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**SCHOOL FINANCE**

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**SUMMARY REPORT**

**Purpose of the Report**

1. The purpose of this report is to provide Members with an overview of the Scheme for Financing Schools and the formula which provides each school with its budget share. The report also discusses the role of the Schools Forum.

**Summary**

2. The concept of Local Management of Schools was introduced to a number of pilot schools in 1988. The methodology proved successful and popular and it is now accepted that Headteachers and Governors will determine how the budget shares for their schools are spent. The concept of Fair Funding was introduced following the return of Grant Maintained schools to local authority control in 1997 and legislation was changed accordingly.
3. Every Authority has a *Scheme of Financing Schools*. The scheme is approved by the Schools Forum (a body with decision-making powers, composed of Headteachers, Governors, Diocesan representatives and representatives of the post16 and early years sectors). The scheme sets out in detail the ground-rules Headteachers and Governors have to use when managing funds. The scheme includes the checks and balances that will be applied by the Authority properly to audit funds, and to take action if financial management is found to be inadequate.
4. The formula is the distribution mechanism for funds. Most of the formula is pupil-led, based on Age Weighted Pupil Units (AWPUs). A smaller proportion of the formula is premises driven, with amounts calculated on the numbers of square metres contained in the school building, or the area of the school site.

**Recommendation**

5. It is recommended that Members receive the report for information.

**Murray Rose,**  
**Director of Children's Services**

**Background Papers**

Scheme of Financing Schools (2007)

George McQueen : Extension 2847

S17 Crime and Disorder	There are no issues arising from this report directly related to Crime & Disorder
Health and Well Being	There are no issues arising from this report directly related to Health & Well Being
Sustainability	The report outlined the need for schools to plan on a 3 year horizon and to have management systems in place to maintain sustainable and predictable budgets
Diversity	The Scheme for Financing Schools and the Formula distribute resources to schools so that they can meet the needs of the communities they serve, including those from ethnic minorities and those with special or additional needs.
Wards Affected	All wards in Darlington
Groups Affected	Children aged 3-18
Budget and Policy Framework	Schools are funded in accordance with the provisions of the School Standards & Framework Act (1998)
Efficiency	The Dedicated Schools Grant must be pass-ported directly to schools, where Governors hold the responsibility for its efficient deployment, for the benefit of the pupils on roll.
Key Decision	No
Urgent Decision	No
One Darlington: Perfectly Placed	The subject matter in this report is consistent with the Aspiring Darlington theme in the Sustainable Community Strategy: delivering high quality education, providing early intervention and creating an environment where children can enjoy and achieve.

## MAIN REPORT

### Information and Analysis

#### 6. Scheme for Financing Schools

By virtue of Sections 45 – 53 of the School Standards & Framework Act (1998) every Authority must draw up a Scheme for Financing Schools. The Authority must also determine the size of the local schools budget, though the size of this budget cannot be less than the Dedicated Schools Grant (DSG), which is calculated for the Authority by the DCSF. The responsibility for the spending of the funds is delegated to the Governing Bodies of individual schools. Currently the Learning and Skills Council determines budget shares for pupils aged 16-18 for schools with sixth forms. The Scheme for Financing Schools covers revenue funding. Schools Capital is subject to a different financial framework.

#### 7. Dedicated Schools Grant

The DSG is divided into expenditure delegated to schools and a centrally retained element. The Central Expenditure covers the cost of provision of specialist services, services for pupils with special educational needs, ranging from centrally managed specialist teams, to the cost of external residential placements. Authorities also maintain a small contingency in their Central Expenditure to cope with unexpected changes to pupil numbers. Local Authorities are responsible for determining the split of the grant between centrally retained items and the Individual Schools Budget (ISB) in conjunction with the local schools Forum. There can not be an increase in Central Expenditure greater than an increase to the ISB without the Schools Forum's consent.

#### 8. The Formula – Pupil Driven Funding

School budgets are calculated by formula. This ensures that the funds delegated to schools match the scope of the work schools have to carry out to meet the needs of their pupil populations. The formula is not a mechanism for generating money, it is a method of distributing the resources made available to the Authority through the DSG in a fair and transparent manner. The main element of the formula is based on the AWPU. Resources delegated through this element of the formula allow schools to cover the curricular and pastoral needs of their pupils. The number of pupils on roll at the time of the January census determines how many AWPU the school will receive in its budget for the following financial year. The unit values attached for each AWPU for the 2009/10 year is as described in Table 1.

Year Group	£
Nursery /Reception	2595
Key Stage 1	1990
Key Stage 2	1990
Key Stage 3	2880
Year 10	3422
Year 11	3629

The basic AWPU allocation reflects the higher staff/pupil ratios used for very young children and the smaller groups necessary when children are approaching GCSEs in Key Stage 4. The formula also delivers an amount of resource, based on pupil numbers, for Personalization, looked after children and for pupils receiving free school meals. Using a

combination of free school meal data, coupled with prior attainment scores and information from the Income Deprivation Affecting Children Index, further funding is allocated to meet the additional needs some children will experience with learning. Schools also receive delegated funding to make arrangements for the efficient education of pupils who have 'high incidence/low level' special educational needs.

#### **9. The Formula – Non-Pupil Elements**

Non-Pupil Driven parts of the formula relate mainly to the upkeep of school premises. Schools receive an allocation per square metre for the area of their buildings and another allocation for the upkeep of their grounds. Lump sum payments are made for special features, for example the presence of a swimming pool on the site. The variation in rateable values makes it impossible to deliver resources by formula, so actual costs are provided to school to meet their rates bills.

#### **10. Minimum Funding Guarantee**

DCSF regulations include a minimum funding guarantee (MFG), the function of which is to prevent schools experiencing significant fluctuations in their year on year budgets. The MFG ensures that no school will have a budget reduction of more than 2.1%. It is sensible to have such a mechanism in place but the MFG does prevent the rapid re-distribution of funds that follow policy change. For example, the movement of funding to schools on the basis of deprivation has been phased over three years, so that schools can manage tapering funds.

#### **11. Consistent Financial Reporting**

All schools must use the Consistent Financial Reporting framework. When accounts are kept in the same way it facilitates benchmarking and comparison. The budget plans and the out-turn statements of spend are recorded in the Authority's Section 52 Statement. The DCSF publishes the Section 52 statements from each Authority on its website. The Section 52 Statement for Darlington contains the budget share for each school (S52 table 2) and the formula and unit values (S52 table 4). A copy of Section 52 table 2 for Darlington is **attached** to this report as an appendix.

#### **12. Budget Setting and Balances**

Schools must present the Authority with an agreed budget for the financial year by 1 May. They must provide indicative budgets for two further years. This enables the Authority to monitor the financial management of schools and to provide advice and support where required. Schools are not allowed to set deficit budgets. If a school faces a shortfall, the Governors must seek a Licenced Deficit from the Authority. A costed recovery plan must be presented along with the request, showing how the school will return to a balanced budget situation, within two financial years.

The DCSF introduced revisions to the Scheme of Financing Schools to ensure that no primary schools held balances of more than 8% and no secondary schools held balances of more than 5%. Members have previously received reports on School Balances at this committee. The claw back mechanism has not had to be used in Darlington as school balances are within the recommended levels, or in line with legislation, reserved as 'properly assigned sums' for planned projects at schools.

#### **13. Financial Management Standard in Schools**

The Financial Management Standard in Schools (FMSiS) is a national standard, showing

that Headteachers, Governors and schools administrative staff know the financial management systems they need to have in place in order to disburse public money in an efficient, transparent and responsible way. Secondary Schools were required to achieve FMSiS accreditation by the end of the 2006 financial year, with other schools phased in over the next two years. Work is in hand with the last three Darlington schools in the programme and they are expected to achieve the standard by March 2010.

Governor Training has also been provided on the FMSiS and Governors have been encouraged to become more actively involved in financial planning for their schools. Currently the Authority is working up a scheme for benchmarking, which will assist Headteachers and Governors to compare and contrast their strategies with other schools in the area.

If a school fails to achieve the FMSiS and maintain the standard, or if the Governors do not set a balanced budget, the Authority may issue a Notice of Concern to the Governors, outlining action to be taken and a timescale for that action. It has not been necessary to issue a Notice of Concern to any Darlington school.

#### 14. **The Schools Forum**

The Schools Forum is composed of Headteachers and Governors from nursery, primary secondary and special schools; representatives of the Diocese; and observers from the Learning and Skills Council and the Academy. The Schools Forum carries representation from learners across the borough up to the age of 19. The Scheme of Financing Schools must be agreed by the Schools Forum. The Forum has decision making powers over:-

- (a) Changes to the Central Expenditure Limit
- (b) Prudential Borrowing
- (c) Premature Retirement and Redundancy Costs
- (d) SEN transport
- (e) Combined Budgets (Every Child Matters agenda)
- (f) Schools' contingency funding

The Forum may be consulted on other matters, such as the distribution of grant funding or plans for Capital spending. The Forum meets at least three times a year, though additional meetings are usually required when the Council has set its budget and the likely level of the DSG is known.

The Schools Forum in Darlington is effective and challenging. Through dialogue with the Forum it has been possible to undertake work which has significantly improved provision for pupils with behavioural difficulties and has contributed to the reduction in exclusion rates in the Borough.