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INITIAL REPORT ON SCHOOLS BUDGET STRATEGY 2017-18

Report of the Director of Children Services

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1. Purpose

- 1.1 To give a preliminary outline of the issues relating to the 2017-18 Schools Budget.

2. Summary

- 2.1 This paper assesses the resource from the Dedicated Schools Grant that will be available in 2017-18. 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 £8m of the DSG carry forward to support the schools block budget in 2017-18.
 - (c) To support the approach that the early years and high needs elements of the Schools Budget should be set at the level of the relevant blocks of DSG.
 - (d) To note that there will be a more detailed discussion at the December Forum meeting on the budget decisions required following from the agreement of the principles in (b) and (c).

4. Background

- 4.1 The final government funding announcements for 2017-18 have not yet been made. However, much information is already available about the level of Dedicated Schools Grant (DSG) funding. The grant rate per pupil for the schools block was announced in July and in August the DfE launched a consultation on the introduction of a national funding formula for early years DSG, from 2017-18. This consultation includes illustrative allocations for each local authority. As a result projections of DSG for 2017-18 can be prepared. This paper initially reviews the estimated DSG resources available and then considers the budget pressures.

5. Dedicated Schools Grant (DSG)

5.1 2017-18 DSG

The estimate of 2017-18 DSG is as follows:

	£m
Schools Block	164,680 FTE pupils @ £4,416 per pupil = 727.217
Early Years Block	
3 and 4 year olds	
Universal entitlement	19,128 PTE pupils @ £3067 per pupil = 58.659
Additional hours	3491 PTE pupils @ £3067 per pupil = 10.704
Nursery schools supplementary funding	2.005
2 year olds	2411 PTE pupils @ £3198 per pupil = 7.711
EY Pupil Premium	0.646
High Needs Block	<u>100.504</u>
Total	907.446

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

Particular points to note in connection with the 2017-18 DSG are:

- **Schools block:** in view of the postponement of the introduction of a national funding formula, the per pupil unit of funding will remain at the 2016-17 level, but adjusted to incorporate £2.8m of funding transferred to Hertfordshire's DSG from the retained duties element of the Education Services Grant (ESG). The ESG is being discontinued and the responsibility for retained duties will need to be met from the DSG.
- **High Needs block:** authorities have been told by the DfE to budget at this stage on the basis that the high needs block will continue in 2017-18 at the same cash total as in 2016-17 (adjusted to incorporate a transfer of funding in respect of high needs places in colleges, which amounts to £2.6m for Hertfordshire). College high needs places will now be funded from DSG rather than separately out of a DfE budget.

There is expected to be an uplift to the high needs block in the December DSG announcement but it is not clear how much additional resource this will provide.

- **Early Years block:** There will be considerable change to the early years block.

3 and 4 year olds

The DfE is consulting on the introduction of an early years national funding formula (EYNFF) for the 3 and 4 year olds funding in the early years DSG. The EYNFF will be used to distribute both funding for the 15 hours universal entitlement and funding for the additional entitlement for working parents. The additional entitlement funding in 2017-18 will be for the period September to March (7/12 of the financial year). Authorities with nursery schools, such as Hertfordshire, will receive a supplementary allocation to the EYNFF to reflect the higher cost of nursery schools compared with other early years' provision.

2 year olds

The current formula for allocating 2 year olds DSG is expected to continue in 2017-18, although there will be an uplift to funding rates.

Early Years Pupil Premium

This will continue unchanged.

5.2 Carry Forward of DSG

- 5.3 As reported in the paper on the final DSG for 2016-17, the amount of DSG carried forward at 31/3/16 was £22.013m. Some of this carry forward amount is being used during 2016-17 and the amount available for use in 2017-18 is £11.199m.

- 5.4 Further additions to the carry forward are provided by the under-spend on central budgets during 2016-17 and any additional DSG being received in 2016-17 which will be carried forward to 2017-18. Thus the total estimated carry forward available for 2017-18 is as follows:

	£m
Remaining balance of 2015-16 carry forward	11.199
2016-17 underspend identified so far:	
- Underspend from Quarter 1 monitor £3.935m	4.089
- Less variance on 2 year olds £0.154m	
Retrospective adjustment to early years DSG for 2015-16	0.638
Additional 2016-17 DSG carry forward to 2017-18	0.017
Total	15.943

- 5.5 In deploying the estimated carry forward of approximately £16m, 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 2017-18, outlined above, reflects changes in pupil numbers for schools and early years as well as resources for additional responsibilities:

	£000	Paragraph
Demography in Primary, Secondary and Early Years	8,330	6.2
Retained duties element of ESG	2,798	6.3
High needs places in colleges	2,646	6.4
Additional hours for 3 and 4 year olds	10,704	6.5
Total	24,478	

6.2 Demography

This constitutes the impact of increases in pupil numbers (excluding growth in free school 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 2016 census data is available.

The cost of funding demographic increases continues to be less than the additional DSG, which will be received as a result of the growth in pupil numbers. This is because the majority of the demographic growth is still 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 £4,416 per pupil. (The DSG funding per pupil is based on an average across both primary and secondary, including lump sum funding in budget shares and schools block central budgets.)

6.3 Retained Duties element of Education Services Grant

The ESG is being discontinued in 2017-18. The retained duties element of ESG has provided funding for responsibilities that local authorities have for all schools and academies (such as attendance and some statutory duties). The retained duties element of ESG, and the requirement to deliver the associated responsibilities, is being transferred to DSG.

6.4 High Needs Places in Colleges

The allocation to colleges of £6k per high needs place is currently funded by the DfE separately from the DSG. This resource, along with the responsibility to fund high needs college places, is being transferred to DSG.

6.5 Additional Hours for 3 and 4 year olds

From September 2017 working parents will be entitled to up to 30 hours per week of 3 and 4 year olds provision. This is an increase from the current universal entitlement of 15 hours per week.

Extra funding will be added to the Authority's DSG to reflect the cost of extending this provision.

7. Budget Pressures 2017-18

- 7.1 The budget pressures so far identified are shown in the table below, with explanations of each item. There are several significant budget pressures in 2017-18. Further work will be done to refine the costs of each pressure.

	£000	Paragraph
Inflation on pay and prices	10,000	7.2
National Living Wage	1,000	7.3
Apprenticeship Levy	4,000	7.4
Demography – high needs	1,600	7.5
Growth in existing free schools	1,243	7.6
New free schools	320	7.7
High needs budget funded from ESG	102	7.8
Minimum Funding Guarantee	1,000	7.9
Total	19,265	

7.2 Inflation on Pay and Prices

This is based on an estimated 1% increase in pay and 1.5% increase in prices.

7.3 National Living Wage (NLW)

This is the estimated cost of the uplift in the national living wage in 2017-18.

7.4 Apprenticeship Levy

The estimated cost shown assumes that all types of maintained school and academy will be subject to the levy. It does not take account of any income that may be received from the scheme.

7.5 Demography- high needs

This has been calculated by multiplying the total high needs budget by the percentage demographic increase in primary and secondary pupil numbers.

7.6 Growth in existing free schools

The DSG will not take account of the additional cohort starting in free schools in September 2017. The Authority will, however, have to fund this cohort and this constitutes a budget pressure.

7.7 New free schools

Two new free schools have opened in September 2016. From 2017-18 these will be funded via DSG. This pressure constitutes the lump sum allocations for these two schools.

7.8 High needs budgets funded from ESG

The Communications and Autism and Physical and Sensory Impairment teams are funded from the high needs block. However, a small element of costs relating to these teams has historically been charged to budgets funded from ESG. To address this anomaly, these costs will be switched to the high needs block.

7.9 **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.

8. **Savings**

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

	£000	Paragraph
Rates	1,100	8.2
Historical Commitments Budgets	537	8.3
Early Years Pupil Premium	175	8.4
Closing schools	200	8.5
Reduction in special unit places	66	8.6
Total	2,078	

8.2 **Rates**

There is a saving in rates funding in budget shares due to the conversion of schools from community to foundation or academy status.

8.3 **Historical Commitments Budgets**

To comply with DfE regulations, it is necessary to reduce these budgets to take account of staff turnover.

8.4 **Early Years Pupil Premium**

The count date for determining DSG funding for the EYPP has now been moved from the Autumn Term to January. January early years' pupil numbers represent a good average for the financial year. Therefore the additional funding of £175k included in this budget to allow for underfunding of the EYPP through the DSG can be removed.

8.5 **Closing schools**

The Da Vinci schools in Stevenage and Letchworth will be closing in August 2017. The saving comprises the lump sum funding in their budget shares for the period September to March.

8.6 **Reduction in special unit places**

This is the full year effect of the reduction in special unit places from September 2016.

9. Risks and uncertainties

9.1 There are a number of uncertainties in respect of the 2017-18 budget at this stage, in particular:

- The final 2017-18 DSG announcement for the early years and high needs DSG blocks;
- The DfE response to the MFG exceptions requested;
- The pupil data from the October (schools) and January (early years) censuses;
- The discontinuation of the general element of ESG from September 2017. This currently funds responsibilities that authorities have for maintained schools. No replacement funding will be provided by the DfE although authorities will be allowed to seek a contribution from maintained schools by top slicing their budget shares.

10. 2018-19 and Later Years

10.1 No announcements have been made regarding funding levels beyond 2017-18. Further details of the national funding formula (NFF) for the schools and high needs DSG blocks are expected to be announced later in the autumn.

These changes could have significant re-distributional effects between local authority areas.

10.2 The early years DSG in future years will be calculated under the EYNFF. Extra resource will be added to the early years DSG in 2018-19 in respect of the full year effect of the introduction of additional hours for working parents.

11. Budget Strategy for 2017-18

11.1 In view of the resources available it will continue not to be possible to fund budget pressures across the whole schools budget in 2017-18. The Authority allocated £10.8m of carry forward to support the Schools Budget in 2016-17. Given the amount available, it is proposed to use a further allocation of carry forward DSG to support the Schools Budget in 2017-18. 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 2016-17 to exclude £3m of carry forward resource, being used on a one off basis, from the MFG calculations. The purpose of this was 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 remaining in budget shares will form part of the MFG baseline for future years.

- 11.2 Given these issues, it is not considered prudent to use more than half (or approximately £8m) of the carry forward in 2017-18.
- 11.3 Annex A sets out the overall budget position, showing the split by DSG blocks (schools, early years and high needs).

12. Conclusion

- 12.1 For 2017-18 the DfE has revised the split of DSG between the schools, early years and high needs blocks in line with local authorities budgeted spend in 2016-17. In Hertfordshire, the high needs budgeted spend equalled the high needs block and schools and early years budgeted spend exceeded these DSG blocks. Thus, the re-baselining of the DSG has not affected the split of Hertfordshire's DSG.

However the announcement of the EYNFF means that the current early years DSG will be superseded in 2017-18 by the new EYNFF allocation. The current schools and high needs blocks will in due course be superseded by the schools and high needs NFF allocations.

Informal advice from the DfE is that it would be inadvisable for authorities to switch resources between blocks in the future. This is because:

- The schools NFF DSG block is expected to be ring fenced in the future;
- The early DSG block will be the subject of a requirement to pass through 95% of resources to providers.

12.2 Early Years

The EYNFF announcement indicates that there will be significant extra resource for Hertfordshire. This is partly a result of the national increase in early years DSG but is also due to the area cost weighting being used in the new formula.

It is anticipated that the additional resource will enable the 2017-18 cost pressures in early years to be funded, as well as providing approximately £7m of headroom above this. The Authority will undertake a review of its early years funding in order to develop proposals for allocating the additional resource, which are compliant with DfE guidance. Further details will be brought to the next Forum meeting.

In view of the additional DSG being made available for early years, it is not proposed to use any carry forward DSG to support the early years budget in 2017-18.

12.3 **High Needs**

The high needs budget was set at the level of high needs DSG block in 2016-17 and it is intended to continue with this approach in 2017-18.

It is expected that the high needs sub group of the Forum will consider the high needs budget in more detail before the next meeting of the Forum. Among the issue that the group will need to consider are:

- the extent to which budget pressures will be funded;
- where savings can be taken from high needs budgets;
- how any uplift to the high needs DSG, which is announced in December, might be used.

12.4 **Schools Block**

It is proposed that all the usable carry forward of DSG to be deployed in 2017-18 should be used to support the schools block.

This is currently estimated at approximately £8m and it is projected that the deployment of this amount of carry forward will enable unit funding rates to be retained at (or just above) their current levels.

- 12.5 However, it will not be possible to fund all of the pressures for inflation and the apprenticeship levy. This equates to a real terms budget reduction in the schools block of approximately £10.5m, or 1.4% in 2017-18.
- 12.6 Forum is asked to agree the recommendations in section 3 of this paper.