



# Walsall Council

## Walsall Children's Services

**Report to:** Schools Forum

**Date:** 13th March 2012

**Subject:** Central Expenditure Limit (CEL) and Formula

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**Purpose of the report:** The way in which academies still require funding through the Central Expenditure Limit (CEL) automatically triggers a breach in CEL. This report seeks authorisation of this breach. This report also asks for continued support for Music Support Service for 12/13 within the CEL. This report also seeks approval for the costs within combined services within the CEL. This report also proposes changes to formula values in relation to free school meals. This report asks Schools Forum to note how the underspend (surplus) is being used to support the schools budget this year and how this can be perpetuated next year (2013/14).

**Recommendation:**

- i) Schools Forum approves a breach in CEL, as required by statute
- ii) That Schools Forum recommends the continuation of support of the Music Support Service at £38k per year.
- iii) That Schools Forum endorses the change in value of each eligible free school meal in the formula.
- iv) That Schools Forum approve coding to 1.2.8 combined services budget.
- v) That Schools Forum endorse use of the surplus

## **1. Central Expenditure Limit (CEL)**

- 1.1 The Central Expenditure Limit (CEL) is funded by the Dedicated Schools Grant (DSG). What can or cannot be charged to CEL is laid out in the Schools Finance Regulations 2012. Schools Forum has to approve if ever there is a breach in CEL. A breach in CEL is where the CEL increases at a greater percentage than the Individual Schools Budget (ISB) or decreases at a slower rate than ISB
- 1.2 When a school converts to become an academy, the academy receives a proportion of the CEL direct and therefore the local authority sees its DSG decrease. Within the CEL, the DfE has highlighted individual lines of expenditure within the Section 251 statement which academies would receive a proportion of. The DfE then split the total cost on a per pupil basis and then give an allocation to converting schools.
- 1.3 An example of this would be line 1.3.2 Behaviour Support Services. When schools converted to academy status in 2011/12 they received £38.38 per annum per primary school pupil, £35.70 per annum per secondary school pupil and £36.18 per special school pupil. Therefore a secondary school with approximately 1,159 pupils converting on 1 April 2011 would have received £41,375 of funding.
- 1.4 Not all lines within the Section 251 statement are eligible for recoupment. Various parts of the CEL remain the responsibility of the local authority. Areas such as SEN, Pupil Referral Units (PRU's) and Carbon Reduction Commitment (CRC) allowances all stay with the local authority.
- 1.5 The problem this creates is a technical one. When a school converts to academy status, it reduces the total ISB as it takes its budget with it. To avoid a breach in CEL then the school needs to take the equivalent % of CEL. However, as the local authority keeps the responsibility for SEN, CRC etc. then that will not happen and a breach of CEL is caused.
- 1.6 To enable a schools budget to be set a breach in CEL needs to be approved. With significant work on the schools budget still being done, the extent of a breach in percentage terms is still being finalised. If a breach is approved then a final figure will be reported at the next meeting.
- 1.7 It is important to note that the ISB is not decreasing. Schools converting to academy are taking 100% of their ISB but only a % of the CEL relating to those activities which are determined as recoupable by the DfE. Schools will not lose though approving this breach.
- 1.8 For the 2012/13 budget Walsall council has conducted a route and branch review of CEL. This has been to ensure accuracy, to enable effective planning to reduce costs as the level of income reduces, to assess the impact of academy conversion, to take into account the more efficient costs base the council now has and also in light of termination of the contract with Serco.
- 1.9 Comparing like with like, based on indicative pupil numbers and allowing for academy recoupment the CEL has decreased in actual terms by over c£1m.

## **2. Central Expenditure Limit 2011/12**

- 2.1 As highlighted in section 1 of this report, Walsall Council has significantly lower CEL expenditure budget in 2012/13 than in 2011/12. However, a lot of these changes have already been implemented in 2011/12. As a result of this Walsall Council is forecasting an underspend of c£1.4m on CEL in 2011/12.
- 2.2 The Sneyd balances of c£900k are in addition to this. This will therefore create a one off windfall of £2.3m in 2012/13.

## **3. Use of CEL surplus, Sneyd Balances and Free Schools Meals**

- 3.1 The ISB will face particular pressures this year as a further 3,000 children are now eligible for free school meals (FSM). By applying the same rates as 2011/12 there will be a pressure of c£1.5m with no additional funds to meet it.
- 3.2 The reduced spend on CEL as highlighted in section 1 will create c£1m to support that some of that pressure
- 3.3 Using a proportion of the Sneyd balances and surplus on CEL in 2011/12 will allow that pressure to be managed fully. However this will create potential problems in 2013/14. By using this one off funding in the ISB it will become part of the baseline budget, if this happens then meeting the terms of the Minimum Funding Guarantee (MFG) of 98.5% could be a risk in 2013/14. If a substantial number of schools end up in a situation of being at MFG then this could see potential real cuts to services. If there are more schools at MFG then it is also very unlikely that the funding inequalities that Walsall Schools Forum recently wrote to DfE about would be addressed in the short term future.
- 3.4 The proposal being put to Schools Forum would be to use £1m of the surplus and balances to support CEL in 2012/13. This would in turn release an extra £1m into the ISB on a permanent basis. Walsall Council believes on current indications that through the termination of the Serco contract and the new relationship with schools a further £1m reduction in CEL will be possible in 2013/14. Therefore, releasing this extra £1m into the Schools Budget can be supported in 13/14 and beyond (subject to central government national funding changes).
- 3.5 It is proposed that a further £1m of balances and surplus is released into the schools budget in 2012/13. This could create MFG pressures in 2013/14 but £1m is less than 1% of the schools budget so this could be handled based on current MFG guidelines.
- 3.6 Within the ISB in 2011/12 there was £2.278m as a free school meal factor in 2011/12. With potential increase in eligibility and increase in take up, it is proposed to push further funding through this formula factor. As the rate is based on eligibility, it is proposed to increase rates by 10% to ensure that schools have sufficient funds to cover increased take up.
- 3.7 A 10% rate increase would increase funding to £2.506m per annum. If it was then assumed that there was a 30% increase in eligibility this would increase total cost to £3.258m. An overall increase of £979k on 2011/12.

3.8 The summary of this position is that allowing for £1.5m of deprivation factor pressures from 3000 extra FSM eligible children and a further £979k required to fund FSM allowances in the formula there will be a £2.5m pressure on schools budgets.

3.9 If schools wish to see deprivation factor rates stay the same and a 10% increase in FSM rates to allow for increased take up then this will cost c£2.5m.

3.10 This can be funded by an equivalent reduction to CEL of at least £2m which can be supported in 2013/14 and a further £1m of using Sneyd balances and surplus. This puts an extra c£500k into the schools budget for 2012/13.

3.11 This would leave c£300k of surplus unallocated. This surplus could be used to support any pressures in 2013/14. Alternately this can also be released into the ISB in 2012/13.

#### **4. Music Support Service**

4.1 As part of the Emergency Budget of 2010, the Music Support Service asked the Schools Forum for support. At the meeting of 28 September 2010 the Schools Forum resolved:

**“Resolved** (Unanimously) That financial support from the central element of the schools budget for 2010-11 and 2011-12 (up to 31<sup>st</sup> March, 2012) be approved.

4.2 The Music Support Service would look for this support to continue for the 2012/13 financial year. The costs relating to that £38k are still continuing but are being reviewed annually. The reduction in CEL assumes that the £38k is still being funded.

4.3 Further information can be provided by Mike Parrott and Neil Johnson

#### **5. Disabilities Assessment service**

5.1 As part of phase one of the education transition programme the disabilities assessment service will be returned to the council from 1 April 2012. Under the Serco contract a proportion of this service was charged to DSG due to its links with education.

5.2 Initial work on the service returning has indicated that Walsall council believe that about 30% of the service is relevant to education, this is less than was believed in 2008 at the onset of the contract. This is one of the factors that has contributed towards the decrease in CEL. The service has always been charged to line 1.2.1 of the Section 251 statement Provision for pupils with SEN (including assigned resources). For 2012/13 Walsall council would consider a better place to code this would be to 1.2.8 Contribution to Combined Budgets. Any items coded to 1.2.8 Contribution to Combined Budgets need approval from Schools Forum and this report is requesting

5.3 Walsall Council will know more about this service once it has been with the council for 6 months and therefore a further report will be brought to Schools Forum in the autumn. If 30% is an inappropriate % then budgets will be adjusted at that time.

## 6. Questions

Q. What happens if Schools Forum does not approve a breach in CEL?

A. If Schools Forum does not approve a breach in CEL then either the Local Authority will have to ask the DfE to adjudicate or cuts will need to be applied to the CEL. The areas that have not been reduced are areas where there is no academy recoupment such as SEN, CRC etc. The legislation is designed to prevent local authorities protecting centrally funded services and reducing school budgets. There is nothing actually reducing schools budgets here, it is the impact of academies going and the local authority being left with responsibilities and funding which is causing the breach

Q. Will schools be worse off by approving this breach?

A. No. No funding is being taken from schools. The money in CEL is already there and has been 'left' there because that is the way the DfE want it to work

Q. In simple terms why has CEL been breached?

A. For 2011/12 the CEL was £15,968,758. However, only £2,363,669 was subject to recoupment. Therefore, when an academy goes it takes 100% of its ISB and a proportion of £2,363,669, not a proportion of £15,968,758. This 'breach' is all about proportionality.

Q. How can you prove CEL expenditure is good value?

A. Based on last year there was a CEL of £15,968,758. When a school turned academy then it would take a proportion of CEL with it, this process is known as recoupment. Only £2,363,669 of the CEL is open to recoupment. Therefore even if ALL schools had become academy then the local authority would have had a CEL of £13,605,089 to support central activities. Although significant numbers of Walsall children are now educated at academies, over 50% would still be in maintained schools and therefore a CEL of £14,786,924 would seem appropriate based on 2011/12. The current estimate for the CEL after recoupment is c£13,455,925, this demonstrates over a £1m reduction.

Q. Why do we not just put the full £2.3m surplus into ISB?

A. In effect if schools support the recommendations below then that will happen with the only difference being whether it is £2m with some held back just in case or the full £2.3m

Q. Why is Walsall Council putting Music Support Services and Disability assessment to combined budgets?

A. Combined budgets are there for activities where there is both an educational use which is chargeable to DSG and a non-educational use which is charged to other budgets. Where it is coded does not impact the service but by appearing on this line it has to be approved by Schools Forum and is therefore transparent about what is being spent. This way Schools Forum see more.

## 7. Recommendations

7.1 Schools Forum approve a breach in the Central Expenditure Limit (CEL) for 2012/13. Further information around the breach to be produced at future meetings. (If recommendation 7.3 is also approved there may not in fact be a breach).

7.2 Schools Forum note the surplus on 2011/12 CEL and the significantly reduced budget for 2012/13 CEL

7.3 Schools Forum endorse use of £1m of surplus from Sneyd balances and CEL 2011/12 surplus to support CEL in 2012/13 (reduces the figure)

7.4 **A** Schools Forum endorse use of £1m of surplus to support ISB in 2012/13

**OR**

**B** Schools Forum endorse use of £1.3m of surplus to support ISB in 2012/13

7.5 Schools Forum endorse a 10% increase in FSM eligibility rate within the formula for 2012/13.

7.6 Schools Forum approve the support to the Music Support Service to be extended for the financial year 2012/13 and will request further information from Mike Parrott if required.

7.7 Schools Forum approve £152,584 of CEL on line 1.2.8 Contribution to Combined Budgets and note that a further report will be produced in the autumn



2012/13

Activity Change	Generating	Does this make schools better or is it a pressure in 2012/13?	Value ( ) = worse off	One off or ongoing?	Other comments
An underspend in the CEL for financial year 11/12		Better off	£1.4m	One off	This is created by lots of different underspends, even after academies have taken their recoupment.
A decreased CEL for 12/13		Better off	£1m	Ongoing	This figure might be more, calculation is still being done. A lower CEL means there are more funds to go directly into the schools budget
Balances from Sneyd		Better off	£900k	One off	These are the reserves that Sneyd closed with
Increase of 3000 FSM eligible children for 2012/13 budget		Pressure	(£1.5m)	Ongoing	With 3000 more children registered to be eligible for FSM this will create a pressure of c£1.5m on deprivation factors in the formula
Increase in FSM take up and eligibility		Pressure	(£1m)	Ongoing	By assuming that FSM take up will increase and more children eligible more funding needs to be put into this area of the formula to ensure there is sufficient funding.
Total		Better off	£800k*	One Off	This shows that the benefits and the pressures when added up show that all pressures are covered, that deprivation funding rates will stay the same and there will be an increase in FSM rates of 10% and there will be an increase to distribute amongst schools of £800k. This can be achieved by accepting recommendations 7.1, 7.2, 7.3, 7.4B, 7.5, 7.6 and 7.7.





2013/14

Activity Generating Change	Does this make schools better or is it a pressure in 2013/14?	Value ( ) = worse off	One off or ongoing?	Other Comments
Opening Balance from 2012/13	This shows that based on 11/12 the £800k will still be benefiting schools	£800k		This is taken straight from the total of the previous table
Removal of Sneyd Balances benefit	This was a one off sum in 12/13 and therefore won't benefit schools in 13/14	(£900k)	One off	This is just taking out the one off benefit from the previous year
Removal of CEL surplus	This was a one off sum in 12/13 and therefore won't benefit schools in 13/14	(£1.4m)	One off	This is just taking out the one off benefit from the previous year
Further reduction in CEL anticipated from Serco termination	This would make schools better off,	£1m	Ongoing	This is a further benefit to schools from termination of the Serco contract
Total	Pressure	(£500k)*	Ongoing	Unless further reductions in CEL can be found or central government supply extra funding then schools budgets will decrease slightly next year

\*If schools accept Recommendation 7.4A rather than B, then the total in 2012/13 would be **£500k** and the total in 2013/13 **(200k)**. This recommendation smoothes the effects more than 7.4B