

<b>MEETING:</b>	<b>SCHOOLS FORUM</b>
<b>MEETING DATE:</b>	<b>19 JANUARY 2015</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 (BWG) on the following matters: Dedicated Schools Grant and final Schools Budget 2015/16; de-delegation, Pupil Referral Unit (PRU funding), school balances and an update on the Whitecross PFI contract.

## **Recommendation(s)**

**THAT:**

- (a) **The schools members (including academies) and early years members recommend the Cabinet Member Young People and Children's Wellbeing to approve the variation of the provisional funding values, as submitted to the Education Funding Agency, for the National School Funding Formula 2015/16, and as shown in Appendix 1 to the report, as follows;**
- (i) **the per pupil funding in the interim schools budget be reduced by 0.01%: £2 per primary pupil, £3 per Key stage 3 pupil and £4 per key stage 4 pupil to fund the increased cost of national licences;**
  - (ii) **Primary school funding be reduced by £6 per pupil to fund SEN threshold protection at £90 cap per pupil (option B1);**
  - (iii) **Secondary school funding be reduced by £8.50 per pupil to fund PRU delegation of £150k on the basis this would be delegated by 1/3 pupil numbers, 1/3 Ever-6 Free School meals and 1/3 on low prior attainment**

**data (option B2);**

**(iv) that high needs tariffs to cover increased pension costs should be increased for 2015/16 as follows (option C3): Tariff A: £1,280+1% B: £3,125 +2% C: £5,225+3% D £8,075 +4% E £11,400+5% F: £15,200 +6%; and**

**(v) £150k of the high needs carry forward be used to support the costs of (ii) and (iii) above; and**

**(b) local authority maintained school members of Schools Forum be asked to consider the de-delegation of the funding, separately for secondary and primary schools, for Trade Union facilities, ethnic minority support and free school meals administration for 2015/16;**

**(c) it be noted that further consideration will need to be given to PRU funding changes in March 2015; and**

**(d) a consultation exercise should be undertaken on the introduction of a school balance claw-back scheme along the lines of that previously applied by the Council.**

## **Alternative Options**

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

## **Reasons for Recommendations**

2 Local authorities are required to submit the final 2015-16 school budget formula and funding values to the EFA by 20 January 2015.

## **Key Considerations**

3 The BWG has met once since the Forum's last meeting: 9 January 2015. The BWG considered the following matters: Dedicated Schools Grant and final Schools Budget 2015/16; de-delegation, Pupil Referral Unit (PRU funding) school balances, and an update on the Whitecross PFI contract.

### **DEDICATED SCHOOLS GRANT AND FINAL SCHOOLS BUDGET 2015/16**

4 The BWG was advised that a number of variations needed to be made to the interim budget that had been submitted in October 2014. These are set out below and reflected in Appendix 1.

### **Final Schools Budget - National Licence Costs**

5 The Schools Finance Manager informed the BWG that if at all possible he would prefer the final Schools budget submitted to the Education Funding Agency (EFA) to be the same as the interim budget already consulted on with schools and submitted in October. However, there would need to be one final minor adjustment regarding national licence costs as the DfE had increased the number of licences included in the national agreement and would deduct approx. £114k from DSG to meet the

additional licence cost. For Herefordshire this was an extra £53k which required a 0.01% reduction per pupil in the interim school budget. This is equivalent to £2 per primary pupil, £3 per key stage 3 pupil and £4 per key stage 4 pupil. However, schools would benefit by an equivalent reduction in expenditure on licences so the reduction would be cost neutral to individual schools.

- 6 The BWG supported this proposal.

### **Recommendation**

**(a i) The per pupil funding in the interim schools budget be reduced by 0.01%: £2 per primary pupil, £3 per Key stage 3 pupil and £4 per key stage 4 pupil to fund the increased cost of national licences.**

### **High Needs Block**

- 7 The BWG was informed that there were significant pressures on the High Needs budget. There was also a high degree of uncertainty about where and when these pressures would manifest themselves. It was estimated that unfunded expected high needs cost pressures amounted to £277,000 for 2015/16. Increased pension contributions, which would disproportionately impact on special schools, amounting to £138k formed part of the £277k.
- 8 There was a projected underspend of £927k on the DSG for 2014/15. This was almost entirely due to an underspend on expenditure on funding places for 2 year olds (2YO). However, the expectation was that the DfE would nationally reduce the 2YO grant for 2015/16 by the underspend. The High Needs block was forecast to overspend by £108,000 further adding to future cost pressures. The projected 2YO underspend should not therefore be considered as a source for meeting any shortfall for 2015/16.
- 9 An options appraisal was presented to the BWG as attached at Appendix 2, to meet the unfunded expected high needs cost pressures amounting to £277,000 for 2015/16.

### **Pensions**

- 10 Local government pension costs are rising by 4.4% in 2015/16 and 6.2% in 2016/17 in addition to teachers pension cost increases of 2.3% from September 2015. There is a disproportionate impact on special schools because of the number of support staff employed. An equivalent 6% increase on high needs tops up would cost £202k in 2015/16 and a further £202k in 2016/17. Given the other pressures on the high need block it was considered that this was unaffordable for both years for all schools.
- 11 A number of options were proposed for consideration:
- C1: No increase - this was not recommended as it was essentially a cut to special schools;
- C2: No increase to tariff A-C and a 6% increase for tariffs D-F.; this would direct an increase predominately at special schools who are funded with tariff D-F - the overall cost would average out at 4% or £136k;

C3: a graduated increase for all tariff as follows: A: £1,280+1%, B: £3,125 +2%, C: £5,225+3%, D £8,075 +4%, E £11,400+5%, F: £15,200 +6%

- 12 C3 was the recommended option in that all high needs pupils would receive something but that the most vulnerable pupils would receive the maximum possible. The overall cost also averaged out at 4% at a cost of £138K.
- 13 The BWG supported option C3. However, given the level of uncertainty involved, the BWG, on balance, preferred to keep funding options for 2016/17 open at this stage.

### **Other Pressures**

- 14 The SFM presented the following options to meet the balance of the £277k shortfall: Option A – in principle primary and secondary schools pay for their own ongoing schemes (i.e. primary schools fund the £150k cost of the SEN protection scheme and high schools fund the £150k cost of the PRU delegation); or
- 15 Option B: use reserves to partially support the high needs budget (i.e. primary schools fund £75k of the cost of the SEN protection scheme and high schools fund £75k of the cost of PRU delegation and the high needs reserve contributes £150k shortfall); or
- 16 Option C – Reduce costs for SEN protection and PRU delegation to what we can afford (i.e. the primary SEN protection scheme is limited to the £75k available budget and likewise the high schools PRU delegation is limited to the £75k available budget and there is no top-up from the high needs reserve);
- 17 In conjunction with option A or B there was also an option to reduce support for special schools. The proposal to fund special schools to avoid service reductions from increased pension costs could be reduced to save £35k by reducing by -1% for all tariffs. A+0%, B+1%, C+2%, D+3%, E+4%, F+5%.. This would save £35k which could be used to reduce the per pupil contribution in option A or B by £1.60 per pupil.
- 18 Responses from primary schools during the autumn budget consultation had strongly preferred the continuation of the existing protection scheme that limits the number of £6,000 SEN thresholds that the school must meet. In the first year 2013/14 the number of thresholds was capped at £60 per pupil at a cost of £300k. In 2014/15 the cap was relaxed to £120 per pupil (at a cost of £75k-100k) with the intention of phasing out the scheme in 2016/17.
- 19 The BWG was advised that option A seemed unduly harsh and that option B was consistent with the BWG's customary strategy of seeking to find the middle ground and would have the least adverse effect for all schools. It was acknowledged that a reduction in per pupil funding had an impact on smaller schools. However, option B, in the manner of an insurance policy, provided greater security for smaller and other schools compared with the other options. It was noted that option B also used reserves to a reasonable degree to avoid "high balances" and retained £400k out of the High Needs Block reserve of £554k to cover future uncertainties.

- 20 The SFM commented that as part of the DfE's study into high needs the authority had made the DfE aware of the difficulties faced by small schools in funding the £6,000 high needs threshold.
- 21 The BWG supported option B.

### **Recommendation**

#### **That**

- (a ii) Primary school funding be reduced by £6 per pupil to fund SEN threshold protection at £90 cap per pupil (option B1);**
- (a iii) Secondary school funding be reduced by £8.50 per pupil to fund PRU delegation of £150k on the basis this would be delegated by 1/3 pupil numbers, 1/3 Ever-6 Free School meals and 1/3 on low prior attainment data (option B2);**
- (a iv) that high needs tariffs to cover increased pension costs should be increased for 2015/16 as follows (option C3): Tariff A: £1,280+1% B: £3,125 +2% C: £5,225+3% D £8,075 +4% E £11,400+5% F: £15,200 +6%**
- (a v) £150k of the high needs carry forward be used to support the costs of (ii) and (iii) above; and**

#### **De-delegation**

- 22 The Forum agreed in October that consideration of de-delegation be deferred pending further consideration by the BWG and a recommendation to the Forum in January.
- 23 The report to the Forum stated that there was a view that de-delegation was an arcane term possibly obscuring the fact that money was being deducted from schools budgets without consideration of whether they needed the services in question, which could instead be obtained by individual service level agreements if required, or whether those services represented value for money. It was acknowledged that the sums involved were comparatively small and that if the Forum were to decide not to de-delegate this would increase the administrative burden on the local authority. However, it was thought there were issues of principle involved and that it would be timely to review and clarify the position, perhaps involving a further, clearer consultation exercise solely on this aspect.
- 24 The BWG considered a consultation paper on 9 January and this was issued to schools on 12 January. A copy is attached at Appendix 4. The outcome will be reported to the Forum at the meeting.

### **Recommendation**

- (b) local authority maintained school members of Schools Forum be asked to consider the de-delegation of the funding, separately for secondary and primary schools, for Trade Union facilities, ethnic minority support and free school meals administration for 2015/16**

### **PRU funding changes:**

- 25 The SFM reported that for September 2015, the DfE was changing the current funding formula for PRUs from £8,000 per place to £10,000. The PRU funding model therefore needed to change.
- 26 Many different models had been considered and the preferred model included the high needs tariff and also provides for efficiency savings following the PRU merger.
- 27 The proposed model is £10,000 per commissioned place for year 2 and 3 only. Top up values would be via the high needs tariff, which on average is £5,000 per pupil.
- 28 First year places would not be commissioned but purchased as needed by the school at a cost of either a one-off £6,000 irrespective of start date or two payments of £3,500 - the first payment on entry and the second payment in the next financial year if the pupil still requires a place. As now, the local authority would make the funding up to the £10k per pupil.
- 29 Payments for KS3 Aconbury places would be fixed termly at £2,000 per term irrespective of the number of days attended in that term.
- 30 The proposals had been supported by the PRU management committee at a meeting in December and BWG views were sought prior to a wider consultation.
- 31 The BWG considered that it was an option for high schools to commission places direct and unwanted places could be resold between schools. The SFM commented that this model has been considered but rejected due to complexity but it could be discussed further if it was the preferred option.
- 32 It was suggested a small group of BWG members would meet to consider the principles, following further discussion by the Herefordshire Association of Secondary Headteachers, before making recommendations to the Forum in March 2015.

### **Recommendation**

**(c) That it be noted that further consideration will need to be given to PRU funding changes in March 2015.**

### **School Balances**

- 33 The Forum was informed by the BWG in October 2014 that school balances had increased from £5.5 million at the end of 2012/13 to £6.3m at the end of 2013/14. This development was contrary to what might have been expected given funding pressures and at a time when balances held by schools converting to academies had been subtracted from the total balances.
- 34 The BWG acknowledged that all schools had their own individual circumstances and rationales for the level of balances they are holding. However, the BWG considered balances of up to 10% of a schools revenue budget seemed a reasonable level to hold. It therefore appeared that excessive balances are being held by a number of schools.

- 35 The BWG was advised that it was open to the Forum to reintroduce a balance clawback scheme if it were considered appropriate to do so, noting that it would be important to provide schools with adequate notice of such a policy.
- 36 The BWG informed the Forum in October that the issue is a matter of strategy and principle. At a time when educational performance in the County is under scrutiny from Her Majesty's Inspectorate with schools performing in the lower quartile nationally for some attainment targets there needs to be a clear justification for not spending available resources to improve pupil attainment.
- 37 The Schools Finance Manager referred to a response he had received from the DfE about school balances. This is summarised in appendix 3. In the light of that advice he had not yet written to schools as requested by the BWG in October, deciding to seek a further view from the BWG.
- 38 The DfE response and the contrasting treatment of academy and maintained school balances it outlined was discussed. However, it was suggested that the key issue the BWG and Schools Forum needed to consider was the principle that schools needed to have a clear justification for not spending available resources on pupils.
- 39 The BWG recommends that the Forum should consult on the reintroduction of a balance claw-back scheme along the lines of that previously applied i.e.
- a. Secondary schools – claw back of greater of 5% of the current year's budget share or £50,000;
  - b. Special schools –claw back of greater of 5% of current year budget ( i.e. now place plus top-up funding) or £30,000);
  - c. Primary schools – claw back of greater of 8% the current year's budget share or £30,000.
- 40 If a consultation exercise is approved a further report could be made to the Forum in March with a view to implementing a balance claw-back scheme for the 2015/16 financial year. If approved, any balance clawback scheme would apply to school balances held at March 2016 in order to give schools a minimum 12 month notice.

### **Recommendation**

**(d) That a consultation exercise should be undertaken on the introduction of a school balance claw-back scheme along the lines of that previously applied by the Council.**

### **WHITECROSS PFI FUNDING UPDATE**

- 41 The BWG has been informed that good progress is being made in securing the reductions in the cost of the PFI contract as reported to Schools Forum in October 2014. A meeting between the contractors, the School and the Council is to be held later in January to formally agree the variations to the contract. A report will be made to Schools Forum in March 2015.

## **Community Impact**

- 42 There is no significant community impact. The school funding formula must meet the national requirements of the Department for Education. Within these national funding guidelines the funding is targeted to support the achievement of improved outcomes for all Herefordshire pupils in accordance with a carefully considered strategy that is subject to annual consultation with schools and governors. The governing bodies of schools are responsible for decisions to commit expenditure according to meet pupils' individual needs.

## **Equality and Human Rights**

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

## **Financial Implications**

- 44 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 the high need block so that expenditure is contained within the DSG funding available.

## **Legal Implications**

- 45 To ensure legal compliance with Schools Forum Regulations 2012. School Forums generally have a consultative role. However, there are situations in which they have decision-making powers. Regulations state that the Local Authority must consult the Schools Forum annually in connection with amendments to the school funding formula, for which voting is restricted by the exclusion of non-schools members except for PVI representatives.
- 46 The decision-making powers of Schools Forum are limited as follows
- to decide on the central spend and criteria for growth fund and falling rolls fund for outstanding schools
  - De-delegation
  - Central spend on equal pay back-pay, early years expenditure, significant pre-16 growth
  - Central spend on admission and schools forum up to the 2013-14 level
  - Central spend on some other items up to the 2013/14 level – which is zero
- 47 In all other cases the final decision will be referred on for decision by the Cabinet Member.

## **Risk Management**

- 48 The BWG reviews proposals in detail prior to making recommendations to the Schools Forum. This two stage process helps to ensure greater scrutiny of budget proposals and mitigate against any risks that may be identified.

## **Consultees**

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



were consulted on the budget proposals for 2015/16.

## **Appendices**

Appendix 1 – Final Budget 2015/16 for submission to the EFA

Appendix 2 – DSG 2015/16 Options Appraisal – to meet unfunded expected high needs cost pressures of £277,000

Appendix 3 – Response from DfE on School balances

Appendix 4 – Supplementary consultation on De-delegation for Herefordshire Schools

## **Background Papers**

- None identified.