

INITIAL REPORT ON SCHOOLS BUDGET STRATEGY 2016-17

Report of the Director of Children Schools and Families

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1. Purpose

- 1.1 To give a preliminary outline of the issues relating to the 2016-17 Schools Budget.

2. Summary

- 2.1 This paper assesses the resource from Dedicated Schools Grant that will be available in 2016-17. It then reviews the estimated pressures in the Schools Budget and the gap between these and the resources available.

3. Recommendations

- 3.1 Forum is asked:
- (a) To note the list of budget pressures and savings.
 - (b) To endorse the use of £10m of the DSG carry forward to support the Schools Budget in 2016-17.
 - (c) To support the approach of planning the high needs element of the Schools Budget at the level of the High Needs block of DSG.
 - (d) To note that there will be a more detailed discussion at the November Forum meeting on the budget decisions required following from the agreement of the principles in (b) and (c).
 - (e) To agree that the schools budget proforma submitted to the DfE should include no proposal for “gains capping”.
- 3.2 Only schools, Academies and PVI providers’ representatives may vote on item (e)

4. Background

- 4.1 The final government funding announcements for 2016-17 have not yet been made. However, much information is already available about 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 2016-17 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 2016-17 DSG

The estimate of 2016-17 DSG is as follows:

		£m
Schools Block	161,661 pupils @ £4397 per pupil =	710.853
Early Years Block		
3 and 4 year olds	11552 FTE pupils @ £4596 per pupil=	53.097
2 year olds	1208 FTE pupils @ £4978 per pupil=	6.013
EY Pupil Premium		0.703
High Needs Block		<u>96.107</u>
Total		866.773

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

Particular points to note in connection with the 2016-17 DSG are:

- **Schools block:** the per pupil unit of funding will remain at the 2015-16 level in 2016-17, adjusted to incorporate free schools into the unit funding rate. There will thus be no funding for inflation or other cost pressures, such as the increase in employer national insurance contributions.

Also there will be no adjustment to DSG for the growth in free school numbers from September 2016. This will have to be funded within the overall total.

- **High Needs block:** authorities have been told by the DfE to assume at this stage that the high needs block will continue in 2016-17 at the same cash total as in 2015-16. The high needs block will thus not increase to reflect overall demographic growth or other budget pressures.
- **Early Years block:** no announcement has yet been made about the per pupil funding level in the EY block in 2016-17. The budget figures in this paper assume that it will continue at the 2015-16 level. The estimated DSG for 2 year olds has been based on the actual number of FTE pupils in provision.

5.2 Carry Forward of DSG

- 5.1 As reported in the paper on the final DSG for 2015-16, the amount of DSG carried forward at 31/3/15 was £27.057m. Some of this carry forward amount

is being used during 2015-16 and the amount available for use in 2016-17 is £16.765m.

- 5.2 Further additions to the carry forward are provided by the under-spend on central budgets during 2015-16 and any additional 2015-16 DSG carried forward to 2015-16. Thus the total estimated carry forward available for 2016-17 is as follows:

	£m
Remaining balance of 2014-15 carry forward	16.765
2015-16 underspend identified so far: -Underspend from Quarter 1 monitor, (excluding DSG changes)	2.637
Additional 2015-16 DSG to carry forward to 2016-17	0.017
Total	19.419

- 5.3 In deploying the estimated carry forward of approximately £20m, it will be necessary to be mindful of the operation of the Minimum Funding Guarantee (MFG) in future years and the risk of locking one off funding into the MFG baseline. Once the carry forward is used Hertfordshire will not have the resource to sustain this higher funding level.

6. Additional Responsibilities (Funded)

- 6.1 The estimated DSG for 2016-17 outlined above reflects changes in pupil numbers for schools and early years and resources for additional responsibilities:

	£000	Paragraph
Demography in Primary, Secondary and Early Years	8,321	6.2
Adjustment for high needs places commissioned by other authorities	130	6.3
Total	8,451	

6.2 Demography

This constitutes the impact of increases in pupil numbers on AWPU 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 2015 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 because the demographic growth is still mainly occurring in the primary sector where the average additional funding (including AEN factors) is approximately £3200 per pupil. This compares to an increase in the Schools Block DSG of £4397 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 High needs places commissioned by other authorities

A technical change by the DfE means that authorities have to fund post 16 high needs places and all places in non-maintained special schools according to the location of the school, rather than according to the home area of the pupil occupying the place. This results in a net extra cost which is funded by an equivalent increase in high needs DSG.

7. Budget Pressures 2016-17

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 2016-17. Further work will be done to refine the costs of each pressure.

	£000	Paragraph
Inflation on pay and prices	8,679	7.2
National Living Wage	400	7.3
Teachers' Pension Scheme (full year effect)	3,000	7.4
National Insurance – ending of contracted out rebate	11,000	7.5
Rates	200	7.6
Demography – high needs	1,600	7.7
Growth Fund	200	7.8
Growth in existing free schools	1,336	7.9
New schools	300	7.10
Falling Rolls Fund	300	7.11
AP Free Schools	50	7.12
Minimum Funding Guarantee	1,300	7.13
Total	28,365	

7.2 Inflation

This is based on a 1% increase in pay and prices.

7.3 National Living Wage (NLW)

The Government has announced significant increases in the Minimum Wage, starting with a rise to £7.20 per hour on 1st April 2016. The pressure shown is the estimated cost of increasing salaries for directly employed staff. Further work is underway to look at potential additional costs resulting from amendments to salary scales to keep grade differentiation, and from increasing costs of providers being passed on.

Whilst the cost impact of the move to the NLW on most suppliers is unknown, the largest impact on schools is likely to be felt via the cost to Herts Catering (HCL) and other meals providers. HCL will be reporting to Forum early next year on likely changes in meal prices, but it is expected that there will be above-inflation cost increases through to 2019/20. A related point is that, if Universal Free Infant meals continue, it would seem unlikely that the DfE will increase the reimbursement rate of £2.30 per meal. Thus the burden of cost inflation will fall directly on schools

- 7.4 Teachers' Pension Scheme**
The rate of employers' oncost in respect of the Teachers' Pension Scheme has increased from 14.1% to 16.48% from September 2015. The budget pressure shown represents the full year effect of this pressure, covering the period April to August 2016.
- 7.5 National Insurance – ending of contracted out rebate**
The lower national insurance contribution rates for staff in employers' pension schemes, such as the teachers and local government pension schemes, will cease from April 2016.
- 7.6 Rates**
There is an estimated increase in rates costs due to school expansions.
- 7.7 Demography- high needs**
This has been calculated by multiplying the total high needs budget by the percentage demographic increase in primary and secondary. (The high needs DSG block is not expected to be increased to reflect demographic growth.)
- 7.8 Growth Fund**
There is expected to be an increase in the cost of the Growth Fund, due to the ongoing impact of the school expansions programme.
- 7.9 Growth in existing free schools**
The 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.
- 7.10 New schools**
It is possible that the new school on the Bishops Stortford North development will open during 2016-17. The Authority will need to fund its part year budget share in 2016-17 together with start-up costs.
- 7.11 Falling Rolls Fund**
A DfE requirement is that one of the eligibility criteria for the Fund is that a school has to be classified by Ofsted as Good or Outstanding. It is projected that several small secondary schools which are currently in the Requires Improvement category, but which otherwise qualify for the Fund, will move to Good. Elsewhere on this agenda is also a proposal to remove the current cap on payments to schools, which is not reflected in these figures.
- 7.12 AP Free Schools**
The Authority is now required to pay the DfE for any places in AP Free Schools outside Hertfordshire, which are occupied by Hertfordshire pupils.
- 7.13 Minimum Funding Guarantee (MFG)**
There is expected to be an increase of £0.5m in the amount of MFG recouped from the Authority in respect of Samuel Ryder academy. In addition it is estimated that there will be a general increase of approximately £0.5m in the level of MFG protection resulting from the changes in additional needs data (such as free school meal numbers) between years. In previous years such a general increase in MFG has been offset by a reduction in MFG protection due to the annual increase in unit funding rates in school budget

shares. However, in 2016-17 there is not expected to be any increase in unit funding rates.

The final element of this pressure is a £0.3m cost from the discontinuation of capping. The Forum considered capping in detail in April and indicated that it is minded to support ending the capping of gaining schools in 2016-17, given the relatively small amount involved. It is proposed to include the removal of gains capping within the schools budget proforma submission to DfE at the end of this month. It should be noted that, although a pressure of £0.3m is shown in the table above, the actual benefit from capping would depend on the extent to which schools experienced a cash growth in budgets and on the level of the cap.

8. Savings

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

	£000	Paragraph
Amalgamations	110	8.2
2 year olds – provision	2,687	8.3
Independent Placements	2,000	8.4
Total	4,797	

8.2 Amalgamations

There is a saving in lump sum funding in budget shares due to the amalgamation of Peartree Spring Infants and Jjuniors.

8.3 Two year olds- provision

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

8.4 There is an existing underspend in the budget for placements in independent and non- maintained special schools and it is proposed to take this as a saving.

Work is continuing, through the School Budget Pressures exercise, to identify further savings. A report is elsewhere on this agenda.

9. Risks and uncertainties

9.1 There are a number of uncertainties in respect of the 2016-17 budget at this stage, in particular:

- The DSG announcement about the 2016-17 Early Years and High Needs DSG blocks. Both are outside the “flat cash” per pupil guarantee on the schools block.
- The DfE response to the MFG exceptions requested in respect of one off funding and secondary schools becoming all through schools.
- The pupil data from the October (schools) and January (early years) censuses.

10. 2017-18 and Later Years

- 10.1 No funding announcements have been made regarding funding levels beyond 2016-17 and the Government is currently undertaking a Comprehensive Spending Review.

The Government has only committed to a “flat cash” rate of funding per pupil for the schools block so it would appear that future years budget pressures, other than pupil growth, will not be funded. It is unclear if a school level national funding formula will be introduced in 2017-18 or later years. If it is, this could have significant re-distributional effects between local authority areas and between schools.

- 10.2 No commitments have been made in respect of the high needs or early years DSG blocks. It is anticipated that new formulae will be introduced within the next few years to distribute high needs and early years DSG between local authority areas. It is possible that Hertfordshire’s allocations will reduce under a new formula, particularly given that Hertfordshire’s EY block funding per pupil is relatively high.

The demographic increase in pupil numbers is expected to switch to the secondary sector within the next couple of years. As a result the DSG gain from additional pupils, which results from the fact that the rate of DSG per pupil is higher than the average per pupil funding in primary, will cease in due course.

11. Budget Strategy for 2016-17

- 11.1 In view of the resources available it will no longer be possible to fund budget pressures in 2016-17. The Authority allocated £9.4m of carry forward to support the Schools Budget in 2015-16. Given the amount available, it is proposed to use a further allocation of carry forward DSG to support the Schools Budget in 2016-17. In deciding how much carry forward to commit the following issues need to be considered.

Retaining a contingency

A minimum reserve of DSG is necessary for contingency purposes.

Phasing the carry forward support for budget shares out gradually

The Authority was granted a MFG exception in 2015-16 to exclude £3m of carry forward resource, being used on a one off basis, from the MFG. The Authority has applied to continue to exclude this from the MFG in 2016-17 with a view to applying again in 2017-18 to have this resource excluded from the MFG baseline. The purpose of this is to facilitate the phasing out of carry forward support for budget shares after 2016-17.

However, it is important to note that the DfE will give no commitments on MFG exceptions for future years and therefore the budget strategy has to be based on the assumption that all one off funding will form part of the MFG baseline for future years.

- 11.3 Given these issues, it is not considered prudent to use more than half (or approximately £10m) of the carry forward in 2016-17. This is similar to the carry forward used in 2015-16.
- 11.4 The table below sets out the overall budget position.

Schools Budget 2016-17	£m
Schools Budget 2015-16 including academies and post 16 places in special schools (as per Section 251 statement)	868.835
Less use of carry forwards re capital maintenance and EY full time places	(0.897)
Less adjustment re post 16 special school places commissioned by other authorities	(0.030)
Additional Responsibilities (section 6)	8.451
Pressures (section 7)	28.365
Savings (section 8)	(4.797)
Estimated Schools Budget 2016-17 before reduction	899.927
Reduction to match DSG available	(23.154)
Estimated Schools Budget 2016-17 after reduction	876.773
Estimated DSG 2016-17	866.773
Use of carry forward DSG in 2016-17	10.000
Total estimated DSG	876.773
Estimated carry forward DSG remaining	9.419

The reduction required to match the budget to the DSG is approximately equivalent to not funding the pressures for inflation, the national living wage, national insurance and teachers' pensions.

12. Conclusion

- 12.1 The budget reduction anticipated to be required of £23m equates to 2.6% of the Schools Budget. This is higher than the 2.3% estimated in the budget paper to the April Forum, due both to slightly lower than estimated DSG (for example no increase in the high needs block) and additional pressures (such as the national living wage).
- 12.2 Two major sets of activity are underway to support schools with this challenging financial situation:
- i) School Budget Savings Programme
 - ii) High Needs Strategy, which includes work to ensure the most effective use of resources within the high needs budget.
- 12.3 There will need to be a further discussion of the Schools Budget at the November Forum meeting when it will be necessary to decide how to deploy the £10m of carry forward. It is suggested that a starting point for this discussion would be sustaining per pupil funding at its existing levels. It will also be necessary to clarify which budget pressures are priorities for funding or are unavoidable, for example to comply with legislation.
- 12.4 As regards Early Years it is suggested that the starting point for discussions will be the general intention to keep early years funding rates largely

unchanged. However, if there is a change in the rate of EY DSG then this approach might not prove tenable.

- 12.5 As regards High Needs, in 2015-16 the total high needs budget closely matches the high needs DSG block. It is intended to seek to continue to keep the high needs budget and DSG blocks in alignment. Savings of £2m can be identified from Independent Placements as set out in Section 8, above. This would allow some pressures within High Needs to be met. However, the High Needs block (based on guidance from DfE) will not necessarily include any element for demographic growth, unlike the mainstream schools and early years blocks.
- 12.6 It is expected that the high needs sub group of the Forum will consider how savings should be recycled within the high needs budget, and a meeting will be convened or used for that purpose.
- 12.7 Forum is asked to agree the recommendations in section 3 of this paper.