

INTEGRATED PLAN

PART B - STRATEGIC DIRECTION AND FINANCIAL CONSEQUENCES

Education, Libraries & Localism Portfolio – Schools

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Schools: Future Service Direction

1. OVERVIEW

- 1.1** The Schools Budget continues to be entirely funded by DSG. In 2018-19 this will be divided into four blocks; schools, central services, early years and high needs. The new central services block has been created by transferring the resource for a range of central budgets from the schools block. For the first time in 2018-19 the schools block will be ring-fenced. Therefore resource from the schools block can only be used to fund other parts of the Schools Budget in very limited circumstances. The National Funding Formula (NFF) for schools is being introduced in 2018-19 and will be used to calculate the schools block of DSG. This will comprise the sum of the NFF budget shares of Hertfordshire schools and academies (plus an allocation for premises costs and growth). However, there is no requirement to use the NFF to calculate the budget shares of individual schools and the local school funding formula will remain in place. The introduction of the NFF provides an extra £11m for Hertfordshire's schools block of DSG, an increase of 1.5%. A national funding formula is also being introduced to calculate the high needs block of DSG and this will provide an extra £4.3m for Hertfordshire, a 4.1% increase. The funding rate for the main element of the early years DSG block will remain unchanged in 2018-19. (There was a significant increase in early years funding in 2017-18, as a result of the introduction of the Early Years National Funding Formula (EYNFF)). Hertfordshire has used £8.6m of carry forward to support the schools and central services block budgets in 2017-18.
- 1.2** The Minimum Funding Guarantee (MFG) for schools remains in place. For the first time in 2018-19, local authorities have the discretion to vary the level of the MFG, provided it is set in the range -1.5% to +0.5%. The higher the level at which the MFG is set, the more resource will be tied up in funding MFG protection for individual schools. This will reduce the resource available to uplift the funding of all schools. Therefore it is intended to set the MFG at -1.5%, the same level at which it has been set nationally by the DfE in recent years. Sixth form grant and the Pupil Premium continue as separate grants (outside the MFG calculations) and have to be allocated to schools according to set DfE formulae.
- 1.3** In order to meet the government requirements, the final primary and secondary budget shares have to be submitted to the DfE by 19th January 2018 (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 17th January 2018. Although the Council will ratify the Schools Budget (along with the other HCC budgets) at its meeting on 20th February 2018, it will be necessary for the submission to the DfE to be approved earlier than this.
- 1.4** 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.
- 1.5** There is an estimated carry forward of DSG into 2018-19 of £11.2m. In deploying this resource in 2018-19, 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.

1.6 Budget Strategy for 2018-19

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 ring-fencing of the schools block in 2018-19
- 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 and Early Years:

In 2017-18 the high needs and early year's budgets were set at the level of their respective DSG blocks and it is intended to continue with this approach in 2018-19.

Central Services:

The central services block has two components, ongoing responsibilities budgets and historical commitments. It is intended to set the budget for ongoing responsibilities at the level of the central services DSG block in 2018-19, which is £5.8m. The main item of historical commitments, the school family workers budget of £0.9m, will be funded from DSG carry forward, as in 2017-18. The two, small, remaining historical commitments budgets, totalling £0.1m, relate to the Virtual School for looked after children and would transfer to the County Council's budget.

Schools:

The remainder of the available carry forward will be used to support the schools block.

B) Schools Block

This covers the budget shares of primary and secondary schools and academies as well as the Growth and Falling Rolls Funds. Hertfordshire is using £7.6m of carry forward to support the schools block budget in 2017-18. Of this £2m funds the Falling Rolls Fund and the remaining £5.6m is used to support school budget shares. However, the total amount of carry forward is reducing and it will therefore be necessary to use less carry forward to support the budget in 2018-19.

As mentioned above, a key issue with using any carry forward to support budget shares is the risk that it may form part of the MFG baseline in future years. Hertfordshire has for several years applied for and been granted a MFG exception to exclude from the MFG calculations a portion (£3.1m) of the carry forward being used to support budget shares. The same application has been made for 2018-19 and agreed by the DfE. 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 amount of carry forward forming part of the MFG baseline for future years. It is anticipated that prior year adjustments relating to a new free school and under or over estimates of pupil numbers at existing free schools, will also be outside the MFG calculation in 2018-19.

In view of the MFG issue, and the need to provide a reserve against other eventualities, it is considered prudent to commit a maximum of £5.2m of the carry forward to support the schools block budget. This would fund the £3.4m of budget shares projected to be outside of the MFG, plus the Falling Rolls Fund of £1.8m. Together with the £0.9m of carry forward supporting family support workers, the total use of carry forward in 2018-19 would be £6.1m.

Taking into account the increase in schools block DSG but the reduced use of carry forward when compared to 2017-18 and the other pressures that have to be funded (such as rates and new free schools) it is estimated that there will be net increase in resource for primary and secondary school budget shares of £8.3m (or 1.1%).

Schools Forum has supported allocating £3.2m of this to provide a 0.5% uplift to all pupil led funding factors in primary and secondary budget shares. The Forum has also considered two options for allocating the balance of the available resource:

- 1) To make a larger increase in primary and secondary pupil led funding
- 2) To allocate funding to reflect which schools would gain if the NFF was used to fund individual school budget shares.

Schools have been consulted about how to allocate this additional resource in 2018-19. Following the consultation, in which respondents were split as to which option they preferred, it is proposed to allocate half of the remaining balance of headroom using option 1 and half using option 2. The 1.1% increase in funding, when compared to inflation of around 2.3%, results in a real terms reduction in resources for schools of approximately 1%. However, the financial impact on individual schools will vary according to the distribution of the additional resource as well as the change between years in pupil numbers and other funding data.

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 2018-19.

The Authority's SEN strategy review work streams continue to make recommendations for changes to provision. Several areas have been identified as requiring additional resources. These include special school places, SEN specialist support services and behaviour provision. At the same time, there is a major

pressure in the budget for independent placements, as a result of the increase in the number of placements. The high needs budget takes account of these changes.

A significant element of the high needs budget in 2017-18 is the SEN Strategy Development Fund (SDF) of £3.4m. This provides 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 budget blocks. By allocating the balance of available high needs funding to the SDF it is anticipated that the fund will increase to £5.5m in 2018-19. A number of potential priorities have been identified for the use of the SDF, including additional funding for special schools to reflect the greater complexity of their pupils' needs, funding of pressures for pay and prices in some high needs provision and a capital budget to provide for new alternative provision for primary pupils.

The Schools Forum will consider the high needs budget further at its January and February meetings.

D) Early Years

The funding rate for the main element of the early years DSG block will remain unchanged between 2017-18 and 2018-19. As outlined above it is intended to set the early years' budget at the level of the early years DSG block in 2018-19. The early years budget will be considered further by the Schools Forum at its January and February meetings.

1.7 Uncertainties

There are a number of uncertainties/risks in respect of the 2018-19 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 provide new alternative provision for primary pupils.
- The further adjustment to the high needs DSG block to update the import/export adjustment for the January 2018 data.
- The in-year and retrospective re-calculation of all elements of the early years DSG block
- Several data issues at individual schools
- The views of the Schools Forum, particularly when exercising its statutory powers (for example approving the budgets for the Growth Fund and Falling Rolls Fund).
- The outcome of the Authority's application to make changes to funded high needs place numbers at colleges and special academies.
- The DfE's response next year to MFG exception requests for 2019-20.

The unused remainder of the carry forward provides a reserve against future uncertainties.

1.8 2019-20

2019-20 will be the second year of operation for the national funding formulae for schools and high needs. DfE figures indicate that Hertfordshire' schools block of DSG will increase between 2018-19 and 2019-20 by £5.5m and the high needs block by £2.3m. However, given that a balance of DSG carry forward of around £3.5m is necessary as a provision for emergencies, it is anticipated that there will be little carry forward available to support the budget in 2019-20 (unless there is a substantial underspend during 2018-19). It is intended to prioritise school family workers in the future use of carry forward. Thus the net increase in primary and secondary school budget shares in 2019-20 is expected to be small, as the additional schools block DSG in 2019-20 will in practice be offset by the falling out of the carry forward used in 2018-19.

It is anticipated that the funding available to schools will continue not to take account of cost pressures and that there will be a further real terms cut in school budget shares in 2019-20. 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 are in financial difficulty with projected deficits and it is anticipated that this number will increase in future years.

2 TECHNICAL ADJUSTMENTS

2.1 Full year effect of 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. The cost shown is the full year effect of funding this entitlement, after adjusting for an updated projection of take up.

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

2.2 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 DSG from the high needs block to the schools block.

2.3 Funding for post 16 social care costs

Funding for young people (16-19) care costs to be transferred to social care.

2.4 Lead Adviser to the Virtual School

It is proposed to transfer this budget to the County Council's budget.

2.5 Education of Children in Residential Care

It is proposed to transfer this budget to the County Council's budget.

3 PRESSURES

3.1 Inflation on Pay and Prices (including National Living Wage)

This reflects the impact of the following:

- Estimated 2% increase in teachers' pay,
- Estimated 2.7% increase in local government pay, comprising a general 2% increase but higher increases for grades H4 and below in response to the National Living Wage (NLW).
- Non pay inflation of 2% but with specific inflation increases for utilities.
The pressure does not take account of increasing costs for the NLW being passed on by other service providers.

3.2 Demography (Primary, Secondary and Early Years)

This constitutes the impact of changes in pupil numbers (excluding growth in free school numbers) on AWPU and other pupil led funding in the schools and early years budget shares.

3.3 Additional special school places

This allows for an additional 56 places making a total of 2,302 funded places in special schools from September 2018.

3.4 Additional top ups in special schools

An increase in funding in the top up budget for additional placements above the funded number.

3.5 Full year effect of 2017/18 increase in special school places

The full year effect of the increases in special school places made in September 2017.

3.6 Additional high needs college places

This provides for an additional net 24 places from August 2018.

3.7 Top ups for high needs provision in colleges

An increase in the top up budget for current budget pressures as a result of increased complexity of need.

3.8 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.

3.9 Rates

Increases in rates costs including from inflation and revaluations.

3.10 Growth in 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 new cohort at the free school which is expected to open during 2018-19.

3.11 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.

3.12 New free school opening in 2018-19

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

3.13 Growth Fund

It is intended to increase the Growth Fund budget to reflect the new arrangements for recovering funding when a bulge class leaves, whereby the saving accrues to the budget shares rather than the Growth Fund.

3.14 Prior Year adjustments

This pressure comprises:

- the change between years in the retrospective adjustments to budget shares to correct for under or over estimates of pupil numbers at schools where the Authority is required by the DfE to estimate pupil numbers,
- 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 as part of the 2018-19 budget shares.

3.15 Licenses

The DfE has indicated that there will be an increase in the cost of licenses for schools.

3.16 Independent Placements

There are several components to this pressure:

- An increase in education placements: £960k
- An increase in the contribution to social care from DSG - this relates to placements of children with EHCPs whose needs could be met from in-county provision were it not for the social placement requirements. The number of these placements has increased to 70 whereas the contribution to social care has been calculated on a historic figure of 20 placements. The estimated average top up has also increased from £10k to £12k giving a total increase of £640k
- An increase in the contribution to social care so that it includes the place funding of £10k (as well as top up funding) for the 70 placements: £700k.

3.17 SEND Support Services

This funding was agreed in 2017-18 from the Strategy Development Fund and is now to be incorporated in the support services budget

3.18 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.

3.19 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.

3.20 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.

4 SAVINGS

4.1 Rates

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

4.2 Early Years Pupil Premium

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

4.3 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.

4.4 Split Site

Hertswood has moved to one site and thus there is a saving on its split site allocation.

4.5 Looked after children (LAC) funding in budget shares

It is intended to reduce the LAC funding in budget shares by £400 per eligible pupil to reflect the increase in Pupil Premium funding for looked after children in 2018-19. The DfE has switched resource for LAC from DSG to the Pupil Premium.

4.6 Minimum Funding Guarantee

There is a reduction in the cost of the Minimum Funding Guarantee due to the impact of updating for 2018-19 data and the additional funding from headroom.

4.7 Dual Use

As part of its site moves, Hertswood has ceased to operate its dual use sports hall.

4.8 Bulge classes leaving

The DfE has approved a pupil number variation to reduce budget shares to reflect the departure of bulge classes from September 2018.

4.9 Falling Rolls Fund

It is proposed to introduce a cap on allocations from the Fund which would result in a saving.

4.10 Closure of Barnwell VI unit

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

4.11 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 special schools capital as a saving.

4.12 PNI designated schools

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

4.13 Boarding Pathfinder

Currently free places have been negotiated and this budget is only required to provide additional support costs. It is therefore underspending and it is proposed to take a saving.

4.14 Schools Forum

The element of this budget relating to travel costs is underspending and it is proposed to take a saving.

4.15 Appeals

This saving relates to the conversion of schools to academy status, potentially including an increase in the charge to academies opting to buy back the appeals service.

5 ADJUSTMENTS TO MATCH BUDGET TO DSG AVAILABLE

5.1 Pressures not being funded.

The resources available are insufficient in most blocks to fund inflation. Also the Schools Forum has previously indicated that 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.

5.2 Headroom

The headroom is calculated as the resource available after taking account of budget pressures and savings, except inflation. The Schools Forum has supported making an increase of 0.5% in pupil led funding factors which would be the first commitment against the headroom in the schools block budget. It is intended to transfer the headroom amount in the high needs budget to the SEN Strategy Development Fund.

6. Schools Revenue Budget Statement 2018/19

	Para	Schools £'000	Central Services £'000	Early Years £'000	High Needs £'000	Total £'000
Schools Budget 2017-18 (as per Integrated Plan)		727,986	6,840	79,742	104,161	918,729
Funding for new free school opening in 2017-18 which DfE will now recoup in 2018-19		(440)				(440)
Schools Budget 2017-18 (as at Section 251 budget statement including academies)		727,546	6,840	79,742	104,161	918,289
Technical Adjustments:	2					
Full year effect of additional hours for working parents	2.1			7,082		7,082
Funding for pupils in special units	2.2	659			(659)	-
Funding for post 16 social care costs	2.3				(146)	(146)
Lead adviser to the virtual school	2.4		(78)			(78)
Education of children in residential care	2.5		(30)			(30)
Pressures:	3					
Inflation (including National Living Wage)	3.1	16,670	135	1,974	2,436	21,215
Demography	3.2	6,225		(1,319)		4,906
Additional special school places 2018-19	3.3				327	327
Additional top ups in special schools	3.4				193	193
Full year effect of 2017-18 increase in special school places	3.5				283	283
Additional college high needs places 2018-19	3.6				96	96
Top ups for high needs provision in colleges	3.7				115	115
Full year effect of 2017-18 increase in high needs college places	3.8				22	22
Rates	3.9	1,151		13	20	1,184
Growth in free schools	3.10	1,633				1,633
New free school opening in 2017-18	3.11	175				175
New free school opening in 2018-19	3.12	102				102
Growth Fund	3.13	315				315
Prior year adjustments	3.14	633				633
Licenses	3.15		33			33
Independent Placements	3.16				2,300	2,300
Provision of SEND support services	3.17				450	450
Full year effect (FYE) of top ups for high needs provision in colleges	3.18				174	174
FYE of increase for primary behaviour	3.19				255	255
FYE of increase for secondary behaviour	3.20				500	500
Savings:	4					
Rates	4.1	(300)				(300)
Early Years Pupil Premium	4.2			(48)		(48)

		Schools	Central Services	Early Years	High Needs	Total
Closing schools	4.3	(143)				(143)
Split site	4.4	(200)				(200)
LAC funding in budget shares	4.5	(177)				(177)
Minimum Funding Guarantee	4.6	(820)				(820)
Dual use sports hall	4.7	(53)				(53)
Bulge classes leaving	4.8	(315)				(315)
Falling Rolls Fund	4.9	(216)				(216)
Closure of Barnwell VI unit	4.10				(50)	(50)
Capital expenditure on increasing capacity in special schools	4.11				(2,200)	(2,200)
PNI designated schools	4.12				(103)	(103)
Boarding Pathfinder	4.13		(40)			(40)
Schools Forum budget	4.14		(10)			(10)
Appeals	4.15		(71)			(71)
Schools Budget 2018-19 before reversing out Inflation		752,885	6,779	87,444	108,174	955,282
Reversal of Inflation	5.1	(16,670)	(135)	(1,974)	(2,436)	(21,215)
Schools Budget 2018-19 after reversing out Inflation		736,215	6,644	85,470	105,738	934,067
Headroom						
0.5% increase in per pupil funding factors		3,171				3,171
Balance to be allocated	5.2	5,123			2,052	7,175
Schools Budget 2018-19 including headroom		744,509	6,644	85,470	107,790	944,413
Estimated 2018-19 DSG		739,309	5,753	85,470	107,790	938,322
Use of carry forward		5,200	891			6,091
Total DSG Available		744,509	6,644	85,470	107,790	944,413
Difference		-	-	-	-	-