

<b>MEETING:</b>	<b>SCHOOLS FORUM</b>
<b>MEETING DATE:</b>	<b>17 JANUARY 2014</b>
<b>TITLE OF REPORT:</b>	<b>REPORT OF THE BUDGET WORKING GROUP</b>
<b>REPORT BY:</b>	<b>SCHOOL FINANCE MANAGER</b>

## **Classification**

Open

## **Key Decision**

This is not an executive decision.

## **Wards Affected**

County-wide.

## **Purpose**

To consider the report of the Budget Working Group on the following matters: DSG funding settlement 2014/15, schools block expenditure, analysis of funding gap; options to balance the schools budget; PFI costs; broadband costs; de-delegation of trade union facilities funding; high needs top-up payments; school exit payments and school balances.

## **Recommendation(s)**

**THAT:**

- (a) **The schools members (including academies) and early years members approve the variation of the provisional funding values, as submitted to the Education Funding Agency, for the National School Funding Formula 2014/15 as follows;**
- (i) **the basic entitlement per pupil be reduced by £6 per pupil to £2,759 per primary pupil, £3,583 per Key Stage 3 pupil and £4,512 per Key Stage 4 pupil;**
  - (ii) **the Ever-6 free school meal allocation be reduced by £28 for primary and secondary pupils to £2,820 per entitled pupil; and**
  - (iii) **no amendments are made to the provisional lump sums for primary and secondary schools to take account of broadband network cost increases; and**

- (iv) the Cabinet Member for Young People and Children's Wellbeing be recommended to approve the variations to the basic per pupil entitlement and Ever-6 free school meal allocation per entitled pupils.
- (b) local authority maintained school members of Schools Forum be asked to approve the de-delegation of the funding for Trade Union facilities for 2014/15;
- (c) the Cabinet Member for Young People and Children's Wellbeing be recommended to approve the use of the remaining DSG underspend from 2011/12, i.e. £485,000, to support the National Schools Funding Formula in 2014/15; and
- (d) PFI funding arrangements be added to the Forum's work programme for March 2014.

## Alternative Options

- 1 There are a number of possible alternative options. The alternatives were considered in detail by the Budget Working Group and are listed in this report.

## Reasons for Recommendations

- 2 Local authorities are required to submit the final 2014-15 school budget formula and funding values to the EFA by 21st January 2014.

## Key Considerations

- 3 The BWG met on 9 January 2014 to consider the DSG settlement for 2014/15 and to recommend to Schools Forum the necessary revisions to the National School Funding Formula for submission to the Education Funding Agency (EFA).
- 4 Schools Forum met on 25 October 2014 to approve the submission of the draft schools funding formula to the EFA. The EFA have confirmed that the draft formula complies with all the school finance regulations and was received by the deadline. Final adjustments to the formula are required to ensure that the budget allocations to schools do not exceed the 2014/15 DSG settlement. The Budget Working Group also considered a progress report on the development of the high needs tariff, PFI funding arrangements and school exit (redundancy) policy changes. A copy of the notes of the BWG meeting has been circulated separately to members of the Schools Forum.
- 5 The DSG funding settlement for 2014/15 was announced prior to Christmas and is based on 21,107 pupils, an increase of 47 pupils compared to 2013/14 and is equivalent to extra funding of £202k.
- 6 However, the DSG settlement is 51 pupils less than forecast which is mainly due to increased pupil numbers in the two free schools, the Robert Owen Vocational School (28 pupils) and St. Mary's Primary School, Dilwyn (29 pupils). The DfE has reduced Herefordshire's Dedicated Schools Grant by £245,000 i.e. the 57 free school pupils at the DSG funding rate of £4,306 per pupil. Further reductions in DSG can be expected if pupil numbers in the free schools increase in future.

- 7 Herefordshire has benefited from being only one of two authorities nationally to suffer no reduction to the DSG due to changes in funding for the Carbon Reduction Commitment scheme.
- 8 In cash terms, Herefordshire has received a 0.2% cash increase which is comparable to other similar counties e.g. Worcestershire +0.2%, Gloucestershire +0.1%, Shropshire -1.0% and Dorset -0.2%.

<b>DSG Settlement</b>	<b>£'000</b>
Schools Block	90,896
Early Years	4,095
High Needs	13,138
Additional NQT funding	32
2 Year Old Grant low income households	1,712
<b>Total DSG (pre-recoupment)</b>	<b>110,683</b>

### **Schools Block Expenditure**

- 9 The table below sets out the schools budget expenditure for 2013/14 and compares with the 2014/15 proposals, which in addition to the full use of the DSG underspend of £485k, identifies a funding shortfall of £232k. The BWG's recommendations to address the shortfall are set out in paragraph 15-23 below.
- 10 The shortfall has arisen due to an additional 228 pupils entitled to Ever-6 Free school meals, which has increased the cost by £560k and a reduction of 50 pupils compared with the DSG forecast, which has reduced the income by £215k.
- 11 The School Finance Manager explained to the BWG that recent changes to the school funding regulations now required the DSG underspend to be distributed through the school funding formula. This is a DfE requirement to ensure that the Education Funding Agency can ensure that academies and free schools receive a fair share of any such underspend.

	<b>2013/14 £'000</b>	<b>2014/15 £'000</b>
Schools Block	90,694	90,986
Add NQT funding	32	32
Less Admissions	-170	-170
Less Copyright Licences	-36	-36
Less Schools Forum	-5	-5
Add Exclusions income	50	50
Transfer of Banded funding from High Needs	557	557
Rates adjustment	41	0
Schools Block funding	91,160	91,324

Add DSG underspend from 2011/12		485
Total funding available	91,163	91,809
National Funding formula – provisional values agreed by Forum in October 2013		92,041
Shortfall		232

- 12 Schools Forum has previously discussed alternative uses for the 2011/12 underspend and the potential call on these funds to support schools with deficits. Using the underspend to support the shortfall in DSG for 2014/15 will mean that these funds will be no longer available in future to assist schools with deficits.
- 13 The Budget Working Group recommended that the DSG underspend be added to the 2014/15 national school funding formula and used to help offset the DSG funding shortfall.
- 14 **Recommended: the Cabinet Member for Young People and Children's Wellbeing be recommended to approve the use of the remaining DSG underspend from 2011/12, i.e. £485,000, to support the National Schools Funding Formula in 2014/15.**

#### **Options to balance the Schools Budget**

- 15 Three core options were considered by the BWG as summarised below. It was explained that these core options could be varied marginally as required to develop further sub-options. Each option ensures that national funding formula spending meets the available DSG funding.
- A. Reduce pupil funding by £11
  - B. Reduce pupil funding by £6 and -1% off FSM (£28)
  - C. Reduce only Free school meals by 2% (£60)
- 16 Herefordshire currently has a significant gap in attainment and progress for vulnerable groups of pupils, particularly those eligible for free school meals and those where English is an additional language. This has been highlighted by Herefordshire Council, and also by OfSTED. In some measures the authority is currently in the bottom ten local authority areas in the country, and the worst performing in the West Midlands.
- 17 Careful consideration therefore needs to be given to both the formula amounts and these pupils, and to the effectiveness of the spend of that money.
- 18 The Ever-6 FSM% indicator is sensitive to change in the school census data. 60% is allocated for deprivation and 40% to meet SEN needs.
- 19 After careful consideration, which included discussion on the use of the additional pupil premium grant (which is increasing in 2014/15 significantly for primary pupils to £1,300 and Looked After Children to £1,700) and which is targeted at closing the

attainment gap for pupils entitled to free school meals, the BWG considered that a balanced reduction programme was appropriate and proposed that in addition to reducing per pupil funding by £6 per pupil that it was appropriate to reduce the Ever-6 free school meal factor by £28 per entitled pupil for all schools.

20 In consideration of recommending option B, BWG took account of the future requirement to reduce the 2015/16 budget by approximately £20 per pupil (because the £485k underspend will not be available in future) and the low per pupil funding of the larger primary schools who are amongst the lowest funded schools nationally. There was also a discussion regarding the tendency of the Ever-6 free school meal percentage to increase annually compared with the traditional FSM annual census count – which may result in the need for further reductions in future.

21 A table of Options is set out below.

Option	EFA Submitted Model Oct 12 census with pupil forecasts	EFA Submitted Model Oct 13 Census data Actual pupil numbers	Option A Reduce pupil funding by £11	Option B Reduce pupil funding by £6 and FSM by 1% (£28)	Option C Reduce only FSM by 2% (£60)
	£	£	£	£	£
Per primary pupil	2,765	2,765	2,754	2,759	2,765
Per KS3 pupil	3,589	3,589	3,578	3,583	2,589
Per KS4 pupil	4,518	4,518	4,507	4,512	4,518
Per FSM-E6 pupil	2,848	2,848	2,848	2,820	2,788
EAL pupil	405	405	405	405	405
Prior Attainment					
Per primary pupil	228	228	228	228	228
Per high pupil	148	148	148	148	148
Primary lump sum	99,000	99,000	99,000	99,000	99,000
High lump sum	118,750	118,750	118,750	118,750	118,750
Sparsity lump sum	14,000	14,000	14,000	14,000	14,000
PFI funding	190,000	190,000	190,000	190,000	190,000
MFG	792k	681k	735k	734k	732k
Gains cap %	1.58%	3.06%	2.50%	2.47%	2.45%
Pri/sec ratio	1.197	1.20	1.20	1.20	1.20
% basic entitlement	75.30%	74.83%	74.77%	74.89%	75.02%
% pupil led	88.17%	87.15%	87.12%	87.12%	87.12%
<b>Total Spend (£'000)</b>	<b>91,746</b>	<b>92,041</b>	<b>91,809</b>	<b>91,806</b>	<b>91,808</b>

22 After taking account of a complex discussion, the Budget Working Group agreed to recommend the middle option to Schools Forum, i.e. Option B – a reduction in per pupil funding of £6 and a reduction in the Ever-6 Free school meal allocation by £28 per entitled pupil.

- 23 **Recommended: the provisional values submitted to the Education Funding Agency for the National School Funding Formula 2014/15 be varied as follows;**
- (i) **the basic entitlement per pupil be reduced by £6 per pupil to £2,759 per primary pupil, £3,583 per Key Stage 3 pupil and £4,512 per Key Stage 4 pupil;**
  - (ii) **the Ever-6 free school meal allocation be reduced by £28 for primary and secondary pupils to £2,820 per entitled pupil; and**
  - (iii) **the Cabinet Member for Young People and Children's Wellbeing be recommended to approve the variations to the basic per pupil entitlement and Ever-6 free school meal allocation per entitled pupils.**

### **Broadband Costs**

- 24 In 2013/14, schools purchasing broadband from the Council paid a fixed price of £3,218 to meet the cost of network supply. This was calculated some 4 or 5 years ago when the funding was added to school budgets at the end of the NGfL grant. This fixed (average) price of £3,218 overcharges many (but not all) primaries to a small extent in order to fund higher costs at four rural high schools. School budgets were increased in order to meet the costs of broadband and the prices charged were included in school budgets.
- 25 New charges have been issued to schools for 2014/15 which reflect the actual costs of supply and remove all subsidies. Hence 2014/15 prices reflect (a) actual costs instead of the average fixed charge, and (b) changes in the cost of network supply. Overall network supply costs have increased by £68,500 for high schools an average increase of £5,000, although the removal of the subsidy has increased costs at four secondary rural schools by up to £16,000.
- 26 The average saving in primary schools is £1,700, although this varies from £2,500 for most rural schools to £1,000 for more urban schools.
- 27 In the same way that business rates are fully funded at cost so that schools are not penalised by location, it would be possible to increase the lump sum for high schools by £5,000 (cost £70,000) to reflect the extra costs of broadband supply, and to reduce the lump sum for primary schools by £1,000 (save £78,000) in order to reflect the savings made by primary schools.
- 28 There is no relationship between sparsity and the costs of broadband so amending the lump sum (and not sparsity) is the only viable option.
- 29 BWG considered two options as follows;
- Option A: increase secondary lump sum by £5,000 and reduce primary lump sum by £1,000; and
  - Option B: Do nothing as changes have already been made to secondary and primary lump sums.
- 30 BWG considered that many services provided by the market to schools had a different cost basis and as changes had already been made to the primary and secondary lump sums then Option B: No Change should be adopted.

- 31 **Recommended: that no amendments are made to the provisional lump sums for primary and secondary schools to take account of broadband network cost increases.**

#### **De-delegation of Trade Union facilities funding**

- 32 Schools Forum deferred consideration of this item in October 2013 pending the outcome of the DfE consultation paper.
- 33 No results from the DfE's consultation have been published yet. However, Schools Forum must decide on de-delegation for 2014/15 so that school budgets can be finalised. In October Schools Forum agreed to de-delegate funding for ethnic minority support and free school meals administration. The autumn budget consultation with Herefordshire schools favoured de-delegation by 23-2 for these two items. For trade union facilities there were more schools against de-delegation, with responses 20 in favour and 7 against.
- 34 Because academies cannot vote at Schools Forum on de-delegation decisions, local authority school members of the BWG considered the options and, because Schools Forum is required to consider de-delegation annually, agreed to recommend to Schools Forum that the de-delegation of Trade Union facilities funding should continue for 2014/15.
- 35 **Recommended: local authority maintained school members of Schools Forum be asked to approve the de-delegation of the funding for Trade Union facilities for 2014/15;**

#### **PFI costs**

- 36 The Schools Finance Manager updated the BWG on the increasing costs of the school PFI contract and the need to add additional funding of £75,000 in each of the next three years, to ensure that the contract costs could be fully met right through until the end of the contract in 2032. He explained that approximately 1/3rd of the unitary charge payment to the contractor was RPI indexed and unless additional funding was injected, there would be a shortfall at the end of the contract. The Council had sought cost savings on academy conversion but these had not been acceptable to the DfE. In response to questions, the School Finance Manager agreed that if the RPI increased above the 2.5% assumed in the funding model, that the contract shortfall would increase.
- 37 The BWG asked for a more detailed report to be considered by Schools Forum in March.
- 38 **Recommended: PFI funding arrangements be added to the work programme for March 2014.**

#### **Update on High Needs Tariff**

- 39 The SEN and Disability Implementation Manager reported that a consultation with all specialist providers in the county on a new funding model had been completed. A moderation process would now be completed to ensure consistency. An independent expert (Ofsted qualified inspector) had been engaged to sample 20% of special school placements. The BWG suggested that the sample should include LCC and The Bridge for completeness. The SFM commented that the issue was about fairness

in the allocation of funds between schools and ensuring there was no impact on the overall budget.

- 40 The BWG agreed to be kept informed of progress by e-mail and to consider again at that point whether the BWG needed to meet to consider the proposals prior to School Forum in March, or whether to leave consideration to the High Needs Tariff Development Group.

### School Exit costs

- 41 The Schools HR Manager updated the Budget Working Group on policy changes that would bring school redundancy costs into a common framework, with the new policy adopted by the council. The major change was the adoption of the statutory earnings cap of £450 per week which would reduce redundancy entitlement for higher paid school staff. Academies would have to consult with trade unions separately if they wished to adopt the same policy. Further information on the policy changes will be circulated to schools.

### School Balances

- 42 The Schools Finance Manager presented information on the level of balances held by primary, secondary and special schools and how the average level of balances compared with England, the West Midlands and the South West and the individual authorities within those two regions. He reported that the only information available related to 2011/12 and that because of the changing education landscape regarding academies, such comparisons would be impossible to make in future. Herefordshire was not an outlier in comparison with the authorities analysed or with England as a whole. Further information on school balances would be available for local authority maintained schools in July 2014 after closure of the council's 2013/14 accounts.
- 43 A summary of the information is set out in the table overleaf.

Comparator	Average Balances (%) March 2012	Average Surplus (£) March 2012	Percentage of schools in Deficit (%)
<b>Primary schools</b>			
England	7.9%	£88,458	4%
West Midlands	8.9%	£106,152	4%
Herefordshire	7.7%	£54,271	7.6%
South West	7.4	£62,392	5.0%
<b>High schools</b>			
England	5.6%%	£353,634	12.4%
West Midlands	7.6%	£397,282	9.0%
Herefordshire	8.9%	£304,232	9.1%



South West	4.3%	£266,623	17.3%
<b>Special Schools</b>			
England	7.9%	£176,462	4.3%
West Midlands	9.0%	£218,856	5.7%
Herefordshire	6.8%	£88,086	0%
South West	7.6%	£159,799	5.9%

- 44 The BWG concluded that no further action should be taken as the available evidence was that the authority was not out of line with the other authorities and in future, such comparisons would become more difficult.

## Community Impact

- 45 There is no significant community impact.

## Equality and Human Rights

- 46 There are no implications for the public sector equality duty.

## Financial Implications

- 47 The recommendations, if agreed, are required to ensure that expenditure on school budgets does not exceed the funding available within the Dedicated Schools Grant. The proposed funding changes will pass directly between school budgets and be contained within DSG.

## Legal Implications

- 48 There are no legal implications.

## Risk Management

- 49 The BWG reviews proposals in detail prior to making recommendations to Schools Forum. This two stage process helps to ensure greater scrutiny of budget proposals.

## Consultees

- 50 All maintained schools, FE providers, academies and free schools in Herefordshire

## Appendices

None

## **Background Papers**

None identified.