

# **INTEGRATED PLAN**

## **PART B - STRATEGIC DIRECTION AND FINANCIAL CONSEQUENCES**

### **Enterprise, Education & Skills Portfolio – Schools**

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# Schools: Future Service Direction

## 1. OVERVIEW

### *Background*

The Schools Budget continues to be entirely funded by DSG which is divided into three blocks; schools, early years and high needs. (DSG funding is not yet ring-fenced within each block, although the DfE is consulting on ring-fencing the schools block under its proposals for a national funding formula (NFF) for schools.) The rate of funding per pupil in the schools block will not increase between 2016-17 and 2017-18, except to reflect a transfer of some of the responsibilities previously funded by Education Services Grant. Thus it will not take account of inflation or other cost pressures (such as the apprenticeship levy and the national living wage). The high needs block is expressed as a cash total rather than an amount per pupil. After taking account of changes in responsibilities, Hertfordshire's high needs block has been increased by £3.7m. This is approximately equivalent to uplifting the high needs block for both demographic growth and for cost pressures. Hertfordshire's early years block will increase significantly in 2017-18, as a result of the introduction of the Early Years National Funding Formula (EYNFF).

Hertfordshire used £10.8m of carry forward to support the schools and early years' budgets in 2016-17. Given that the DSG allocation per pupil for the schools block will not increase in 2017-18, a further large amount of carry forward would need to be used in 2017-18, in order to maintain the 2016-17 funding levels in schools budget shares.

The Minimum Funding Guarantee (MFG) for schools remains at -1.5% of the 2016-17 level of funding per pupil, before Pupil Premium and Sixth form funding. Sixth form grant and the Pupil Premium continue as separate grants which have to be allocated to schools according to set DfE formulae.

In order to meet the government requirements, the final primary and secondary budget shares have to be submitted to the DfE by 23<sup>rd</sup> January 2017 following the granting of an extension by the DfE (before the Council sets its overall budget). As a result, the schools block element of the Schools Budget will have to be finalised by early January and will be considered by the Schools Forum at its meeting on 16<sup>th</sup> January 2017. Although the Council will ratify the Schools Budget (along with the other HCC budgets) at its meeting on 21st February 2017, it will be necessary for the submission to the DfE to be approved prior to the 23<sup>rd</sup> January 2017.

A summary Schools Budget table is attached in section 6 and detailed commentary for each item in the Schools Budget schedule is outlined in sections 2 to 5 below. The figures shown include funding which will be removed from Hertfordshire's DSG by the DfE and paid directly to academies and special schools.

There is an estimated carry forward of DSG into 2017-18 of £16m. In deploying this resource in 2017-18, however, it will be necessary to be mindful of the operation of the Minimum Funding Guarantee (MFG) in future years. Where the one-off carry

forward is used to support school budget shares, the MFG will to an extent protect this funding in future years. However, once the carry forward is used, the Schools Budget will not be able to sustain this funding level. Thus it is necessary to continue to exercise some caution in the use of the carry forward.

### ***Budget Strategy for 2017-18***

#### **a) Overall Approach**

For several years the Authority has aimed to keep spending on schools, early years and high needs broadly compatible with the three DSG blocks. Several recent DfE announcements have strengthened the case for avoiding cross subsidy between blocks:

- The DfE's proposal in the NFF consultation to ring-fence the schools block.
- The DfE's expectations under the EYNFF that a high proportion of resources from the early years block will be passed through to early years providers.
- The flexibility announced by the DfE to fund early years high needs expenditure from either the high needs or early years' blocks.

#### High Needs

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

#### Early Years

The early years' budget was supported with carry forward in 2016-17. However, in view of the large increase in resources that will be provided through the introduction of the EYNFF, it is intended to set the 2017-18 early years budget at the level of the early years DSG block. This will ensure that the extra resources provided by the government are used for early years and will reduce the demands on the carry forward.

#### Schools

All the available carry forward will be used to support the schools block.

#### **b) Use of Carry Forward – Schools Block**

Inflation on pay and prices, together with the apprenticeship levy and the national living wage represent major pressures on schools' budgets in 2017-18. However, given that the DSG will not increase to take account of these pressures and Hertfordshire is already using a large amount of carry forward to support the schools block budget, it will not be possible to increase funding levels for schools in 2017-18 to take account of these pressures. Therefore it is estimated that schools will experience an average real terms reduction in core funding of approximately 2%. The financial impact on individual schools will vary depending on changes in funding data and differences in patterns of expenditure. Academies will also lose funding provided direct to them by the EFA which was the academies counterpart of the Education Services Grant provided to HCC; and mainstream schools will in future need to contribute towards the costs of services previously funded from ESG. The eventual impact of this on academies will vary between schools but will be c2% of budget.

Given the financial pressures on schools, it is intended to continue to use a proportion of the carry forward amount of DSG to support the schools block budget in 2017-18. Schools Forum has supported using the carry forward to enable funding rates to be maintained in 2017-18 at their 2016-17 levels. Together with other pressures this would require approximately £8m of carry forward.

The Authority has previously approached the DfE to explore the possibility of excluding any funding from the carry forward, which is used to support school budget shares, from the MFG baseline in the future. This is to prevent one off funding being locked into future years' budget shares by the MFG. However, the DfE will give no commitment on this and therefore the budget strategy has to be based on the assumption that one off funding will form part of the MFG baseline for future years.

For a number of years the MFG level has been 1.5% less than the general funding level. Were this to continue in 2018-19 then it implies that, theoretically, the MFG would permit schools budget shares to drop by approximately £9m between 2017-18 and 2018-19. However, due to the annual update to funding data, there is an uneven pattern across schools in the percentage change between years in per pupil funding. Thus disproportionately large reductions in unit funding rates would be required to reduce all schools to their MFG protected level.

In view of this, and to provide a reserve against other eventualities, it is considered prudent to commit a maximum of £9m of the carry forward to supporting schools. This provides enough resource to enable unit funding rates in school budget shares to be sustained at their existing level and to make a very minor increase in per pupil funding.

### **c) High Needs**

As outlined above, it is intended to set the high needs budget at the level of the high needs DSG block in 2017-18.

The Authority's SEN strategy review has set up workstreams to review the range of high needs provision and make recommendations for change. The Schools Forum has started to consider reports from the workstreams. As a result of this work, several areas have been identified as requiring additional resources. These include special school places (including a capital budget to extend or adapt special schools to increase capacity), exceptional needs provision in mainstream schools and behaviour services. At the same time, certain savings can be made, in particular a saving in the budget for independent placements. The high needs budget takes account of these changes. Given the resource available from high needs DSG and the savings identified in several high needs budgets, it is proposed to fund the cost pressures (such as inflation) in the high needs budget.

A significant element of the high needs budget in 2016-17 is the SEN Strategy Development Fund (SDF) of £3.6m. This has provided a budget to support new initiatives and, as an uncommitted resource, the fund also provides useful flexibility in managing budget risks, both in high needs and the other sectors. In view of the scale of the priorities identified for 2017-18, it will be necessary to reduce the size of the SDF to resource them. However, the sums earmarked for behaviour and special

school capital are unlikely to be committed in their entirety during 2017-18. They may provide an additional uncommitted resource which could fulfil some of the function provided by the SDF.

#### **d) Early Years**

The government has announced that the introduction of the EYNFF will provide significant additional resource for Hertfordshire, estimated at approximately £8m.

As outlined above it is intended to set the early years budget at the level of the early years DSG block in 2017-18. The Authority is reviewing its early years funding in order to determine the allocation of the additional resources. This will include a consultation with early years providers on changes to the early years funding formula.

#### ***Uncertainties***

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

- The DfE's response to a MFG exception application in respect of historic falling rolls protection at Samuel Ryder Academy
- The DfE's response to the Authority's request to use high needs DSG for capital work to increase capacity at special schools.
- The in-year re-calculation of all elements of the DSG early years block
- any new free schools opening in September 2017
- Several data issues at individual schools
- The outcome of the Authority's application to make changes to funded high needs place numbers in certain special academies.
- The DfE's response next year to MFG exception requests for 2018-19

All these uncertainties have the potential to impact on the budget. The unused remainder of the carry forward provides a reserve against future uncertainties. There is also the flexibility to enhance this amount by drawing resource from the SEN strategy development fund.

#### **2018-19**

It is anticipated that DSG carry forward will continue to be used to support the schools block budget in 2018-19, but that the amount will reduce from the 2017-18 level. Thus an element of the carry forward being used in 2017-18 is a one off. Hertfordshire has previously applied for, and been granted by the DfE, a MFG exception to exclude from the 2017-18 MFG calculations a portion (£3.1m) of the carry forward being used to support budget shares. This does not resolve the issue of the carry forward forming part of the MFG baseline in future years. However, there is some evidence that, having acknowledged that funding is outside the MFG in one year, the DfE may agree to exclude it from the MFG in the next. This would prevent this element of the carry forward forming part of the MFG baseline for future years.

The DfE has announced that a national funding formula (NFF) for schools and a new formula for distributing high needs DSG allocations between local authority areas will be introduced in 2018-19.

In 2018-19, the schools NFF will be used to determine Hertfordshire's schools block DSG while the local funding formula will still determine school budget shares. However, from 2019-20 the NFF will determine each school and academy's budget share. Illustrative data recently published by the DfE, alongside its consultation on the funding changes, suggests that the impact of the NFF in Hertfordshire will tend to redistribute resources from secondary to primary and from affluent to deprived areas. This data indicates that, overall, Hertfordshire would gain only marginally from the schools NFF but more significantly from the high needs NFF.

It is anticipated that the DSG will continue not to take account of cost pressures. Thus there will be a further real terms cut in school budget shares in 2018-19. The cumulative effect of the real terms funding reductions is starting to cause extreme financial pressure in some schools. The Authority's monitoring indicates that a growing number of schools, especially secondaries, are in financial difficulty with projected deficits and it is anticipated that this number will increase in future years.

## **2. TECHNICAL ADJUSTMENTS**

### **2.1 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.

### **2.2 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.

### **2.3 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 is being added to the Authority's DSG to reflect the cost of extending this provision.

### **2.4 Ludwick Enrichment Group**

It is intended to fund the Ludwick Enrichment Group from the early years, rather than the high needs, budget.

## 2.5 **Early Years Disability Access Fund**

The Disability Access Fund, which has been introduced by the DfE, will aid access to early years' places by, for example, supporting providers in making reasonable adjustments to their settings and/or building capacity.

## 3. **PRESSURES**

### 3.1 **Inflation (including National Living Wage)**

This reflects the impact of the following:

- estimated 1% increase in teachers' pay
- local government staff pay award for 2017-18, comprising a general 1% increase but higher increases for grades H3 and below in response to the National Living Wage (NLW),
- specific inflation increases for repairs and maintenance and utilities but no other non-pay inflation.

The pressure does not take account of increasing costs from the NLW being passed on by providers, for example in relation to school meals.

### 3.2 **Rates**

This pressure includes both an estimated change in rates costs resulting from the revaluation and inflation in rates.

### 3.3 **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.

### 3.4 **Demography (Primary, Secondary and Early Years)**

This constitutes the impact of changes in pupil numbers on AWPU and other pupil led funding in the schools and early years budget shares.

### 3.5 **Growth in existing free schools**

The DSG does 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. This amount includes the additional cohort at the free schools which have opened during 2016-17.



### **3.6 New free schools opening in 2016-17**

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 in the budget shares of these two schools.

### **3.7 New free school opening in 2017-18**

The DfE has announced its intention, from 2017-18, to charge to DSG the budget shares of new free schools in their first year of opening. This pressure comprises the estimated part year budget share of the free school scheduled to open during 2017-18. It is not intended to commit this resource until it is necessary to do so at the point at which the school opens.

### **3.8 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 the Authority's budget. To address this anomaly, these costs will be switched to the high needs block.

### **3.9 Minimum Funding Guarantee (MFG)**

There are two elements to this pressure:

- An increase of £0.5m in the amount of MFG recouped from the Authority in respect of Samuel Ryder academy (an MFG exception application has been made to the DfE in respect of Samuel Ryder but it is anticipated that this will be rejected).
- A net £0.1m increase in MFG resulting from data changes.

### **3.10 Falling Rolls Fund**

There is an increase in the cost of the Fund, mainly due to an additional school becoming eligible.

### **3.11 Licenses**

The DfE has indicated that there will be a small increase in the cost of licenses for schools charged by the DfE due to the increase in pupil numbers.

### **3.12 School Improvement and Quality Support for Nursery Classes**

This has previously been funded from the general element of Education Services Grant (ESG). ESG will be discontinued in 2017-18.

### **3.13 Exceptional Needs**

This pressure represents the cost of implementing the recommendations of the Exceptional Needs work stream review as part of the SEND Strategy.

### **3.14 Primary Behaviour**

The pressure represents the cost of implementing the initial recommendation of the Behaviour work stream review covering the primary sector. This resource would only be committed if agreements were put in place, whereby local areas assumed the responsibility for providing behaviour support and alternative provision.

### **3.15 Secondary Behaviour**

The pressure represents the cost of implementing the recommendation of the Behaviour work stream review covering the secondary sector. This resource would only be committed if agreements were put in place, whereby local areas assumed the responsibility for providing behaviour support and alternative provision.

### **3.16 Autism**

The pressure represents the cost of implementing the recommendations of the Autism workstream review.

### **3.17 Quality Offer Rollout**

The pressure represents the cost of implementing the recommendations of the Quality Offer workstream review.

### **3.18 Additional Special School Places**

The cost of increasing the number of special school places (including a corresponding increase in the budget for per pupil top up funding in special schools) in order to reflect demand for places.

### **3.19 Capital expenditure to increase capacity in special schools**

This relates to capital schemes at several SLD and SEMH schools, in order to provide for the demand for places and reduce the need for high cost placements in independent special schools. DSG can only be used for capital with DfE approval and applications regarding these schemes have been submitted to the DfE. A response is awaited.

### **3.20 Special School Outreach**

An increase in order to provide for the demand for this service.

### **3.21 Additional High Needs Places in Colleges**

This provides an additional 11 places from September 2017.

### **3.22 Top Ups for High Needs Provision in Colleges**

The pressure relates to an increase in the number and complexity of high needs students in colleges and independent specialist providers.

## **4. SAVINGS**

### **4.1 Rates**

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

### **4.2 Historical Commitments Budgets**

To comply with DfE regulations, it is necessary to make certain reductions to these budgets.

### **4.3 Early Years Pupil Premium**

The saving mainly relates to a change in the count date for determining DSG funding for the EYPP. This 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 included in this budget to allow for underfunding of the EYPP through the DSG can be removed.

### **4.4 Closing Schools**

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

### **4.5 Reduction in Special Unit Places**

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

### **4.6 Secondary SpLD Bases**

This is the full year effect of the saving from the closure of the bases in September 2016.

#### **4.7 Keeping Children in Local Provision**

This budget is no longer required and will be taken as a saving.

#### **4.8 Independent Placements**

It is intended to take a saving in this budget, which is underspending.

#### **4.9 Contingency for Special Schools in Financial Difficulty**

This was established in 2016-17 to support schools which has large reductions in their pace numbers from September 2016. It is intended to take half this budget as a saving in 2017-18.

#### **4.10 Prior year adjustments**

This comprises the change between years in the retrospective adjustments to budget shares to correct for under or over estimates of pupil numbers. These adjustments apply to recently opened schools where the Authority is required by the DfE to estimate pupil numbers.

### **5. ADJUSTMENTS TO MATCH BUDGET TO DSG AVAILABLE**

#### **5.1 Pressures not being funded**

Given the resources available it is not possible to fund the pressures for inflation and the apprenticeship levy in the schools block budget.

#### **5.2 SEN Strategy Development Fund**

The net cost of changes in the high needs budget has been met by reducing the SEN Strategy Development Fund

#### **5.3 Headroom**

In the early years block this is the balance of the additional resources provided through the EYNFF. This resource is still to be allocated pending consultation with early years' providers and the Schools Forum. In the schools block this is the balance of the carry forward not required for maintaining unit funding rates at their current level.

## 6. Schools Revenue Budget Statement 2017/18

	Para	Schools Block £000s	Early Years Block £000s	High Needs Block £000s	Total £000s
Schools Budget 2016-17 (as per Integrated Plan)		721,014	61,567	97,858	880,439
Technical adjustment to block totals		(14)	14	-	-
<b>Schools Budget 2016-17 (as per Section 251 budget statement including academies)</b>		<b>721,000</b>	<b>61,581</b>	<b>97,858</b>	<b>880,439</b>
<b>Technical Adjustments:</b>					
Retained Duties element of ESG	2.1	2,798	-	-	2,798
High Needs Places in Colleges	2.2	-	-	2,646	2,646
Additional Hours for 3 and 4 year olds	2.3	-	10,704	-	10,704
Ludwick Enrichment Group	2.4	-	55	(55)	-
Early Years Disability Access Fund	2.4	-	227	-	227
<b>Pressures:</b>					
Inflation (inc. National Living Wage)	3.1	8,860	756	1,204	10,820
Rates inflation	3.2	752	23	3	778
Apprenticeship Levy	3.3	2,470	237	341	3,048
Demography (primary, secondary and early years)	3.4	8,079	(360)	-	7,719
Growth in existing free schools	3.5	1,242	-	-	1,242
New free schools opening in 2016-17	3.6	320	-	-	320
New free school opening in 2017-18	3.7	440	-	-	440
High needs budgets funded from ESG	3.8	-	-	183	183
Minimum Funding Guarantee (MFG)	3.9	610	-	-	610
Falling Rolls Fund	3.10	604	-	-	604
Licenses	3.11	22	-	-	22
School improvement and quality support for nursery classes	3.12	-	250	-	250
Exceptional Needs	3.13	-	-	605	605
Primary Behaviour	3.14	-	-	357	357
Secondary Behaviour	3.15	-	-	700	700
Autism	3.16	-	-	407	407
Quality Offer Rollout	3.17	-	-	34	34
Full year effect of increase in special school places in 2016/17	3.18	-	-	46	46
Additional special school places in 2017/18	3.18	-	-	938	938
Capital expenditure to increase capacity in special schools	3.19	-	-	2,200	2,200
Special School Outreach	3.20	-	-	134	134
Additional high needs places in colleges	3.21	-	-	44	44
Top Ups for high needs provision in colleges	3.22	-	-	243	243

	Para	Schools Block £000s	Early Years Block £000s	High Needs Block £000s	Total £000s
<b><u>Savings:</u></b>					
Rates	4.1	(1,194)	-	-	(1,194)
Historic Commitments Budgets	4.2	(295)	-	-	(295)
Early Years Pupil Premium	4.3	-	(232)	-	(232)
Closing Schools	4.4	(538)	-	-	(538)
Reduction in Special Unit Places	4.5	-	-	(66)	(66)
Secondary SpLD Bases	4.6	-	-	(125)	(125)
Keeping children in local provision	4.7	-	-	(50)	(50)
Independent Placements	4.8	-	-	(1,600)	(1,600)
Contingency for special schools in financial difficulty	4.9	-	-	(200)	(200)
Prior year adjustments	4.10	(220)	-	-	(220)
<b>Schools Budget 2017-18 before adjustment to match the resource available</b>		744,950	73,241	105,847	924,038
<b><u>Adjustments to match budget to resources available:</u></b>					
Pressures not being funded:					
Inflation (inc. NLW)	5.1	(8,860)	-	-	(8,860)
Apprenticeship Levy		(2,470)	-	-	(2,470)
SEN Strategy Development Fund	5.2	-	-	(1,686)	(1,686)
Headroom	5.3	1,206	6,501	-	7,707
<b>Schools Budget 2017-18 after adjustment to match resources available</b>		<b>734,826</b>	<b>79,742</b>	<b>104,161</b>	<b>918,729</b>
<b>Estimated 2017-18 Dedicated Schools Grant (including academies and free schools)</b>					
		725,826	79,742	104,161	909,729
<b>Use of Carry Forward DSG in 2017-18</b>					
		9,000	-	-	9,000
<b>Total Estimated DSG Employed</b>		<b>734,826</b>	<b>79,742</b>	<b>104,161</b>	<b>918,729</b>