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SCHOOLS BUDGET STRATEGY 2015-16

Report of the Director of Children's Services

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1. Purpose

- 1.1 To give a preliminary outline of the issues relating to the 2015-16 Schools Budget.

2. Summary

- 2.1 This paper assesses the resource from Dedicated Schools Grant that will be available in 2015-16. It then reviews the estimated pressures in the Schools Budget and outlines approaches to funding these.

3. Recommendations

- 3.1 Forum is asked:
- To comment on the list of budget pressures and savings.
 - To give an initial view of the budget options for 2015-16 outlined in this paper, including the proposed use of DSG carry forward.

4. Background

- 4.1 The final government funding announcements for 2015-16 have not yet been made. However, much information is already available on the level of Dedicated Schools Grant (DSG) funding, including the grant rate per pupil for the Schools block. This enables initial projections of DSG for 2015-16 to be prepared. This paper initially reviews the estimated DSG resources available and then considers the budget pressures.

5. Dedicated Schools Grant (DSG)

5.1 2015-16 DSG

The estimate of 2015-16 DSG is as follows:

	£m
Schools Block 157305 pupils @ £4392 per pupil =	690.868
Schools Block adjustment re carbon allowances	(1.181)
Schools Block adjustment re Free Schools	7.500
Schools Block adjustment re NQTs	0.235
Early Years Block 11763 FTE pupils @ £4596 per pupil=	54.064
EY Block adjustment re 2 year olds	8.700
High Needs Block	94.748
Total	854.934

The figures include the funding for academies and for post 16 places in special schools.

Particular points to note in connection with the 2015-16 DSG are:

- The Schools Block rate per pupil has increased to £4392 (from £4320 in 2014-15) as a result of the national minimum funding level (MFL) exercise. This provides an extra £11.3m based on the estimated 2015-16 pupil numbers.
- The DSG will include funding for free schools in 2015-16.
- The DSG allocation for 2 year olds in 2015-16 will be based on actual take up, instead of a DfE estimate of the number of eligible pupils, which was used to determine the DSG for 2014-15. A significant number of eligible 2 year olds are not expected to take up their full entitlement and therefore the DSG estimate has been reduced from the 2014-15 figure.

5.2 Carry Forward of DSG

As reported in the paper on the final DSG for 2014-15, the amount of DSG carried forward at 31/3/14 was £26.701m. Some of this carry forward amount is being used during 2014-15 and the amount available for use in 2015-16 is £16.037m.

Further additions to the carry forward are provided by the under-spend on central budgets during 2014-15 and any additional 2014-15 DSG carried forward to 2015-16. Thus the total estimated carry forward available for 2015-16 is as follows:

	£m
Remaining balance of 2013-14 carry forward	16.037
2014-15 underspend identified so far:	
-Underspend from Quarter 1 monitor, (excluding DSG changes and items related to the budget adjustments in the Final 2014-15 DSG and Updated Schools Budget paper)	1.561
-Estimated underspend on 2 year olds	3.900
Retrospective early years DSG to carry forward to 2015-16	1.327
Total	22.825

- 5.3 In deploying the carry forward it will be necessary, as in previous years, to be mindful of the operation of the Minimum Funding Guarantee (MFG) in future years. If the one off carry forward is used to increase budget shares in 2015-16, the MFG will to an extent protect this higher level of funding in future years. However, once the carry forward is used Hertfordshire will not have the resource to sustain this funding level. Thus it will be necessary to exercise some caution in the use of the carry forward.

6. Additional Responsibilities (Funded)

- 6.1 The estimated DSG for 2015-16 outlined above includes resources for additional responsibilities:

	£000	Paragraph
Demography	7374	6.2
Free Schools	7500	6.3
Total	14874	

6.2 Demography

This constitutes the impact of increases in pupil numbers on AWPUs and other pupil led funding in the schools and early years budget shares. The pupil numbers used in the calculation will be updated when the autumn term 2014 census data is available.

The cost of funding demographic increases is less than the additional DSG, which will be received as a result of the growth in pupil numbers. This is largely because the demographic growth is occurring in the primary sector where the additional funding (including AEN factors) is approximately £3100 per pupil. This compares to an increase in the Schools Block DSG of £4392 per pupil. (The DSG funding per pupil is based on an average across both primary and secondary and including Schools Block central budgets.)

6.3 Free Schools

The funding for free schools is currently completely outside the DSG. The DfE has decided to incorporate free schools into the DSG from 2015-16 and there will be an increase in DSG to reflect this. This increase will be based on October 2014 pupil numbers in free schools and the unit funding rates from Hertfordshire's 2014-15 funding formula.

7. Budget Pressures 2015-16

- 7.1 The budget pressures so far identified are shown in the table below, with explanations of each item. There are several major budget pressures in 2015-16.

	£000	Paragraph
Inflation on pay and prices	10245	7.2
September 2015 cohort in free schools	1000	7.3
Teachers' Pension Scheme	4032	7.4
Primary schools with falling rolls in areas of future demographic growth	180	7.5
Total	15457	

7.2 Inflation

The inflation assumptions made are the same as for the rest of the County Council's budget and comprise a general 1% increase in pay and prices. In addition there is an extra 0.5% increase in the budget for local government staff (in respect of a differential uplift for the lowest paid) and specific inflation rates for building maintenance and utilities.

7.3 September 2015 cohort in free schools

Although the DfE is increasing DSG to reflect the transfer of responsibility for funding free schools, the extra DSG will not take account of the additional cohort starting in free schools in September 2015. The Authority will, however, have to fund this cohort and this constitutes a budget pressure.

7.4 Teachers' Pension Scheme

The rate of employers' oncost in respect of the Teachers' Pension Scheme will increase from 14.1% to 16.4% from September 2015. The budget pressure shown represents the part year effect of this pressure, covering the period September 2015 to March 2016. (The same unit funding rates, which will apply for maintained schools for the 2015-16 financial year, will be applied to academies by the EFA for the 2015-16 academic year. Academies will therefore have to meet the full year cost of the teachers' pension increase from the 2015-16 funding rates.)

- 7.5 Primary Schools with falling rolls in areas of future demographic growth. The School Funding Consultation for 2015-16 includes the proposal to establish a fund for schools in this situation.

8. Savings

8.1 The savings, which have been identified, are outlined below:

	£000	Paragraph
2 year olds – central budgets	457	8.2
2 year olds – provision	1655	8.3
Total	2112	

8.2 Two year olds- central budgets

As the roll-out of the two year old provision reaches completion there are expected to be savings in the budgets for capacity building and qualifications.

8.3 Two year olds- provision

Due to eligible children not taking up their full entitlement of hours, there is expected to be a saving in the budget for 2 year olds provision.

9. Feedback from survey

9.1 The School Funding Consultation for 2015-16 included a survey of the financial pressures being experienced by schools, to inform the budget process. The detail of the responses to the survey is covered in another paper on this agenda. Themes coming out of the survey include the following:

- Schools are experiencing a range of budget pressures additional to those listed above. (Further work would need to be done to cost these.)
- The highest ranked pressure (excluding pay, pension and national insurance increases) is increments/high cost staff.
- Also ranked highly were the impacts of budget share formula changes over the last two years and, for secondary schools, sixth form funding reductions.

This raises the challenge of how far it is possible to respond to these issues through the budget process.

10. Risks and uncertainties

10.1 There are a number of uncertainties in respect of the 2015-16 budget at this stage, in particular:

- The DSG announcement about the 2015-16 Early Years and High Needs DSG blocks.
- The DfE response to a Minimum Funding Guarantee exception request in respect of all through schools and falling rolls protection,
- The pupil data from the October (schools) and January (early years) censuses.

11. 2016-17 and Later Years

- 11.1 No funding announcements have been made regarding funding levels beyond 2015-16. The budget situation for schools in 2016-17 will be significantly influenced by the gap between the change in the level of DSG between years as compared to increases in staff costs and prices.
- 11.2 Assuming flat cash in respect of the 2016-17 DSG, the only additional resource will be the DSG funding for the increase in pupil numbers between 2015-16 and 2016-17. As indicated above, the per pupil increase in DSG is greater than the average per pupil increase in budget shares, providing some additional resource. However, this gap is expected to reduce in 2016-17 as the increase in pupil numbers reaches the secondary sector, where AWPU rates are higher than primary.

Thus a tentative summary of the main elements of the 2016-17 budget is as follows:

Additional resource

- | | |
|--|-----|
| - surplus from DSG for additional pupils | £2m |
|--|-----|

Additional costs

- | | |
|--|------|
| - pay and prices (assuming 1% increase) | £9m |
| - full year effect of teachers' pension increase | £3m |
| - ending of national insurance rebate | £11m |
| Total | £23m |

Shortfall	£21m
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12. Budget Strategy for 2015-16

- 12.1 The Authority allocated £9.5m of carry forward to support the Schools Budget in 2014-15, in order to fund pressures relating to inflation in pay and prices and higher employers contributions to local government staff pensions. The extra DSG provided through the MFL exercise enables this funding to be continued but does not provide sufficient resource to fund the 2015-16 pressures as well. It is therefore proposed to use a further allocation of carry forward DSG to support the Schools Budget in 2015-16. In deciding how much carry forward to commit the following issues need to be considered:

12.1.1 Retaining an adequate contingency

Data has been collected from neighbouring authorities on the level of DSG carry forward held and this is shown in Annex A. Carry forwards vary but are generally at least 1% of gross DSG (i.e. the DSG before the deduction of academies funding). In Hertfordshire 1% of DSG would equate to approximately £8m.

12.1.2 Locking one off funding from the carry forward into future years budget shares

The Authority has previously approached the DfE to explore the possibility of excluding any one off funding (from the DSG carry forward), from the MFG baseline. This is to prevent one off funding being locked into future years' budget shares by the MFG. However, the DfE would give no commitment on

this and therefore the budget strategy has to be based on the assumption that one off funding will form part of the MFG baseline for future years.

- 12.2 For a number of years the MFG level has been 1.5% less than the general funding level (i.e. it has been -1.5% per pupil as against a general funding level of flat cash). Were this to continue in 2016-17 then it implies that the MFG would permit budget shares to drop by approximately £11m between 2015-16 and 2016-17. However, this gap between the MFG and the general funding level may be reduced by significant changes in pupil numbers at certain schools attracting disproportionate MFG protection. MFG applies not only to mainstream schools but also to special schools and to early years settings. In effect it sets a ceiling on the level of reductions that can be made in the schools budget, other than in centrally-held items.
- 12.3 Given these issues and the general uncertainty around DSG funding for 2016-17 due to the General Election, it is not considered prudent to use more than half (or approximately £11m) of the carry forward in 2015-16. This would fund the pressures identified in section 7 and leave some resource to fund items identified by the survey.
- 12.4 Two potential approaches for the use of the carry forward are now outlined.

- 12.4.1 Option A – Use the carry forward to fund pressures across all sectors. This would repeat the approach adopted in 2014-15 and use the DSG carry forward to fund the 2015-16 budget pressures. On this strategy the overall budget position is as follows:

	£m
Schools Budget 2014-15 including academies and post 16 places in special schools (as per Section 251 statement)	837.491
Less use of carry forwards re LSUs, special schools DSPL funding and EY full time places	(1.223)
Additional Responsibilities (section 6)	14.874
Pressures (section 7)	15.457
Savings	(2.112)
Estimated Schools Budget 2015-16	864.487
 Estimated DSG 2015-16	 854.934
Use of carry forward DSG in 2014-15	9.553
Total estimated DSG	864.487
 Estimated carry forward DSG for items identified in survey	 1.447
 Estimated carry forward DSG remaining	 11.825

The figures include the funding for academies and the per place funding for post 16 high needs in special schools.

- 12.4.2 Option B Targeted Strategy

It would be possible to use more of the carry forward in a targeted way than is proposed in Option A, to boost funding for particular sectors or schools in particular circumstances. However, this would require a process for prioritisation.

13. Additional Grants

13.1 The overall resources available to schools include funding from the Pupil Premium and EFA sixth form grant.

13.2 Pupil Premium

A new Early Years Pupil Premium will be introduced in 2015-16.

13.3 Sixth Form Grant

This funding will continue to reduce in 2015-16 as the transitional protection element of the funding is discontinued.

14. Capital Expenditure from Revenue

14.1 The delegation of the remainder of the revenue budget for capital maintenance in 2015-16 will provide additional resource to primary schools. Although in the longer term schools will need to save up towards maintenance projects, in the short term some schools could use this resource flexibly.

15. Conclusion

15.1 There will be a further discussion of the Schools Budget at the November Forum meeting. Forum is asked to agree the recommendations in section 3 of this paper.

Annex A

Dedicated Schools Grant Carry Forwards

2012-2013			
Authority	DSG Carry Forward (£000)	DSG Before Academy Recoupment (£000)	Carry Forward as Percentage of DSG
Redbridge	966	238529	0.40%
Barking and Dagenham	654	195189	0.34%
Hampshire	17482	821315	2.13%
East Sussex	1976	321049	0.62%
West Sussex	7354	497285	1.48%
Surrey	13776	695265	1.98%
Oxfordshire	8898	398949	2.23%
Enfield	4907	277837	1.77%
Cambridgeshire	2370	370756	0.64%
Kent	16488	975887	1.69%
Essex	5845	939748	0.62%
Buckinghamshire	11948	349584	3.42%
Norfolk	4133	515204	0.80%
Suffolk	6643	445619	1.49%
Milton Keynes	3780	200525	1.89%

2013-2014			
Authority	DSG Carry Forward (£000)	DSG Before Academy Recoupment (£000)	Carry Forward as Percentage of DSG
Redbridge	2799	250341	1.12%
Barking and Dagenham	1748	216802	0.81%
West Sussex	12840	510611	2.51%
Surrey	6858	717291	0.96%
Oxfordshire	11895	412849	2.88%
Enfield	7100	291000	2.44%
Cambridgeshire	4359	379549	1.15%
Kent	12468	1012884	1.23%
Buckinghamshire	7808	359109	2.17%
Norfolk	9315	526026	1.77%
Suffolk	8369	447844	1.87%
Milton Keynes	2709	208182	1.30%