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INITIAL REPORT ON SCHOOLS BUDGET STRATEGY 2019-20

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 2019-20 Schools Budget.

2. Summary

- 2.1 This paper assesses the resource from the Dedicated Schools Grant that will be available in 2019-20. 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 £6m of the DSG carry forward to support the schools and central services block budgets in 2019-20.

(c) To support the approach that the budgeted spend for early years and high needs should continue to 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 11.3.

(e) To support consulting with schools on the proposals outlined in section 12.

4. Background

- 4.1 The final government funding announcements for 2019-20 have not yet been made. However, some information is available about Dedicated Schools Grant (DSG) funding for 2019-20. As a result projections of DSG for 2019-20 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 2019-20 DSG

The estimate of 2019-20 DSG is as follows:

Schools Block	£m
Primary 100,320 FTE pupils @ £3,912 per pupil	392.451
Secondary 67,882 FTE pupils @ £5,089 per pupil	345.450
Premises & Mobility	11.126
Growth	6.538
Sub total Schools Block	755.565
Central School Services Block	5.744
168,201 FTE pupils @ £34 per pupil	
Early Years Block	
3 and 4 Year Olds	
Universal Entitlement 18,833 PTE pupils @£3,067 per pupil	57.755
Additional Hours 6,008 PTE pupils @£3,067 per pupil	18.424
Nursery Schools Supplementary funding	1.780
2 Year olds 2,059 PTE Pupils @ £3,198 per pupil	6.585
EY Pupil Premium	0.659
EY Disability Access Fund	0.227
Sub total Early Years Block	85.430
High Needs Block	111.114
Total DSG	957.853

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 2019-20 DSG are:

- Schools block:

Under the “soft” national funding formula (NFF) introduced in 2018-19, the DfE derives unit funding rates for the schools block by running the NFF for all Hertfordshire schools and academies. The primary and secondary unit funding rates have been multiplied by estimated pupil numbers for October 2018, to derive the projected amounts shown above for the 2019-20 schools block of DSG. There are separate allocations for premises, mobility and growth. A significant change for 2019-20 is the introduction by the DfE

of a new system for calculating the allocation for growth. This will now be based on lagged data measuring increases in pupil numbers, rather than the authority's historic level of spending on growth. Separate growth calculations will be made for each middle layer super output area in Hertfordshire and the total of these results will be used to calculate the growth allocation. The DfE has not yet provided the detailed methodology for this calculation. The growth allocation shown above is an indicative figure provided by the DfE and based on the previous method of calculating the allocation for growth. Thus this figure could alter substantially.

- Central School Services block

Hertfordshire's unit funding rate for this block has reduced between 2018-19 and 2019-20, as the 2018-19 allocation included transitional protection. The projected total shown above is based on estimated October 2018 pupil numbers.

The final schools and central services block allocations will not be known until Christmas, when the October 2018 pupil numbers are available.

- High Needs block:

The high needs block allocation shown will be updated in December to take account of October 2018 census data on pupil numbers in special schools. There will be a further update during 2019-20 to take account of January 2019 data for the import/export adjustment.

- Early Years block:

It is currently being assumed that the early years DSG funding rates per pupil for 2019-20 will be unchanged from 2018-19. The projections shown are based on estimated January 2019 pupil numbers. The early years block allocation will be updated when the actual January 2019 pupil numbers are available.

5.2 Carry Forward of DSG

5.3 As reported in the paper on the final DSG for 2018-19, the total DSG being carried forward to 2019-20 is £16.922m. This will be increased or reduced by any under or overspend during 2018-19. (Expenditure in 2018-19 will include the items of slippage from 2017-18.)

5.4 Thus the total estimated carry forward available for 2019-20 is as follows:

Estimated carry forward available for 2019-20	£m
Remaining balance of carry forward from 2017-18	16.726
Additional 2018-19 DSG carry forward to 2019-20	0.196
Carry forward of DSG to 2019-20	16.922
2018-19 variance identified so far:	
- Overspend from Quarter 1 monitor £0.134m	(0.134)
Total	16.788

6. Additional Responsibilities (Funded)

6.1 The estimated DSG for 2019-20, outlined above, reflects changes in pupil numbers for schools and early years:

	£000	Paragraph
Demography in Primary, Secondary and Early Years	7,319	6.2
Total	7,319	

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 2018 census data is available.

7. Budget Pressures 2019-20

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

	£000	Paragraph
Inflation on pay and prices	19,071	7.2
Employers contribution to teachers' pensions	0	7.3
Additional special school places in 2019-20	519	7.4
Full year effect of 2018-19 increase in special school places	249	7.4
Full year effect of 2018-19 increase in high needs college places	48	7.5
Growth in existing free schools	1,021	7.6
New free school opening in 2019-20	458	7.7
Rates	500	7.8
Full year effect of top ups for high needs provision in colleges	58	7.9
Total	21,924	

7.2 Inflation on Pay and Prices

This is based on the following estimated increases:

- Teachers Pay
+1%, on the basis that the increase above this which resulted from the September 2018 pay award will be met from the separate teachers' pay grant. It is also assumed that any increase above 1% resulting from the September 2019 pay award will be separately funded.
- Non Teachers Pay
Increases as per the local government pay award for April 2019 with +2% for grades H8 and above and higher increases for grades below H8.
- Non pay
2% inflation

The pressure shown does not take account of increasing costs of the national living wage being passed on by service providers.

7.3 Employers contribution to teachers’ pensions

It has been identified that the rate of employers’ on-costs for the teachers’ pension scheme may increase in 2019-20, although no precise information has been received on the timing or size of the increase. Our understanding is that the extra cost arising in 2019-20 may be met by the DfE or the increase may be deferred. Therefore no cost has been included against this pressure.

7.4 Additional special school places

The figure shown is the part year additional place funding relating to the proposed increases in funded place numbers. The changes in place numbers will be discussed with special schools over the coming weeks.

Also shown is the full year effect of the increases in special school places made in September 2018.

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 2018.

7.6 Growth in existing free schools

The DSG will not take account of the additional cohort starting in free schools in September 2019. The Authority will, however, have to fund this cohort and this constitutes a budget pressure.

7.7 New free school opening in 2019-20

One new free school is expected to open in September 2019. This pressure constitutes the estimated pupil led funding for this school.

7.8 Rates

Increases in rates costs, from inflation and revaluations.

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

This is 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.

8. Savings

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

	£000	Paragraph
Rates	138	8.2
Growth Fund	1,000	8.3
Amalgamations	48	8.4
Building Schools for the Future funding	165	8.5
Bulge Classes Leaving	648	8.6

Capital expenditure on primary alternative provision	750	8.7
Reduction in Special Unit Places	98	8.8
SpLD Bases	775	8.9
Quality Offer Rollout	34	8.10
Prior year adjustments	285	8.11
Saving in central services block to be identified	9	8.12
Early Support Project	52	8.13
Total	4,002	

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 Growth Fund

As reported in the monitor there is an underspend in the Growth Fund budget and it is proposed to take this as a saving.

8.4 Amalgamations

Redbourne Infants and Juniors amalgamated in April 2018. This results in a reduction in funding through the lump sum factor.

8.5 Building Schools for the Future (BSF) funding

Nobel school has decided to discontinue its BSF facilities management contract and manage its own premises. The school will therefore no longer receive an allocation from the BSF funding factor.

8.6 Bulge Classes Leaving

Hertfordshire is applying to the DfE to reduce the budget shares of schools where bulge classes will be leaving in Summer 2019, in order to reflect the reductions in the number of pupils on roll. The saving that would result is shown.

8.7 Capital expenditure on primary alternative provision

This budget relates to particular schemes and is not expected to be required going forward. The DfE has made available a capital grant for high needs, to run for three years from 2018-19.

8.8 Reduction in Special Unit Places

The saving relates to proposed reductions in special unit places to better match the supply of places to demand.

8.9 Specific Learning Difficulties (SpLD) Bases

This is the full year saving that will result from the introduction of new arrangements for SpLD provision.

8.10 Quality Offer Rollout

This has been completed and the budget will be taken as a saving.

8.11 **Prior year adjustments**

The prior year adjustment in 2018-19 largely related to a new free school which had opened the previous year. This situation is not expected to reoccur in 2019-20.

8.12 **Central Services saving to be identified.**

It is estimated a small saving will be required in the central services budget to keep expenditure at the level of the central services DSG block.

8.13 **Early Support Project**

This has ended and it is intended to take the budget as a saving.

9. **Risks and uncertainties**

9.1 There are a number of significant uncertainties in respect of the 2019-20 budgets at this stage, in particular:

- The final DSG announcements for 2019-20, and in particular the allocation for growth in the schools block.
- The DfE response to any MFG exceptions or other dis-applications requested.
- The pupil data from the October 2018 and January 2019 censuses.
- The scope of the teachers' pay grant that the DfE has announced.
- Announcements of additional grant funding. In this paper it is assumed that the extra cost of teachers pay increases above 1% and any rise in teachers' pension costs, will be separately funded.

10. **2020-21 and Later Years**

10.1 The DfE has announced the "soft" NFF will continue to operate in 2020-21. However, it remains the Government's 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 2021-22.

11. **Budget Strategy for 2019-20**

11.1 **2019-20 DSG**

11.1.1 The estimated changes in DSG between 2018-19 and 2019-20 are as follows:

Schools Block – there is an overall increase of 0.8% per pupil. (Within this the unit of funding per primary pupil has increased by 1.15% and per secondary pupil by 0.25%)

High Needs Block – there is an increase of £3.2m or 2.9%

Early Years block – it is assumed there will be no change in DSG per pupil

Central Services Block – there is a reduction of 1.4% per pupil

The schools block of DSG continues to be ring-fenced in 2019-20. Resources can be transferred between the other blocks but not out of the schools block (except in very limited circumstances).

11.2 DSG carry forward

11.2.1 The Authority allocated £5.8m of carry forward to support the schools block and central services budgets in 2018-19. The carry forward has been used as follows:

Use of carry forward DSG in 2018-19	
Schools block-	
Supporting school budget shares (an element of the primary, KS3 and KS4 AWPUs)	£3.1m
Falling Rolls Fund	£1.8m
Prior year adjustments (mainly relating to a new free school)	£0.3m
Saving on MFG protection re Samuel Ryder	(£0.3m)
Central services block-	
Historical commitments -school family workers	£0.9m
Total	£5.8m

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 2019-20. 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.

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 2018-19 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 in the future, although the DfE will give no guarantees on MFG exceptions for future years.

11.2.4 If a “hard” NFF is introduced in 2021-22, 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 only considered prudent to use carry forward for “one off” items and for the element of budget shares covered by the MFG exception.

11.3 Allocation of resources

11.3.1 In view of the ring fencing of the schools block and the use of national funding formulae to calculate all the DSG blocks, it is not proposed to move any of the 2019-20 DSG between blocks when setting the 2019-20 budget (i.e. budgeted spend on each block will be at the level of the relevant DSG block plus any use of carry forward).

11.3.2 The continued use of carry forward will enable the overall budget to be higher than the 2019-20 DSG. It is proposed to use carry forward to fund the same items as in 2018-19 (with the exception of the prior year adjustment which is not expected to be required in 2019-20).

It is estimated that this would result in the following use of carry forward:

Proposed use of carry forward 2019-20

Element of budget shares covered by MFG exception	£3.2m
Falling rolls fund	£1.8m
School family workers	£0.9m
Total use of carry forward	£5.9m

11.3.3 This would leave approximately £11m of DSG carry forward. In view of the reserve that this provides, it is proposed to fund start up and diseconomies costs of new schools, as and when these arise, from carry forward rather than from the base budget. The Growth Fund has been underspending, partly because of delays in opening new schools, and it is proposed to take this underspend as a saving. As the Growth Fund is part of the schools block, the saving would increase the resource available to be allocated in primary and secondary budget shares.

11.3.4 Annex A summarises the overall budget position, showing the split by DSG blocks (schools, central services, early years and high needs). The resources available are insufficient in most blocks to fund inflation. Also the Forum has previously indicated that, even where sufficient resources is available, it does not favour the automatic funding of inflation without scrutiny of the business case. Therefore the pressure for inflation has been reversed out, before calculating the headroom funding available.

11.3.5 Headroom

This is the resource available to allocate after taking account of budget pressures and savings, except inflation.

The estimated headroom by block is as follows:

Estimated headroom

Schools Block	£8.3m	1.1%
Central Services Block	Nil	
Early Years Block	£0.9m	1.1%
High needs	£4.2m	3.9%

(The early years block headroom arises largely because, due to uncertainty about the take-up of additional hours, no contribution from additional hours DSG was assumed towards central budgets. In the event additional hours take up has been high and this element of DSG therefore constitutes an additional resource.)

12. Primary and secondary funding formula

12.1 Primary; Secondary ratio

The DfE has recently published the national primary: secondary ratios for 2018-19, taken from the budget shares submitted by local authorities in January 2018. The overall ratio nationally across all local authorities is 1:1.296, a slight increase from the 2017-18 formulae where it was 1: 1.289. The average local authority ratio is 1:1.311, a slight increase on the ratio of 1: 1.304 in 2017-18 formulae.

Hertfordshire's 2018-19 primary: secondary ratio is 1:1.315 (compared to 1:1.320 in 2017-18). Hertfordshire has therefore moved towards the national average, both because Hertfordshire's ratio has reduced slightly between 2017-18 and 2018-19 and because the national average has increased.

12.2 Allocation of additional resource

The amount of headroom available in the schools block in 2019-20 is less than the cost pressures identified but approximately equates to the 1% increase schools are expected to meet in teachers' pay. In view of this it is proposed to allocate the headroom available evenly across all formula factors in the primary and secondary budget shares. Thus there would be an equal percentage increase in the unit funding rates for all formula factors except for:

- the lump sum for secondary schools, which is already at the maximum level permitted by the DfE and therefore cannot be increased,
- the rates, rents, PFI and BSF factors where funding relates to actual costs.

12.3 It is proposed that the MFG would continue to be set at -1.5%.

Two other issues relating to the funding formula have been identified:

12.4 Primary low prior attainment (LPA) factor

Currently the primary LPA factor is based on a mixture of data from the new early years foundation stage profile (EYFSP) and from the previous (pre 2013) EYFSP. Data for the new EYFSP is scaled down so that it is consistent with the overall proportion of LPA pupils identified under the previous EYFSP. From 2019-20 all the LPA data will be from the new EYFSP and scaling will no longer be permitted. In view of the larger number of LPA pupils that will be now identified, it is proposed to reduce the unit

funding rate per LPA pupil, so that the total funding allocated through this factor is unchanged by the move to the new EYFSP data.

12.5 Free School Meal (FSM) numbers

The introduction of universal credit is resulting in some changes to eligibility for FSMs. The precise impact is not yet clear but the DfE has indicated that the changes are expected to increase the number of pupils eligible.

It is proposed to adopt the same approach to changes in FSM numbers resulting from universal credit as Hertfordshire has generally adopted with changes in FSM numbers in recent years, as follows:

Where there is a significant change in the total Hertfordshire data for an additional needs factor, it is proposed to adjust the unit funding rate so that the total 2019-20 funding through the factor, for each sector, will equal the 2018-19 funding, after adjusting for:

- The percentage change in pupil numbers in the sector between 2018-19 and 2019-20
- the change to the unit funding rate for the factor agreed as part of the allocation of additional funding.

This approach would be adopted for the FSM factor and the other additional needs factors in the primary and secondary funding formula.

13. Conclusion

13.1 A update on the 2019-20 budget will be provided at the November Forum meeting. This is expected to include further information about proposals for the high needs and early years' budgets. It will also take account of any further government funding announcements.

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