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INITIAL REPORT ON SCHOOLS BUDGET STRATEGY 2018-19

Report of the Operations Director, Education

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1. Purpose

- 1.1 To give a preliminary outline of the issues relating to the 2018-19 Schools Budget.

2. Summary

- 2.1 This paper assesses the resource from the Dedicated Schools Grant that will be available in 2018-19. 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 £6.5m of the DSG carry forward to support the schools and central services block budgets in 2018-19.

(c) To support the approach that the budgeted spend for early years and high needs should be set at the level of the relevant DSG blocks.

(d) To support the approach that the budgeted spend for schools and central services should be set at the level of the relevant DSG blocks plus an allocation of carry forward as outlined in section 12.

(e) 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), (c) and (d).

4. Background

- 4.1 The final government funding announcements for 2018-19, including the announcement of the National Funding Formula (NFF) have not yet been made. However, some information is available about Dedicated Schools Grant (DSG) funding for 2018-19. As a result projections of DSG for 2018-19 can be prepared, although there is a greater uncertainty about them than is usually the case at this point in the annual cycle. This paper initially reviews the estimated DSG resources available and then considers the budget pressures.

5. Dedicated Schools Grant (DSG)

5.1 2018-19 DSG

The estimate of 2018-19 DSG is as follows:

	£m
Schools Block 166,770 FTE pupils @ £4,405 per pupil =	734.665
Central School Services Block	5.695
Early Years Block -	
3 and 4 year olds	
Universal entitlement 18,742 PTE pupils @ £3067 per pupil=	57.475
Additional hours 5,985 PTE pupils @ £3067 per pupil=	18.350
Nursery schools supplementary funding	1.795
2 year olds 2200 PTE pupils @ £3198 per pupil=	7.035
EY Pupil Premium	0.598
EY Disability Access Fund	0.228
High Needs Block	<u>104.020</u>
Total	<u>929.860</u>

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 2018-19 DSG are:

- **Schools block:** the DfE has announced that a “soft” NFF will operate in 2018-19 and 2019-20. This means that the NFF will be used to calculate the schools block of DSG for each local authority area but school and academy budget shares will continue to be determined using the local funding formula. Hertfordshire’s schools block DSG allocation will therefore be calculated by totalling the NFF budget shares for all schools and academies in Hertfordshire (including MFG protection and capping) and then adding lump sums for premises factors, the growth fund and the falling rolls fund.

The final schools block allocation will not be known until Christmas, following the publication of the NFF and the updating of NFF allocations with data from the October 2017 census. However, the DfE has indicated that funding will increase by at least 0.5% per pupil, compared to 2017-18, and this has been assumed above.

- Central School Services block

This block is new in 2018-19 and has been created by transferring from the schools block the resource relating to a number of central budgets. The main budget headings under this block are admissions, DfE arranged licenses and the former retained duties element of education services grant. (The Growth and Falling Rolls Fund continue to be funded from the schools block.) The illustrative figures published by the DfE in December 2016 (at the time of the Stage 2 NFF consultation) have been used to estimate the central services schools DSG block. These indicate that there will be a 2.5% reduction in funding compared to 2017-18.

- High Needs block: The DfE has indicated that allocations from the high needs block will increase by a minimum of 0.5% in cash between 2017-18 and 2018-19 (after adjusting for the transfer of funding for pupils in special units to the schools block). This has been assumed above.

The stage 2 NFF consultation indicated that Hertfordshire would receive a larger increase in high needs funding than this. However, the final high needs NFF has not yet been announced and thus it remains unclear how much additional resource it will provide.

- Early Years block:

3 and 4 year olds

The 2018-19 DSG allocation will include funding for the full year effect of the introduction of the extra 15 hours for working parents. Otherwise, it is currently being assumed that the early years DSG funding rates per pupil for 2018-19 will be unchanged from 2017-18.

2 year olds, Early Years Pupil Premium and Disability Access Fund
It is assumed that these will continue unchanged.

5.2 Carry Forward of DSG

5.3 As reported in the paper on the final DSG for 2017-18, the amount of DSG carried forward at 31/3/17 was £21.289m. (The cumulative carry forward has originated mainly from underspends in high needs budgets.) Some of this carry forward amount is being used during 2017-18 and the amount available for use in 2018-19 is £11.949m.

5.4 Further additions to the carry forward amount will be provided by the underspend on central budgets during 2017-18 together with any additional DSG being received in 2017-18 which will be carried forward to 2018-19. Thus the total estimated carry forward available for 2018-19 is as follows:

Estimated carry forward available for 2018-19	£m
Remaining balance of carry forward from 2016-17	11.949
2017-18 underspend identified so far:	
- Underspend from Quarter 1 monitor £0.598m	
- Estimated underspend on the SEN Strategy Development Fund £3.1m	0.598
- Central budget for disapplication (£3.1m)	
Additional 2017-18 DSG carry forward to 2018-19	0.031
Total	12.578

6. Additional Responsibilities (Funded)

- 6.1 The estimated DSG for 2018-19, 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	6,469	6.2
Full year effect of additional hours for working parents	7,646	6.3
Funding for pupils in special units	0	6.4
Total	14,115	

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 2017 census data is available.

6.3 Additional Hours for 3 and 4 year olds

From September 2017 working parents are 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. This cost shown is the full year effect of funding this entitlement, relating to the Summer Term.

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

6.4 Funding for pupils in special units

The DfE is changing the arrangements for funding special units. In 2018-19. Pupils occupying special unit places will attract AWPU and other pupil led funding through the schools block budget shares. Correspondingly, high needs funding for occupied special unit places will reduce from £10k to £6k per place. As a consequence there is a transfer of cost from the high needs to

the schools block budget which will be matched by a transfer of resource from the high needs to the schools DSG block.

7. Budget Pressures 2018-19

- 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 2018-19. Further work will be done to refine the costs of each pressure.

	£000	Paragraph
Inflation on pay and prices	11,000	7.2
National Living Wage	1,500	7.3
Additional special school places in 2018-19	573	7.4
Full year effect of 2017-18 increase in special school places	283	7.4
Full year effect of 2017-18 increase in high needs college places	22	7.5
Growth in existing free schools	1,300	7.6
New free school opening in 2017-18	175	7.7
New free school opening in 2018-19	530	7.8
Minimum Funding Guarantee	1,000	7.9
Prior year adjustments	827	7.10
Independent Placements	400	7.11
Full year effect of top ups for high needs provision in colleges	174	7.12
Full year effect of increase for primary behaviour	255	7.13
Full year effect of increase for secondary behaviour	500	7.14
Total	18,539	

7.2 Inflation on Pay and Prices

This is based on an estimated 1% increase in pay and 2% increase in prices.

7.3 National Living Wage (NLW)

The pay award for 2018-19 has not been set. An illustrative figure is shown for the impact of the national living wage.

7.4 Additional special school places

The figure shown is the full year additional place and top up funding relating to the expansions being taken forward at three special schools. A review of funded place numbers in special schools will take place shortly and it is anticipated that there will be further increases in funded places at other schools.

Also shown is the full year effect of the increases in special school places made in September 2017.

7.5 Full year effect of increase in high needs places in colleges

This is the full year effect of the increase in place numbers from September 2017.

7.6 Growth in existing free schools

The DSG will not take account of the additional cohort starting in free schools in September 2018. The Authority will, however, have to fund this cohort and this constitutes a budget pressure. The amount includes the additional cohort at the free school which has opened during 2017-18.

7.7 New free school opening in 2017-18

One new free school has opened in September 2017. This pressure constitutes the lump sum allocation for this school.

7.8 New free school opening in 2018-19

This pressure comprises the estimated part year budget share of the free school scheduled to open in 2018-19.

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.

7.10 Prior Year adjustments

There are two elements to this pressure:

- reversing out the one off retrospective clawbacks made in 2017-18 for over estimates of pupil numbers at recently opened free schools: £387k;
- providing for the 2017-18 funding of the new free school which has opened in September 2017. This will be recouped retrospectively by the DfE in 2018-19: £440k.

7.11 Independent Placements

A £1.6m saving was made in this budget in 2017-18 to reflect previous reductions in spending. However, the 2017-18 monitor indicates that spending has “bottomed out” and is starting to rise, such that an overspend is projected for 2017-18. It is therefore intended to reverse an element of the saving taken last year.

7.12 Full year effect of top ups for high needs provision in colleges

The full year effect of last year’s budget pressure, relating to an increase in the number and complexity of high needs students in colleges, and independent specialist providers.

7.13 Full year effect of increase for primary behaviour

The full year effect of the additional resource for primary behaviour which was provided for in the 2017-18 budget. This resource will only be committed when agreements are in place, whereby local areas assume the responsibility for providing behaviour support and alternative provision.

7.14 Full year effect of increase for secondary behaviour

The full year effect of the additional resource for primary behaviour which was provided for in the 2017-18 budget. This resource will only be committed when agreements are in place, whereby local areas assume the responsibility for providing behaviour support and alternative provision.

8. Savings

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

	£000	Paragraph
Rates	227	8.2
Early Years Pupil Premium	48	8.3
Closing schools	143	8.4
Closure of Barnwell VI unit	50	8.5
Capital expenditure on increasing capacity in special schools	2,200	8.6
PNI designated schools	103	8.7
Total	2,771	

8.2 Rates

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

8.3 Early Years Pupil Premium

This saving reflects the slight reduction in the number of children eligible for the early years' pupil premium.

8.4 Closing schools

The Da Vinci schools in Stevenage and Letchworth closed in August 2017. The saving comprises the lump sum element of their budget shares for the period April to August.

8.5 Closure of Barnwell VI unit

This unit has closed in August 2017. The saving shown is net of transitional funding for remaining pupils.

8.6 Capital expenditure on increasing capacity in special schools

The DfE has announced a new capital grant for high needs, to run for three years from 2018-19. Hertfordshire's allocation is approximately £2m per year. It is therefore intended to take the current revenue budget supporting high needs capital as a saving.

8.7 PNI designated schools

The separate funding allocation paid to PNI designated schools has been discontinued from September 2017.

9. Risks and uncertainties

9.1 There are a number of significant uncertainties in respect of the 2018-19 budget at this stage, in particular:

- The final DSG announcements for 2018-19, including the NFF.
- The DfE response to any MFG exceptions requested.
- The pupil data from the October (schools) and January (early years) censuses.
- Decisions about de-delegation from maintained schools, in particular regarding services previously provided from the general element of ESG.
- There is a considerable possibility that pay awards will be higher than the public sector pay cap of 1%, which has been assumed in the budget pressure for inflation above. The 1% limit does not take into account the full year effect of the 2017 teachers pay award. Each 1% increase on teachers' pay would increase the inflation pressure by approximately £4.5m in a full year. It is unclear whether the DfE would allocate additional resource to the DSG to help to fund pay awards above the 1% cap.

10. 2019-20 and Later Years

10.1 Once the national funding formulae for schools and high needs have been announced, the funding available for 2019-20 should be clearer. The "soft" NFF will continue to operate in 2019-20. However, the DfE has announced that it remains its intention to move to a "hard" NFF (whereby all school and academy budget shares are determined through the NFF). The hard NFF may therefore be introduced in 2020-21.

11. Budget Strategy for 2018-19

11.1 2018-19 DSG

11.1.1 At this stage it is not clear exactly what resources will be available in 2018-19 and the DSG estimates shown above may change significantly. The

government has announced that it will allocate more resource to the schools block than was expected before the general election and Hertfordshire's high needs block may increase significantly as a result of the introduction of the high needs NFF. The early years block was increased substantially in 2017-18 but is expected to remain at flat cash in 2018-19. However, the central schools block is expected to be 2.5% lower than Hertfordshire's equivalent spend in 2017-18.

The schools block of DSG will be ring-fenced in 2018-19. Resources can be transferred between the other blocks but not out of the schools block (except in very limited circumstances).

11.1.2 For 2018-19 the DfE has revised the split of DSG between blocks, partly in order to create the central services block and partly to update for local authorities budgeted spend in 2017-18. In Hertfordshire, the high needs and early years budgeted spend equalled the high needs and early years blocks, while schools and central services budgeted spend exceeded these DSG blocks due to the use of carry forward. Thus, the re-baselining of the DSG has not affected the split of Hertfordshire's DSG.

11.2 DSG carry forward

11.2.1 The Authority allocated £9m of carry forward to support the schools block budget in 2017-18. Historically the Authority has not differentiated between the use of the annual DSG allocation and the use of carry forward DSG, when setting the schools block budget. However, as part of the NFF calculations, the DfE has required authorities to identify the carry forward separately. As indicated in the budget report to the January Forum, the carry forward has been used as follows:

Use of carry forward DSG 2017-18	
Schools block-	
Supporting school budget shares	£5.6m
Falling Rolls Fund	£2.0m
New free school	£0.4m
Central services block-	
Historical commitments -mainly school family workers	£1.0m
Total	£9.0m

11.2.2 The carry forward remains substantial but is gradually reducing. Given the amount available, it is proposed to use a further allocation of carry forward DSG to support the Schools Budget in 2018-19. In deciding how much carry forward to commit, and how to use it, the following issues need to be considered.

a) Retaining a contingency

A minimum reserve of DSG is necessary for contingency purposes.

b) Phasing the carry forward supporting budget shares out gradually.

In deploying the estimated carry forward of approximately £13m, it will continue to 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.

11.2.3 The Authority was granted a MFG exception in 2017-18 to exclude £3.1m of carry forward resource from the MFG calculations. The purpose of this was to facilitate the phasing out of carry forward support for budget shares after 2017-18, although the DfE will give no guarantees on MFG exceptions for future years.

11.2.4 If a “hard” NFF is introduced in 2020-21, the Authority will no longer have the ability to adjust unit funding rates in order to phase out gradually the use of the carry forward. The DfE seems to be unclear how any element of budget shares funded from carry forward will be treated when the hard NFF is introduced. It is important to avoid a situation where a future obligation to use carry forward to fund budget shares becomes locked into the funding system, after the introduction of the hard NFF.

11.2.5 Given these issues, it is not considered prudent to use more than around half (or £6.5m) of the carry forward in 2018-19.

12. Conclusion

12.1 In view of the ring fencing of the schools block and the introduction of national funding formulae for all the DSG blocks in 2018-19, it is not proposed to move any of the 2018-19 DSG between blocks when setting the 2018-19 budget (i.e. budgeted spend on each block will be at the level of the relevant DSG block plus any use of carry forward.)

12.2 The continued use of carry forward will enable the overall budget to be higher than the 2018-19 DSG. However, given the future introduction of the “hard” NFF and the reducing amount of carry forward available, it is proposed to adopt the following approach in deploying the carry forward:

a) by 2019-20, in preparation for the introduction of the hard NFF, no carry forward will be used to support school budget shares. To start the transition towards this position, in 2018-19 only carry forward which is covered by an MFG exception in budget shares would be used. It is estimated that this would result in the following use of carry forward:

- | | |
|--|-------|
| • MFG exception re carry forward: | £3.1m |
| • Prior year adjustment for new free school: | £0.4m |

(automatically excluded from the MFG)	
Total	£3.5m

b) It is proposed to continue to use carry forward in 2018-19 to fund:

- the historical commitment budgets previously agreed by the Schools Forum (school family workers, lead adviser to the virtual school, education of children in residential care): £1.0m
- the falling rolls fund : £2.0m

Total use of carry forward	£6.5m
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12.3 More information about the 2018-19 DSG will be available shortly and it is intended that the November Forum meeting will give further consideration to what cost pressures will be funded across the different blocks. It is not expected to be possible to fund most of the pressure for inflation. On current estimates this equates to a real terms budget reduction in the Schools Budget of approximately £12m or 1.3% in 2018-19.

12.4 Forum is asked to agree the recommendations in section 3 of this paper.

12.5 Annex A summarises the overall budget position, showing the split by DSG blocks (schools, central services, early years and high needs).