

SCHOOLS FORUM TECHNICAL GUIDE

CENTRAL EXPENDITURE – CONTROLS AND LIMITS

Introduction

1. This note provides members of Schools Forums with information on the resources that a local authority retains centrally. Specifically it is designed to:
 - a. provide an overview of how the resources for pupil provision are distributed between schools and those retained centrally;
 - b. explain the conditions and limits that national regulations place on local authorities in relation to their central expenditure;
 - c. outline the role of Schools Forums in approving variations to these national regulations; and
 - d. offer information, advice and guidance to Schools Forums where they are asked to consider a proposal from their local authority to vary the limits and conditions placed on the central expenditure by regulations.

Resources for pupil provision

2. The majority of pupils of compulsory school age receive their education in maintained schools. In addition to the provision of such education, schools are also the main provider, within the school context, of any additional support their pupils may require, whether that is in the form of support for pupils' learning or behaviour needs or for the more general pastoral care schools are responsible for. Resources provided to schools through the local funding formula of their local authority are designed to reflect these responsibilities: beyond the basic entitlement funding allocated on a per pupil basis (the Age Weighted Pupil Unit or AWPU), schools receive additional funding to reflect the needs of their pupils relative to the pupil population throughout all the schools in their local authority.
3. Not all pupil provision, however, is delivered directly by schools. Local authorities also make provision for pupils: this can be in the form of direct provision (Pupil Referral Unit and hospital school provision for example); by the purchase of specialist provision from non-maintained schools for pupils with severe and complex special educational needs; or through the provision of peripatetic advisory and support services for pupils in maintained schools (for example through learning and/or behaviour support services or more specialist services such as for children with sensory difficulties, with Autistic Spectrum Disorders or children who are looked after by the local authority).
4. The total amount of resource available in any one year for all the pupil provision referred to in paragraphs 2 and 3 above is met from a local authority's Schools Budget. Local authorities must use all of their Dedicated Schools Grant (DSG) in their Schools Budget. Local authorities can add to their Schools Budget from local resources if they choose to, but there is no

requirement for them to do so and the use of any resource they do add is purely a local matter.

5. For the purposes of clarity, when referring to the various parts of the school funding 'architecture', a number of specific terms are used: as already mentioned, the total amount of resource for school and pupil provision in any one year is referred to as the Schools Budget; the funding retained centrally from the Schools Budget by the local authority to support the kinds of activities and meet the costs referred to in paragraph 3 above is the central expenditure; the balance of funding left in the Schools Budget is referred to as the Individual Schools Budget (ISB) and this is the total amount of resource that is delegated to individual schools in the form of school budget shares. It is important that members of Schools Forums are familiar with these terms as they represent the technical language of school funding and are vital in understanding the issues that this note will go on to discuss.

6. It is also worth mentioning at this point that the strategic functions of a local authority in relation to the provision of education (school organisation, school improvement and intervention, home to schools transport etc) along with non-school provision (Youth Service and Adult Education provision) are funded from the LEA Budget and are part of the local government settlement process. These functions are not supported by the Dedicated Schools Grant and therefore do not concern us in this particular guidance note.

The new arrangements

7. Since April 2006 local authorities have been required to provide schools with multi-year budgets. In order to do this each local authority has been required to set:

- a. its Schools Budget for each year of the multi-year period;
- b. the split between the central expenditure and the ISB; and
- c. the formula used in each year of the period to distribute the ISB to schools in the form of budget shares.

8. In general the amount of funding that is held as central expenditure in each year is decided by the local authority, although funding for certain kinds of costs can only be held centrally with the agreement of the Schools Forum (see paragraph 12).

9. The amount of funding held as central expenditure is the result of both the pattern of local authority spending and the extent to which a Schools Forum has approved funding to be held for other specific purposes outlined in paragraph 8 above. The level of central expenditure and therefore the split in the Schools Budget between it and the ISB will vary from one local authority to another. For instance some local authorities make relatively extensive maintained provision for pupils with special educational needs and are therefore likely to retain less funding centrally for pupils in non-maintained and/or out-of-authority provision. Similarly, local authorities who have delegated high levels of funding (and functions) to schools will have a lower

comparable level of central expenditure than those where there has traditionally been less delegation.

10. Regardless of the balance between the central expenditure and the ISB in different local authorities, national regulations place a number of conditions on the central expenditure both in terms of the purposes for which a local authority can use it for and its relative size.

Restrictions on central expenditure

Purposes of central expenditure

11. The School Finance Regulations specify the kinds of activities a local authority can fund from, and the costs it can occur in, its central expenditure. In summary these are:

- a. funding for pupils with special educational needs that is not delegated to school budget shares – in the main this relates to expenditure on pupils with exceptionally low incidence special educational needs but in some cases also includes funding for statements which has not been delegated to school budgets;
- b. funding for the provision of Pupil Referral Units;
- c. funding for non-maintained early years provision;
- d. miscellaneous school and pupil related expenditure, including school admissions, primary and special school meals where not delegated, licences and subscriptions, some supply cover costs (including ante-natal/maternity, long term sickness and civil and trade union duties)
- e. library services for primary and special schools where they are not delegated to schools; and
- f. revenue funding used to support school capital projects (CERA).

12. In addition to these costs, there are other types of funding that can be retained centrally by the local authority but only on condition that the Schools Forum agrees the amounts held against each item. These are:

- a. school specific contingency for the purposes of making in-year adjustments of school budget shares (for named SEN pupils and rates for instance);
- b. funding for Combined Services;
- c. funding for servicing the costs of a prudential borrowing scheme;
- d. funding for premature retirement and redundancy costs;
- e. SEN Transport costs.

13. The following outlines in more detail the issues relating to these particular areas of expenditure.

14. *School specific contingency*: under the new school funding arrangements local authorities will be required to hold centrally any funding

required to implement redeterminations of school budget shares as provided for by their formula.

15. This would be funding for items in a local authority's formula that are updated throughout the year to reflect, for example, certain types of pupil or teacher movement in the year (named SEN pupils and NQTs etc.) or where the funding for some costs has been based on estimated data at the start of the year pending confirmation of accurate data such as funding for rates. It can also be held for circumstances where Governing Bodies face unreasonable cost pressures during a year that could not have been planned for or were unknown at the start of the year¹.

16. As all of this funding will be devolved to school budget shares Schools Forums should agree precisely the amount of funding that will be held in this heading and understand how that overall figure is made up – i.e. how much is held against SEN pupil change, NQTs etc in relation to each authority's formula. The strong presumption is that, as far as possible, initial or estimated allocations of funding for the kinds of expenditure that will be held within school specific contingency will be included in the budget shares of schools at the start of the year. This would mean that the funding retained in school specific contingency will only need to cover any change to data which would result in increased funding being allocated to schools.

17. *Combined Budgets*: this provision has been added to the regulations to recognise the multi-agency work that local authorities already are or will be undertaking in relation to the Every Child Matters agenda and where that work is of direct benefit to pupils and schools.

18. Specifically, Schools Forums have the power to approve a request from their local authority to retain an amount of funding within their central expenditure to support a multi-agency budget. In doing so Schools Forum must ensure two specific tests are met: an educational benefit test and a proportionality test.

- a. the educational benefit test: Schools Forums should be satisfied that the service being proposed will bring educational benefit to pupils in an authority, whether they are in maintained schools or in other provision (PRUs for instance). Given that such services are likely to be focused on the most vulnerable pupils in a local authority the provision delivered by the service will most likely be of a kind that combines educational, social and/or therapeutic provision. The extent to which the service will provide 'educational benefit' (as opposed to direct provision) will be the first test. If it is considered that the service will deliver

¹ This could include, for example an exceptional influx of pupils into a school that was not known about at the start of the year. Further details on this specific situation can be found in the note the Department has produced on the single pupil count. This can be accessed at: www.teachernet.gov.uk/schoolbudgets200608/

educational benefit, the Schools Forum should then consider the second test of proportionality;

- b. the proportionality test: the Schools Forum must be satisfied that the contribution from the Schools Budget to the service is roughly equivalent to the educational benefit that will be derived. However, they should also understand that within the management of the service some of that contribution may ultimately end up being spent on the more social or therapeutic elements of the service where this is most appropriate in terms of providing overall benefits for the children in question.

19. These two tests provide some degree of flexibility for local authorities and Schools Forums to manage the contributions from the Schools Budget in support of the ECM agenda in a strategic and controlled manner. Monitoring the provision made through a combined service will be an important aspect of the Schools Forum's role. Where insufficient educational benefit for children is being secured in return for the contribution from the Schools Budget, Schools Forums should take the opportunity, at the point at which a local authority proposes further funding for the service, to review the level of contribution or the overall purpose of the service.

20. It is also important to note that local authorities should not count expenditure as falling under Combined Budgets that can be appropriately scored against existing expenditure lines but that may be 'aligned' with funding from other agencies to support pupils – this most obviously includes funding for non-maintained and independent special schools where the Schools Budget is paying for the educational provision for a pupil while any social, residential or medical needs are being met from other budgets.

21. *Prudential borrowing, premature retirement/redundancy and SEN Transport costs:* in the case of these three items Schools Forum can only agree to them being part of the central expenditure in the Schools Budget where the local authority can prove that it has generated at least equivalent savings to the Schools Budget by undertaking this expenditure.

22. So for instance, in the case of Prudential Borrowing costs, a local authority may have undertaken a small scale capital project such as the amalgamation of an infant and junior school into a single primary school. As a result of the amalgamation, savings to the Schools Budget have been generated from making provision for the pupils in a single school rather than making the same provision in two schools. In the absence of other capital funding the local authority, however, may have undertaken the investment via a prudential borrowing scheme. Where this is the case they can, on approval from the Schools Forum, charge the costs of repaying this borrowing to their central expenditure so long as it does not exceed, on an annual basis, the savings generated.

23. Similarly, where a pupil with SEN is placed in a local authority maintained school place who was previously in non-maintained provision

there is very likely to be a saving to the Schools Budget. However, there is also likely to be an increase in the transport costs for that pupil which automatically falls in the LEA Budget (see paragraph 6). Where this is the case, and the annual transport costs do not exceed the annual savings generated, they can be included in the central expenditure, with the approval of the Schools Forum.

24. The third kind of expenditure, premature retirement and redundancy costs, is also subject to this kind of 'revenue savings test'. Where, as a result of a school reorganisation for example there is a saving to the Schools Budget, the costs of any premature retirement and redundancy costs incurred in the reorganisation can be charged to the central expenditure where they are less than the savings generated and the Schools Forum agrees.

25. Schools Forums have the power to agree to the kinds of expenditure being charged against the Schools Budget outlined in paragraphs 12 -24 because they arise from activities that ultimately have a direct benefit to schools, either in terms of providing additional services (a combined service for example), in meeting direct and immediate costs incurred by schools (school specific contingency) or, through local authority investment that releases funding within the Schools Budget (prudential borrowing, premature retirement and redundancy costs and SEN transport).

26. It is important to note, however, that a local authority must seek approval to retain funding in their central expenditure under any of these headings in relation to each financial year.

27. While this section has described the types of expenditure a local authority can hold in its central expenditure they are not required to hold funding for each of the activities and costs described and, where funding is held, it will vary from local authority to local authority. However, it is important to note that they cannot hold funding for activities and costs other than those described in regulations.

Limits on central expenditure

28. In addition to the kinds of activities and costs that can be incurred in the central expenditure of a local authority there is also a limit placed on its size. This limit (known as the central expenditure limit or CEL) operates by restricting the increase in a local authority's centrally retained expenditure from one year to next to the same percentage as the increase in the ISB. So, if from 2005-06 to 2006-07 a local authority's ISB grew by 5% its central expenditure could only grow by a maximum of 5%.

29. While this is a relatively simple mechanism to restrict the increase in the an authority's central expenditure, national regulations specify certain adjustments and exclusions that need to take place in order for the limit to operate on a consistent basis from one year to the next. These are described in detail in the Schools Finance Regulations and a technical note and calculator produced for local authorities.

30. While the regulations impose a limit on the size of a local authority's central expenditure in any one year, local authorities are not required to spend up to this limit. It follows therefore that where a local authority sets its central expenditure below the permitted limit there will be consequentially more resources available to go into the ISB than if the central expenditure was set at the limit.

Benchmarking Tables

31. Benchmarking tables produced by the Department² allow Schools Forums to compare the central expenditure of their local authority with the central expenditure of other local authorities. The funding a local authority incurs under each heading within their central expenditure is shown on these tables as spend per pupil to allow for like-for-like comparisons to be made. The benchmarking tables also provide a range of other information in relation to the central expenditure such as year on year changes and the level of central expenditure in each local authority in relation to the CEL.

The tables can also be sorted into different groupings on the basis of geography, local authority type (Unitary, Upper Tier etc), or statistical neighbours. They provide, therefore, an invaluable reference tool for Schools Forum members when considering any aspect of the balance of funding within the Schools Budget of their local authority and particularly when considering a proposal to increase the limit in relation to the central expenditure. The circumstances under which a local authority may make a proposal to increase the limit on the central expenditure set by regulations is discussed in detail below.

Forum powers

Introduction

32. As the preceding description has shown, there is an important relationship between the amount of funding delegated to schools and the amount of funding retained as central expenditure. As both types of expenditure are supported from the overall Schools Budget the balance of funding between the ISB and the central expenditure should be a key area of debate and discussion in a Schools Forum.

33. In particular, Schools Forums have powers to allow their local authority to increase the amount of central expenditure they are able to hold according to the regulations by approving:

- a. a proposal to set, prior to the beginning of a multi-year budget period, the central expenditure for one or more years in that period at a level above the CEL; and

² <http://www.dfes.gov.uk/localauthorities/subPage.cfm?action=section52.default&ID=73>

- b. once a multi-year period has begun, an increase in the central expenditure for one or more years of that period.

34. In relation to this second power, where such a proposal is made, it may be that the central expenditure, set prior to the start of the multi-year period was at such a level that the increase proposed will not breach the CEL. Nevertheless, Schools Forum approval for this increase must still be sought.

35. It must be emphasised, however, that these approval powers should only be exercised in exceptional circumstances. The school funding arrangements introduced in April 2006 are based on the presumption of giving schools predictability and certainty in their budgets in order to support strategic financial management in schools. Any increase in the central limit or change to the central expenditure once budgets have been announced will undermine the commitment to ensure that as much funding as possible is delegated to schools and that schools can have confidence in the stability of such funding over the life of a multi-year budget.

36. Schools Forums and local authorities should start from the presumption, therefore, that the central limit should not be exceeded, nor the central expenditure increased once it has been set. This places a responsibility on Schools Forums to scrutinise and challenge very carefully any proposal that their local authority does make.

37. Under the new school funding arrangements local authorities are required to set their central expenditure in advance for each year of the multi-year period and will, therefore, need to make an assessment of the pressures they should build into this assessment. It is, therefore, good practice for local authorities to discuss with their Schools Forum their assessment of the central expenditure pressures over the course of a multi-year period, including the assumptions they have made which underpin it.

38. In making this assessment the local authority may find that for one or more of the years of a multi-year period their estimated central expenditure may be above the CEL. Where this is the case they have a number of options:

- a. they can aim to contain the central expenditure within the limit but, where this is not possible, carry forward any over-spend that does arise during a year to the next year's DSG³;
- b. add their own resources to meet the pressure; or, in exceptional cases,
- c. consider making a request to their Schools Forum for an increase in the limit.

39. Before April 2006 any request for an increase in the CEL had to be submitted to the Secretary of State. While the circumstances of each local authority that submitted a request to the Secretary of State were specific to

³ The Department's operational guidance on the DSG provides more detail on where this circumstance may arise

them, there were some pressures that were common to a number of authorities. It should be noted, however, that by themselves such pressures do not automatically lead to a requirement for an increase in the CEL. A request is more likely to result from a combination of pressures.

40. It is very important, therefore, that Schools Forums understand the context within which a local authority is making a request to exceed their CEL or increase their central expenditure. The assessment of any such request is discussed in more detail below. However, there are a number of areas where local authorities have, in the past, identified particular pressures contributing to the need to seek an increase in their CEL.

Special Education Needs

41. As paragraph 11 outlined, local authorities retain in their central expenditure funding for a range of pupils with special educational needs. At the very least this funding will support those small groups of pupils with severe and complex needs who cannot be educated in a local authority's maintained schools. Such pupils are likely to be placed in non-maintained and independent special schools and/or special schools in other local authorities. The costs of supporting these pupils can be very considerable and, while by no means impossible to control, can be unpredictable at times.

Other pupil provision costs

42. Pupil populations in local authorities will change over time. Exclusion rates may rise or fall, as will the number of a broad range of other vulnerable pupils (looked after children, children on the at-risk register etc). To support these vulnerable groups of children local authorities will have a range of support provision in place – PRUs, behaviour support services, looked after children services etc. In the context of a changing pupil population or where the needs of the population may be becoming more complex, pressures may arise on the central expenditure of a local authority. Planning for these pressures at the start of a multi-year period is vital. This will enable a Schools Forum to consider the financial implications of changes to the pattern of provision in advance of the multi-year budget period and, where exceptional pressures are arising from agreed changes to provision, consider in a well informed manner whether there is a case for an increase to the limit.

Changes to the pattern of provision

43. Finally, there are some instances where the general pattern of provision is undergoing a change. This could be for a number of reasons: a planned reorganisation of provision needs some time to 'bed-down'; or a major revision of the funding formula is to be implemented over a number of years.

44. In these kinds of situations, and in advance of a multi-year period beginning, a local authority, in consultation with its Schools Forum may agree that a *temporary* transfer of resources from the ISB (i.e. school budget

shares) to central expenditure would best facilitate the agreed changes. Again there may arise from such a temporary change to the balance of funding a consequential pressure on the CEL.

Technical increases to the limit

45. In addition to the pressures described in the paragraphs above, there are two kinds of funding that, where a local authority, in consultation with their Schools Forum, chooses to hold them centrally, will inevitably place a pressure on the limit. These are threshold and performance pay costs that, before 2006-07, were distributed as a specific grant, and funding for the provision of more practical learning options for 14-16 year olds over and above that funded from school budget shares that, from April 2006, a local authority has chosen to hold centrally.

46. Further guidance is available on both of these types of expenditure however, where there is local agreement that it is appropriate to hold either or both of these costs centrally, the Schools Forum should accept that there will be an increase required in the central expenditure limit. Regulations do not provide for an automatic increase in the limit where these costs are held as, regardless of its technical nature, Schools Forums should understand exactly what additional funding is being held in the central expenditure and agree the precise figures.

47. In all the cases described above the presumption must be that these pressures should be assessed well in advance of the start of a multi-year budget to enable decisions to be taken regarding a CEL increase and to enable schools to have firm budgets which are not subject to change as a result of mid-period reassessment of such pressures.

48. However, there is a possibility that a local authority could identify that the level of central expenditure already set for a particular year of a multi-year period may need to increase. Where this is the case, and for the purposes of stability in school budgets, the local authority should do everything it can to manage this pressure within its existing resources, which may require it to carry forward some degree of over-spend to its next year's DSG.

49. Regulations do allow, though for a local authority to propose an increase in the central expenditure of a year in a multi-year period that has already been set but that has not yet begun. For example, a local authority can ask a Schools Forum to approve an increase in the central expenditure limit for 2007-08 during 2006-07, even though it has been set initially prior to April 2006. Such a proposal, though, should be considered as a last resort and Schools Forums should consider it very carefully before agreeing to it. Any change in the central expenditure is likely to impact on the already announced schools budget shares. Change to such budget shares should be avoided if at all possible.

50. The precise calculation of the limit is set out in regulations and technical guidance and a calculator has been provided. Local authorities can

provide Schools Forum members with this information where required. However, it is important to note that the regulations are written in such a way that require local authorities to keep, as their reference point against which subsequent applications for an increase are made, the underlying limit according to regulations rather than the central expenditure including any increase agreed previously.

Assessing proposals from a local authority

51. As indicated above requests to increase the CEL for a year or years prior to the beginning of a multi-year period will be made in exceptional cases; however, once a Schools Forum has received such a request it will need to consider it carefully in order to reach an informed decision. The following outlines a number of issues which Schools Forums may wish to take into account when considering a request to increase the CEL for any year of a multi-year period.

- a. *Comparator data:* Schools Forums should have a clear understanding of how their local authority's central expenditure compares to that of other similar authorities. As described in paragraph 29 the Department publishes benchmarking tables each year that enable this kind of comparison work to be readily undertaken. Comparatively high levels of spend in the areas where a local authority is requesting an increase should raise different questions from cases where a local authority has a comparatively low spend in relation to other similar authorities. Local authorities are well placed to provide Schools Forums with this kind of benchmarking data as part of any proposal they make and where it is not available Schools Forums should request it.
- b. *Contextual data:* an understanding of the context within which a proposal is being made is vital to good decision making. Dependent on the nature of the proposal, some key questions that members of Schools Forums may wish to ask of a local authority are:
 - i. what are the circumstances that have led to the request;
 - ii. to what extent could/should these circumstances be anticipated and any mitigating action be taken to avoid an increase;
 - iii. what are the consequences of not agreeing to the proposal;
 - iv. what action has the local authority taken to manage the pressures from within the CEL;
 - v. what plans does the local authority have to manage the pressure on an ongoing basis to bring this expenditure back into line?

52. The point here is to ensure that Schools Forum members are able to scrutinise a proposal from their local authority. The questions and issues outlined above may assist members in doing so but there will be other more local issues and ones that are specific to the substance of any request that Schools Forums should also consider.

53. After considering a proposal carefully, the Schools Forum may agree an amount by which it will allow the local authority to exceed its CEL. The amount agreed need not be the amount requested. A Schools Forum has the right to agree a lower amount than proposed if they feel that is appropriate.

54. Alternatively, the Schools Forum may reach the decision that it is not prepared to approve the proposal. In such a case the local authority has the option to (but is not compelled to) ask the Secretary of State for a decision on their proposal. It may also do this if the amount that the Schools Forum has agreed is less than the authority requested and the authority thinks it cannot manage within the resulting limit. Clearly, the view of the Schools Forum will be an important factor that the Secretary of State will take into account in reaching her decision. It is important, therefore, that a Schools Forum is able to state clearly its reasons for not approving the proposal and that any vote that took place on the proposal is correctly recorded.

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