SCHOOLS FORUM

DSG 5 Year financial plan

1 Purpose of the Report

To respond to the request made by the Schools Forum in September to consider the possibility of a loan to the DSG to spread the cost of investment over a longer period of time and further protect schools from reductions in funding.

2 Suggested Action

The Forum is asked to consider the implications in this report and the recommendations made when considering approaches to the 2016-17 budget build.

3 Background

Prior School Forums were presented versions of a 5 year plan looking at the implications from increased provisions required in the Growth Fund to accommodate the development of new schools in the Borough.
At the September School Forum a number of options were presented,

- a balanced DSG in 2016/17 having applied a further reduction in AWPU
- a deficit position with no reduction in AWPU but reduced distributed funds through reduction in Minimum Funding Guarantee (MFG)
- a deficit position with no reduction in AWPU but applying a cap on any school gaining funds.

The two latter options were considered more favourable, but the Forum asked the question whether the implications for increases in the Growth Fund line could be managed over a longer time frame with the introduction of a loan either from the Local Authority or from Schools Balances.
This paper explores the options, considering the objectives, the accounting principles of such a transaction and the impact this could have on an individual school and the DSG as a whole.

4 Objective of a loan

To protect schools from reduced funding to cover the costs of introducing new schools which operate with diseconomies of scale over a number of years.

A loan to the DSG would put additional funds into the DSG offsetting the possibility of the DSG going into deficit, but would have no bearing on Schools unless funding to schools were increased. The only way to increase funds to schools on an equitable basis would be for an increase in AWPU, the Lump Sum is at a maximum and therefore cannot be increased further. All other funding mechanisms vary between schools and therefore would not distribute funds equitably.

5 Accounting principles

On the basis the loan would be to cover the impact from new schools, we need to consider the impact a new school has on the DSG.

There are 3 elements to the Growth Fund, these are delays in pupils numbers on the Census data for expanding reception classes, diseconomies of scale and pre-opening project costs for new schools.
The loan is to cover the period costs effect the DSG for a new school, taking each element highlighted above in turn;

- Delays in Census data, the impact is for 2 terms only, therefore the loan would need to be paid back the following year having no impact on protecting Schools.
- Diseconomies of scale are expected to apply for a Secondary School over a 5 year period and a Primary School over 6 to 7 years, therefore a loan should be paid off over these periods, as outside of the periods there is no call on the DSG for funding.
- Pre-opening project costs are mainly staffing costs associated with planning, recruitment & advertising the school, aimed at planning for the early years and filling the school until such time the schools is financially viable. Therefore any loan would expect to be paid off over a 5 to 7 year period.

The breakdown of the Growth fund for 2016/17 between the 3 elements highlighted above is as follows;

New & expanding schools	2016/17 Provision	Census delays	Diseconomies	Project Costs
Windmill	70,500	47,495	23,005	
Wheatfield	76,500	47,495	29,005	
Charvil	178,352	47,495	130,857	
Montague Park	145,963	47,495	45,005	53,463
Spencers wood	36,868			36,868
Earley - Expansion	47,495	47,495	-	
Colleton - Expansion	39,579	39,579	-	
Hawkedon - Expansion	83,908	83,908	-	
Shinfield Infants/ Juniors - Expansion	47,495	47,495	-	
Grazeley - Expansion	23,748	23,748	-	
Expansion provision	47,495	47,495	-	
Arborfield	450,767		397,305	53,463
Total growth provision	**1,248,670**	**479,700**	**625,177**	**143,794**

The above table shows £768k of costs across Diseconomies of scale and project costs that might be considered to be offset by a loan, repayable over a 5 or 7 year period.

6 Impact on schools;

As highlighted above, the only way for Schools to benefit from an introduction of a loan to the DSG would be through an increase in AWPU.

This would impact schools in a number of ways dependent on the current status of the School and any protection of MFG.

In simple terms, if the introduction of loan was to result in a 1.5% increase in AWPU, it would have the following effects;

- A school with no current MFG protection might see an increase in year on year funding of 1.5%
- A school with MFG of 1.5% would see no reduction in funding, as the increase in AWPU would offset the MFG.
- A school with MFG of 3% or higher would still see a reduction of funding in 2016/17 to the same extent as previously proposed. The benefit would only be realised in the following years once the MFG has fully depleted.

The above distribution does not appear to achieve the objective of introducing a loan.

The below table shows an analysis of the levels of MFG and the number of schools that would be fall into the above categories.

7 Long term implications on the DSG

If a proposed increase in AWPU were to be introduced, this would result in a further distribution of funds increasing the current in year deficit, working against the vision of achieving an in year break even position. This would inevitably lead to a reduction in AWPU required in the near future.

A loan to the DSG only increases the reserves as a one off, any increase in AWPU would be ongoing soon depleting any additional funds resulting from the loan. The reality is this could protect some schools in the short term, but recognising the need for equivalent reductions in AWPU in following years.

As highlighted above the loan would need to be repaid over the period to which the introduction of a new school has impacted on the DSG, therefore 5-7 years dependent upon whether Secondary or Primary. The Borough has expansion plans over the coming 15 years, therefore it seems reasonable one loan would be replaced by another equivalent loan. The loan would only ever then become repayable once expansion in the Borough came to an end and other factors for growth in pupils started to settle, such as migration of families and birth rates.
This raises the question as to when a loan would be repaid, this could possibly be 20 years from now. Whether this is something viably possible for School balances, more likely to be an option for the Local Authority.

The table below shows the impact from introducing a loan and increasing AWPU's;

DSG 5 year financial plan	**2014/15 Actual £k**	**2015/16 Forecast £k**	**2016/17 Year 1 £k**	**2017/18 Year 2 £k**	**2018/19 Year 3 £k**	**2019/20 Year 4 £k**	**2020/21 Year 5 £k**
Total income	**101,029**	**101,884**	**104,002**	**106,835**	**109,055**	**110,036**	**111,230**
Outgoings							
Schools allocations	72,493	74,152	75,705	77,531	79,507	81,314	83,152
Total Outgoings	**101,655**	**102,398**	**104,897**	**106,430**	**107,988**	**109,919**	**111,647**
Loan			769				
Net in year (Surplus) / Deficit	**626**	**514**	**126**	**(405)**	**(1,068)**	**(116)**	**417**
C/fwd (Surplus) / Deficit Balance	(982)	(468)	(342)	(747)	(1,815)	(1,931)	(1,514)
Impact from increased AWPU of 1% estimated at £450k included in schools allocations			150	200	100		

8 Executive Summary

The report highlights the original objectives of protecting schools funding is not achieved through a loan agreement.

Increasing AWPU's only makes the current in year deficit worse and would result in steeper cuts in future years.

Not all schools will benefit from an increase in AWPU.

The loan period might raise question marks over the security of any loan, also whether it is a viable proposition for Schools to make such a loan

As the loan does not provide benefits to all schools in 2016/17, and possibly those schools who need it more, whether an opportunity exists of loaning to individual schools rather than to the DSG may be a more viable targeted option.

Whether a loan to an individual school could be made from another School's balances as well as from the LA.

9 Recommendation

No increase in AWPU is applied for 2016/17 as this is unaffordable and wouldn't benefit all schools.
On the recommendation of no uplift in AWPU, the only benefit from a loan would be to put the DSG balance into surplus, however given the agreement from the S151 Officer for a deficit budget the recommendation is no loan to be made.
To consider the possibility of targeted loans for individual schools should the necessity arise.

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