can also be difficult to predict. The forecasting is reliant upon systems and data quality being up to date, commitments being recognised and communicated to finance when they are made and service managers understanding their budgets and meeting regularly with finance.

8. With regard to the use of the reserve, flowing from the above we have updated the latest position:

Held as follows:	£000	Comments
Children's and Families Act	1,300	A review would indicate that other grants of around £500k could be used thereby releasing that amount to uncommitted.
SEN interim support for pupils in mainstream schools	360	Being reviewed. A list was prepared for the July meeting. We would recommend that the funding should be prioritised towards schools that do not have excess balances.
Summerhouse capacity increase	70	This is committed
SILS 3 multi-disciplinary approach	70	This is committed
Cherry Gardens outreach support	50	Awaiting information
SILS increased capacity and quality	200	This is committed
High needs contingency	3,500	Uncommitted as yet, though overspend on high cost block is forecast.
Two year old funds	2,100	Uncommitted as yet
DSG contingency	2,522	Figure has been adjusted to reflect the audited accounts DSG carry forward total. As agreed at the January 2016 Schools Forum £1.9m has been used to support ISB 16/17. Leaving uncommitted of £622k.
Total Funds held in reserve	10,172	Per 15/16 audited accounts DSG note.

9. Therefore in summary of the £10.17m reserve there are:

- Firm commitments of £3.04m
- Still being reviewed possible £0.41m
- Uncommitted contingencies of £6.72m

10. From the above we believe that the estimated forecast overspend on DSG is £3.4m as noted previously and can be met from uncommitted contingencies. It would be our recommendation to make no further commitments against reserves until the forecast position becomes clearer at the January meeting following the verification work on the budget and grant shortfall issue.

DSG Budget and Formula 2017-18

11. The DSG funding settlement will be announced in mid December. In April LAs were asked to notify the EFA about the actual pattern of spending on schools, early years and high needs within the annual DSG allocation in a process called the 'baseline exercise'. The EFA have used the new baselines to calculate LA's 2017-18 allocations for schools block and high needs block rather than how government has allocated funding since 2013.
12. The results of the above have been published on the DFE website and we are reviewing these and their implications. Following the December DSG allocation announcement (for the schools block and high needs block following the census and high needs return), and a further update will be given to the January 2017 meeting. There are a number of factors to bear in mind:
 - The adjustments are at a gross level and exclude recoupment
 - There are technical new adjustments including for ESG (subject to a separate report), SEN and post 16 provision
 - This excludes two year old funding
 - The guaranteed unit of funding is set at £6,412.68 as in previous years
13. A high needs places return has been completed and this includes modest changes to hospital school provision and a new unit jointly commissioned with Lambeth. The latter should attract new funding. In summary the changes were:
 - Two new places at the resource base at Redriff Primary School
 - Ten new post-school places with The Autism Project. (50:50 split with Lambeth)
 - Four new places at Evelina Hospital School – Hospital Schools were included on the return for the first time.
14. There are no changes to any place numbers in our existing maintained pre-16 provision
15. Early years block allocations for 2017-18 are part of separate funding proposals, which was the subject of a report to the October 2016 Schools Forum and a verbal update at will be given at this meeting
16. The Minimum Funding Guarantee (MFG) continues at -1.5% and there are no plans to dis-apply these regulations. LAs will continue to have the flexibility to cap and scale gains of individual schools to make the formula affordable.
17. As noted at the last meeting we are not proposing any change to the formula. The unit rates will be agreed at the January meeting following the settlement and consideration of headroom priorities and affordability

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