

**Agenda Item
8**



Report Status

For information/note
For consultation & views
For decision

Report to Haringey Schools Forum – 11 July 2019

Report Title: Dedicated Schools Budget Strategy 2019-20

Author:

Paul Durrant
Head of Finance & Business Partnering
Email: Paul.durrant@haringey.gov.uk

Kristian Bugnosen
Principal Accountant (DSG)
Telephone: 020 8489 4491
Email: Kristian.bugnosen@haringey.gov.uk

Muhammad Ali
Interim DSG Accountant
Telephone: 020 8489 4491
Email: Muhammad.Ali@haringey.gov.uk

Purpose:

1. To inform members of the Dedicated Schools Grant (DSG) budget strategy for 2019-20.
2. To note the financial review of DSG for 2018-19 and 2019-20 forecast.
3. To note the schools closing balance as at 31 March 2019.
4. To inform members of the need for DSG recovery plan.

Recommendations:

1. Business Rates refund reallocation to schools 2019/20

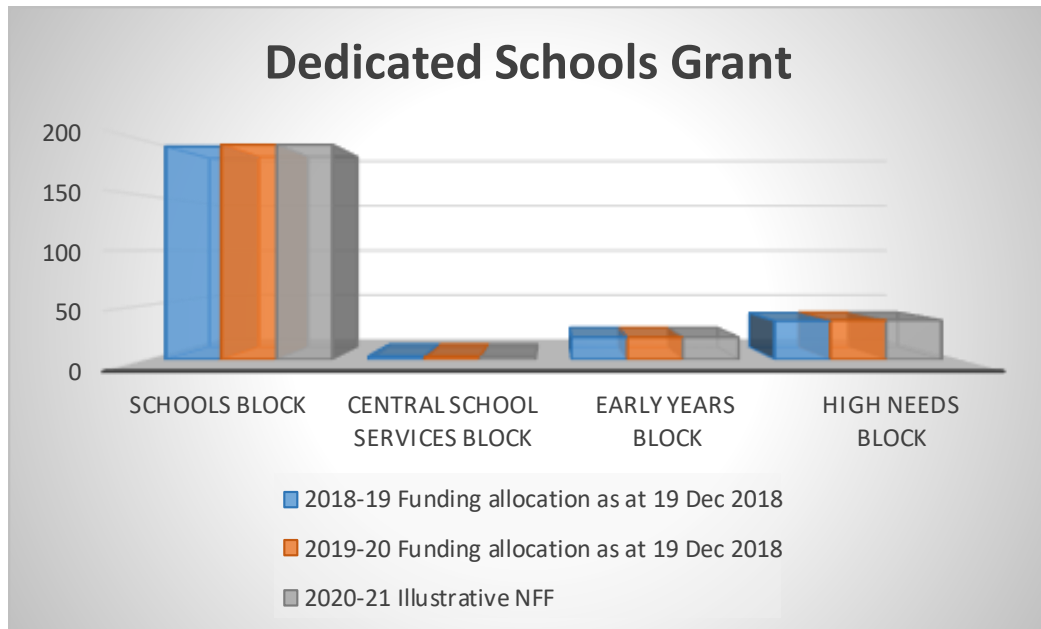
1 Introduction.

- 1.1 In July 2017, DfE announced the introduction of the national funding formula (NFF) which was supported by additional investment in 2018-19 and 2019-20. The additional funding over the last two years, has enabled the council to maintain per-pupil spending on the schools and high needs blocks.
- 1.2 The paper sets out summary of DSG analysis of four blocks' financial position for the financial year 2018-19 and the strategy for the financial year 2019-20
- 1.3 The paper also includes data from the DSG 2019 survey findings from 31 Boroughs by the Society of London Treasurers, which shows the financial position across 31 Boroughs.
- 1.4 The policy document which sets out the background and principles of the new National Funding Formula for schools can be found at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/648532/national_funding_formula_for_schools_and_high_needs-Policy_document.pdf
- 1.5 The DSG is currently divided into four notional blocks:
 - Schools,
 - High Needs,
 - Early Years, and
 - Central School Services Block.
- 1.6 The 'soft' formula was originally planned for 2018-19 and 2019-20 only, with a 'hard' formula, without local input, to be implemented in 2020-21.
- 1.7 The DfE has not committed to the future arrangements, but the expectation is that a 'hard' NFF will be introduced – i.e. without a local formula applied - from 2020-21. (although "soft" formula may continue for another year, subject to DfE confirmation).

2 Analysis of Dedicated Schools Grant Reserves

3.1 Graph A sets out Haringey's Dedicated Schools Grant allocations for 2018-19, the rebased DSG baseline allocation for 2019-20, and the illustrative National Funding Formula for 2020-21.

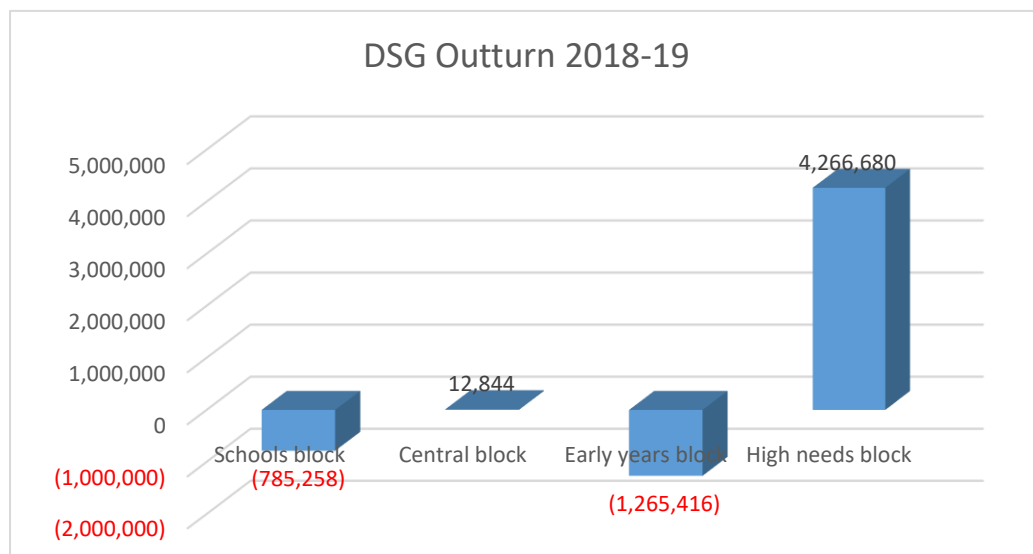


DSG closing position – 31 March 2019.

3.2 Summary

The overall DSG position as at 31 March 2019 is £2.2m deficit. The HNB is the main pressure to the DSG grant and closed at £4.2m deficit. The following graph represents the under and overspend of the different blocks during the year.

It was agreed at school's forum that the carry forward overspend 18-19 in HNB block will be settled from surplus brought forward from the other blocks.

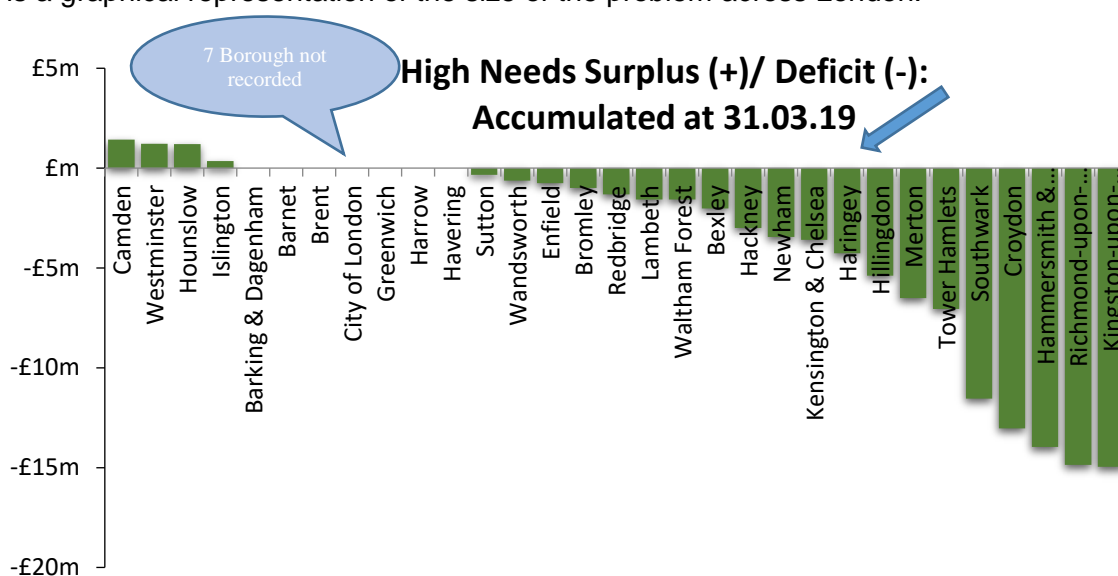


3.3 High Needs Block

The High Needs Block (HNB) overspend for the year is £4.3m due to the way the DSG funded by the ESFA and significant growth in pupil numbers within SEND. A robust budget monitoring process was carried out during the year to monitor costs and various budget options were implemented in the year to mitigate the current deficit. The main pressure areas were special schools and the children in post 16 settings, where there was inadequate funding for the extended age range up to 25 years.

A comprehensive report from the Head of Service is to be presented to the School forum for HNB strategies over the next 3 years.

It should be acknowledged that HNB deficits are a national issue and shown below is a graphical representation of the size of the problem across London.



(Source: DSG survey 2019 by Society of London Treasures)

The DfE are currently consulting with Schools and Local Authorities on the future funding arrangements for the HNB. LA responses are being coordinated into a single response through London Councils.

3.4 Schools Block

This block has a brought forward surplus of £0.8m. The breakdown of surplus is given below:

| Analysis | £(000) |
|------------------------------|---------------|
| B/fwd Reserve 17/18 | £379 |
| Schools in difficulty | £140 |
| Growth Fund | £272 |
| Total | £791 |

Information from schools on bulge classes and growing schools during budget setting process did not materialise to in full resulting in a £272k underspend.

The budget allocated for schools in financial difficulty was not fully utilised due resulting in a £140k to the DSG underspend.

3.5 Early Years Block

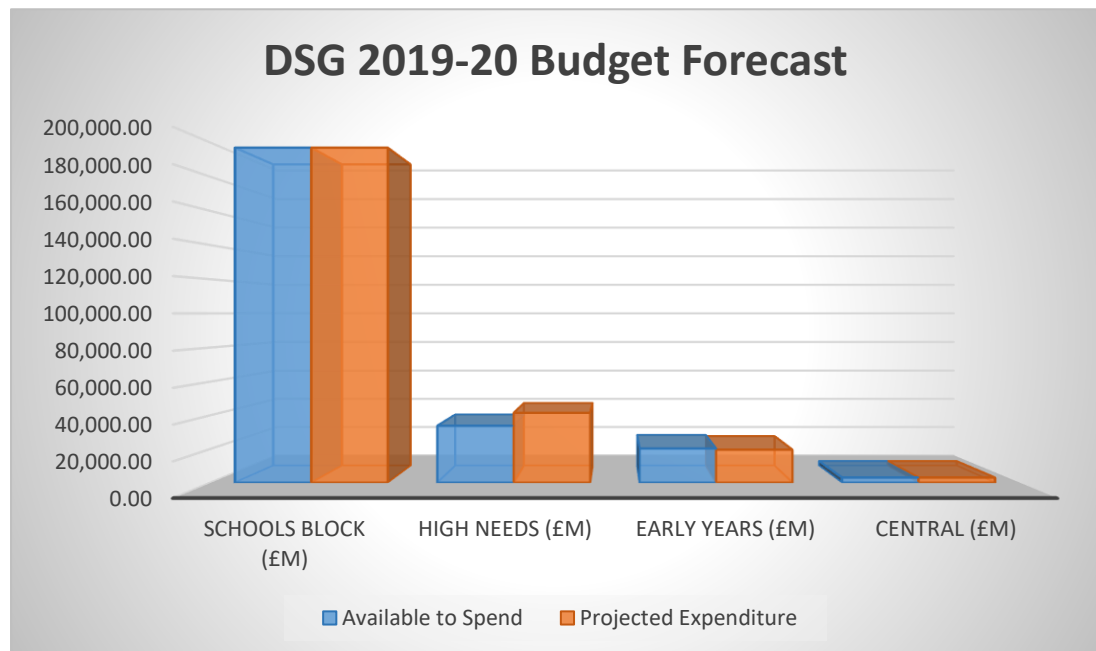
This block has a brought forward reserve of £1.3m.

Haringey’s DSG allocation for Early Years is based on annual January census’. The actual amounts of DSG funding allocated to Early Years provision in schools and PVI (Private, Voluntary and Independent) settings are based on participation numbers, captured via 3 termly headcounts per school year. Schools and PVIs record their early years pupil hours on the Synergy Provider portal maintained by the Council. As the Early Years Funding allocated during 2018/19 was based on actual number of hours delivered during the financial year, overall expenditure did not require a draw down from reserves. Therefore, the outturn position for this block retained a reserve of £1.3m, which has been transferred to High Needs Block.

There is a need to provide closer scrutiny on the expenditure in this block going forward and the Director of Children’s Services has asked for monthly reports to be presented for review.

DSG closing position Forecast – 31 March 2020.

3.6 The predicted DSG forecast financial position for the financial year 2019-20 is a £4.5m-£5.5m deficit. In the last financial year, the HNB was the main material pressure to the DSG. The strategy is been formulated by the Head of SEND to reduce expenditure during the next three years.



| 2019-20 DSG Budget Forecast | Schools Block (£m) | High Needs (£m) | Early years (£m) | Central (£m) | Total (£m) |
|-----------------------------|--------------------|-----------------|------------------|--------------|------------|
| C/Fwd | (785.26) | 4,266.68 | (1,265.42) | 12.84 | 2,228.85 |
| Transfer between blocks | 785.26 | (2,037.84) | 1,265.42 | (12.84) | 0.00 |
| Revised C/Fwd | 0.00 | 2,228.84 | 0.00 | 0.00 | 2,228.85 |

| | | | | | |
|---|-------------------|------------------|------------------|-----------------|-------------------|
| Schools Block DSG funding settlement | 196,969.00 | 36,048.38 | 20,282.00 | 3,026.00 | 256,325.38 |
| Schools Block to High Needs Block (0.25%) | (0.49) | 0.49 | 0.00 | 0.00 | 0.00 |
| Growth Fund | (0.92) | 0.00 | 0.00 | 0.92 | 0.00 |
| Additional SEN funding | 0.00 | 0.63 | 0.00 | 0.00 | 0.63 |
| Total funding available | 196,967.59 | 36,049.50 | 20,282.00 | 3,026.92 | 256,326.00 |
| Available to Spend | 196,967.59 | 33,820.66 | 20,282.00 | 3,026.92 | 254,097.15 |
| Projected Expenditure | 196,967.59 | 41,439.86 | 19,581.63 | 3,026.92 | 261,016.00 |
| Net Position | 0.00 | 7,619.20 | (700.37) | 0.00 | 6,918.85 |
| Medium Term Financial Strategy - HNB | 0.00 | (1,390.00) | 0.00 | 0.00 | (1,390.00) |
| Outturn 19-20 | 0.00 | 6,229.20 | (700.37) | 0.00 | 5,528.85 |

3.7 Forward planning

For 2019-20 the SEND team will concentrate on identifying Children and Young People who can transition into a local setting, supported internships and supported into employment.

Resources are being re-allocated in the SEND team to assist in meeting the demand to turn around reviews. The expectation is this can identify the reduction in key costs by bring out of Borough children within the council existing provision such as The Grove and other existing settings within the Borough. The predicted mitigation via the MTFs is forecasted to be £1.4m.

There is a limited scope of mitigation during the financial year 2019-20 however this strategy would help council to reduce cost over the longer run. The projected deficit for the financial year 2019-20 after the HNB mitigations is £6.2m.

Please refer to School Forum paper for the HNB for more detail.

| | 2019/20 | 2020/21 | 2021/22 |
|---|---------|---------------------------|--------------------|
| 1. Restructure | | | |
| 2. Reduce reliance on external providers | | | |
| 3. Transition of children from independent school places to local Special school places | | | |
| 4. Invest to save | | | |
| 5. Transfer from schools' block (0.25%) | | | |
| 6. Additional ESFA Funding | | | |
| • Mitigation £1,230,000 | - | • Mitigation £1,415,000 - | • Mitigation - TBA |

3.8 Business rates refund re-allocation to schools

The council have received Business Rate refund of £914k in relation to schools for the year 2018-19.

This money is available for redistribution.

We are proposing to bring a paper to a future Schools Forum addressing the most appropriate way to distribute funding.

The table below shows suggested options for distribution of the additional funding.

| 2019-20 | Rates Refund | High Needs | Schools | Central | Total (£) |
|---|--------------|---------------|---------------|---------------|---------------|
| Rates Refund | 914.00 | 0.00 | 0.00 | 0.00 | 914.00 |
| Schools Block to High Needs Block (0.25%) | (490.00) | 490.00 | 0.00 | 0.00 | 0.00 |
| Business Rates Contingency | (250.00) | 0.00 | 0.00 | 250.00 | 0.00 |
| Financial Management Support | (100.00) | 0.00 | 100.00 | 0.00 | 0.00 |
| Un-allocated funds | (74.00) | 0.00 | 74.00 | 0.00 | 0.00 |
| Total funding available | Nil | 490.00 | 174.00 | 250.00 | 914.00 |

An alternative proposal would be to allocate the refunded sum to all schools, using the gross revenue budget DSG budget allocation for 2019/20.

3 Dedicated schools grant (DSG) deficit recovery plans

3.1 The authority is not required to produce a Deficit Recovery Plan for 2018-19 due to the fact collective reserve of all blocks at 31 March 2019 were below the threshold of £2.6m. Despite underspends in the Early Years and Schools Block, the pressures expected by the HNB to fulfil statutory requirements is highly likely to push the deficit over the threshold in 2019-20 and will require a deficit recovery plan, for presentation to the ESFA.

3.2 All local authorities that have a cumulative DSG deficit of 1% or more at the end of a financial year are required to submit a recovery plan outlining how they will bring their deficit position back into balance within a three-year time frame by 30th June in the following financial year.

In this instance 30th June 2020.

3.3 Recovery plans should be discussed with Schools' Forums and be signed off by the local authority's chief financial officer (CFO) before the plans are submitted to the DfE. Therefore, we plan to provide Schools Forum of the recovery plan updates throughout the year.

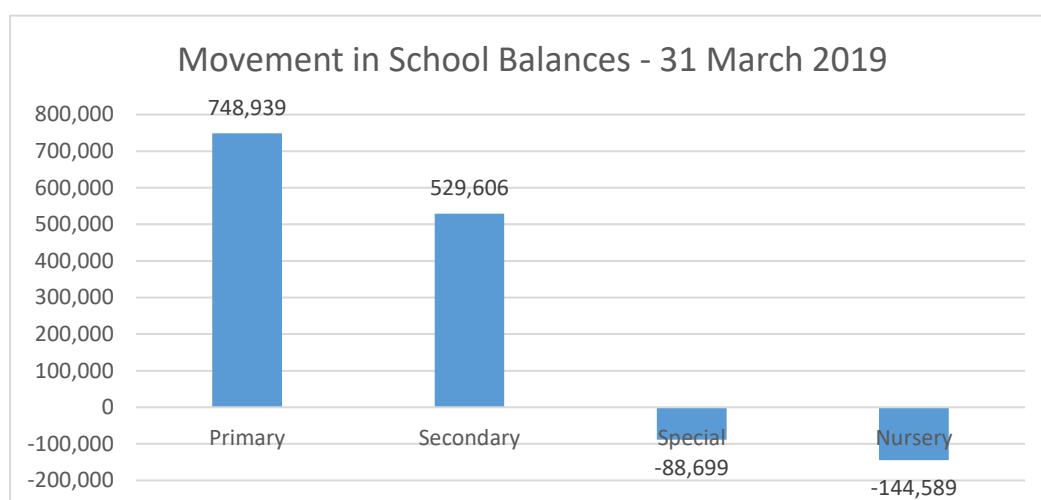
3.4 Key deadlines for the recovery plan is given below which is subject to change by the DfE:

| ACTION | DEADLINE |
|--------|----------|
|--------|----------|

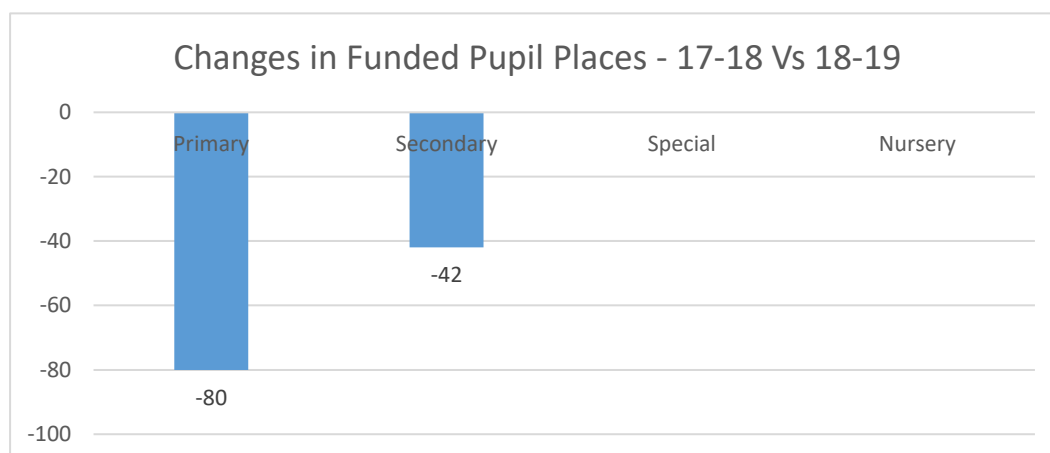
| | |
|--|---------------|
| DEADLINE FOR SUBMISSION OF DSG DEFICIT RECOVERY PLAN | June |
| REVIEW OF DSG DEFICIT RECOVERY PLANS | July – Sep |
| DEADLINE FOR SUBMISSION OF CFO ASSURANCE STATEMENT | Mid-September |

4 Analysis of Schools balances as at 31 March 2019

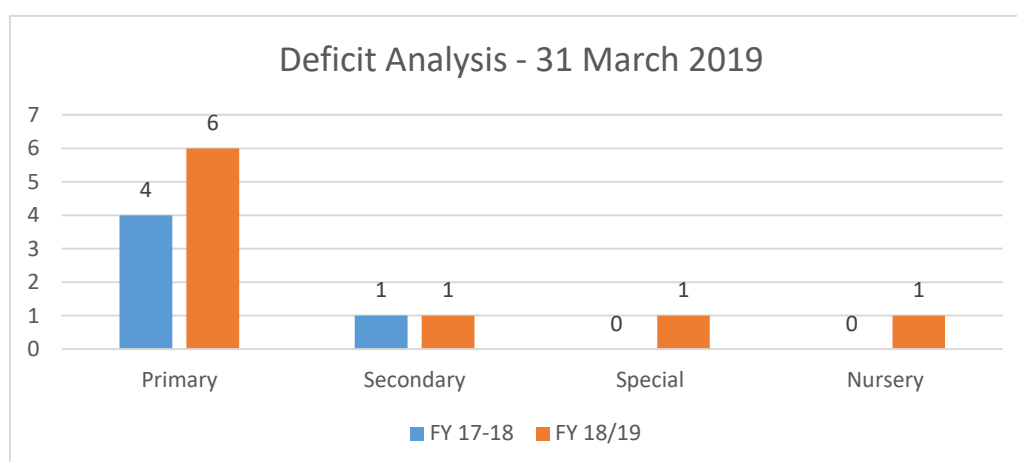
- 4.1 The analysis provides an update on the schools' year end balances as at 31 March 2019.
- 4.2 The following graph represents change in closing balances as compared to last year. Although there is an overall increase in schools reserves at year end, but special and nurseries balance have gone down during the year by £89k and £144k respectively.



- 4.3 Further analysis of each group shows the opening and closing balance for each school and the number of pupils currently on the role. Numbers for specials and nursery schools will be updated in the next school forum report. A sensitivity analyse is required to understand further implications of changes in pupil number over the next 3 years on schools funding and year-end balances.



- 4.4 The following graph shows number of schools in deficit as at 31 March 2019 as compared to last year.
- 4.5 The analysis shows that numbers of schools in deficit have increased as compared to last year.



- 4.6 There is a need for a breakeven analysis for schools within each cohort to understand the cost of delivering a provision. This will help schools to identify minimum pupil numbers required to run a school without going into deficit. A model will then be developed which can be used as a guide for schools' leaders and schools' governors.
- 4.7 Where the school submits a deficit budget, the chair of governors and school headteacher will formally notify the council of their application to apply for a Licensed Deficit. A meeting will be arranged with the schools to review the school's deficit with school required to submit a deficit recovery plan to ensure that measures have been taken to reduce the deficit.
- 4.8 Schools with deficits are recorded on the Council's risk register and discussed as part SIMG meeting to ensure that there is an appropriate level of support being given to school by the council.
- 4.9 Strategy for supporting schools
- Re-design of quarterly financial reports templates
 - School with deficit required to submit a deficit recovery plan
 - Submission of quarterly budget monitoring reports along with full set of accounts
 - Cash flow forecasts
 - Indicative Budget templates and training for schools and governors
 - Supporting schools with financial difficulty
 - Development of a school's finance traded service to support schools in need of financial management support
- 4.10 Where schools are unable to manage their finances by way of a deficit reduction plan with the support and guidance provided, Haringey may be required to exercise its responsibility to intervene and remove financial delegation. This would be considered as a last resort.

However, it is Haringey's intention to provide more proactive approach to schools in providing support and guidance to financial management.

It should be noted that this will require funding to facilitate this support.

4.11 A recent communication from the DfE states that they intend to review the financial reporting for maintained schools, with the key issues below at the forefront of their concerns.

- Issue 1: Making public where local authorities are failing to comply with deadlines for completing assurance returns and financial collections
- Issue 2: Strengthening DSG annual assurance returns
- Issue 3: Maintained schools are not required to provide local authorities with 3-year budget forecasts
- Issue 4: Strengthening Related Party Transaction arrangements in maintained schools
- Issue 5: Maintained Schools internal audit is too infrequent
- Issue 6: Strengthening arrangements to help schools that are in financial difficulty
- Issue 7: There is not enough transparency when it comes to reporting teachers' pay scales

A consultation paper will be issued shortly.

-----END-----