

SCHOOLS BUDGET REPORT 2007/08

Report of the Director of Children Schools and Families

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1. Purpose of the Report

- 1.1 To inform the Forum of the Schools Budget situation for 2007/08.
- 1.2 To agree the schools contingency budget.
- 1.3 To consider the allocation of the “headroom”, i.e. the balance of resources after meeting the Minimum Funding Guarantee (MFG) and other pressures.
- 1.4 To confirm the support of the Forum for an exception to the Central Expenditure Limit (CEL) arising from the treatment of Key Stage 4 - Personalised Learning, Teachers Pay Reform Costs, and the new mainstream SEN funding arrangements.

2 Budget Context for Hertfordshire County Council

- 2.1 For the second year Hertfordshire will receive a ‘floor’ revenue finance settlement from government, equating to 2.7% increase in 2007/08 (equating to £4m). The government expects that any increase in Council Tax should be less than 5% and have indicated their intention to use capping powers to secure this if necessary. A 5% increase in Council Tax delivers approximately a £20m increase in resources to the authority.
- 2.2 However, the authority is experiencing significant increases in inflationary and other pressures (a projected 7.6% or £43.7m in 2007/08). Overall inflationary pressures (including those in relation to the Local Government Pension scheme) are projected to total 3.6% (£20.5m). Increased demographic pressures, particularly relating to the growing elderly population, adds a further 1.9% (£10.8m) to the base budget. Other pressures take account of legislative changes such as the support to children with disabilities and the costs of financing existing capital schemes.

- 2.3 Against these pressures a range of efficiency proposals have been made totalling £10.5m (1.8%), in order to contain the pressures on the budget without impacting on front line service delivery. They include improved business process changes relating to the transformation of services and reviews of discretionary areas of spend, such as denominational transport. The proposed transfer of relevant costs to the Dedicated Schools Budget makes a further contribution of £900k towards these savings.
- 2.5 Clearly, if the authority is to balance the budget then further reductions in service expenditure and the revenue impacts of the capital programme will be necessary. Decisions on these issues will be made by the County Council at their budget meetings in February.

3. Background

- 3.1 The Schools Budget is funded by the Dedicated Schools Grant (DSG), which is calculated annually according to the number of pupils in Hertfordshire at the schools census date in January each year. For 2007/08 the relevant count is the January 2007 census.
- 3.2 An indicative Schools Budget for 2007/08 was set in March 2006 and indicative budget shares were issued to schools. The DfES had estimated Hertfordshire's pupil numbers for the 2007/08 DSG at 160,282 pupils. However, following the finalisation of the January 2006 pupil count, the authority revised this estimate of pupil numbers to 160,000, reducing in turn the estimated DSG from £597.892m to £596.840m. The Indicative Schools Budget set in March 2006 was based on this lower figure.
- 3.3 The estimated available headroom in the 2007/08 Indicative Schools Budget was £5.3m and the Forum agreed that this be placed in the schools contingency budget pending final decisions on its use.

4. Dedicated Schools Grant 2007/08

- 4.1 The final value of the 2007/08 DSG will only become known once the January 2007 schools census pupil numbers have been confirmed by the DfES during the summer term.
- 4.2 However, although the number of pupils remains uncertain, the DSG funding per pupil for Hertfordshire in 2007/08 was fixed in last year's settlement and is £3730.25 per pupil. This takes into account:
- A basic increase in funding on 5% per pupil over 2006/07.
 - An additional £7.6m to provide personalised learning options in both the primary and secondary phases;

Overall per pupil funding will increase by 6.4% in 2007/08. This compares with 6.7% nationally.

4.3 Based on previous experience, the authority is taking a prudent approach in projecting the level of DSG for 2007/08. This is estimated at £597.226m (including the carry forward of £0.193m from 2006/07).

5. Detailed Budget 2007/08

As an indicative 2007/08 Schools Budget was prepared last year the budget preparation process for 2007/08 has focused on what changes need to be made to update the indicative budget.

Comparison of Indicative and Proposed Schools Budgets for 2007/08

A comparison between the Schools Budget now proposed (excluding headroom) and the indicative version is shown in Annex A(i).

The main changes are as follows:

5.1 Inflation

In the Indicative 2007/08 Schools Budget inflation was estimated at 3.7%, (the figure used by the DfES for average cost pressures). In the intervening period two major increases have arisen:

- gas price increases in autumn 2006 (averaging 57%) and electricity price increases for large sites, mainly secondary schools (averaging approximately 85%),
- employers' contributions to teachers pensions have increased by 0.6% from 1st January 2007, the full year effect of which in 2007/08 is £1.3m (total annual cost: £1.7m)

However, this is offset by a lower than budgeted increase in the cost of balance of risks insurance. This had been expected to increase to £14 per pupil but the rate has remained at £10 per pupil, saving £0.4m.

These factors result in an overall inflation cost of £20.6m to the schools Budget (taking account of part year funding of the teachers pensions in 2007/08 and the local government pension scheme).

5.2 Maternity-(Section 52 line "Staff Costs- supply cover")

There is an increase of £0.5m, resulting from the on-going trend of increases in the number of teachers qualifying for maternity leave over the last 4 years (12%). The development of "family friendly" policies, which has made extended maternity leave more attractive, has also increased the average cost of claims by 7%.

5.3 School Specific Contingencies

There are two changes between the indicative and proposed budgets:

- The £5.3m of headroom, held here pending decisions on its allocation, is no longer a contingency item as there are now specific proposals for its use.
- The £3.6m relating to Earmarked Pupil Funding (EPF) and Additional Welfare & Tuition (AW&T) has been moved to the provision for pupils with SEN line, as part of the new mainstream SEN funding arrangements.

The minor changes between the indicative and revised figures on a number of the Section 52 lines reflect the use of updated inflation figures in the revised budget compared to the 3.7% used across the board in the indicative budget.

Comparison between the Proposed 2007/08 Schools Budget (excluding headroom) and the Final 2006/07 Schools Budget.

Annex A(ii) compares, by section 52 heading, the proposed 2007/08 Schools Budget (excluding headroom) with the final 2006/07 budget

5.4 Individual Schools Budget (excluding LSC funding)

Overall, the 2007/08 Individual Schools Budget (ISB) has increased by £21.7m (or 4.4%). However, this is net of a £3.6m reduction relating to the transfer out of EPF and AW&T funding and a £2.0m increase relating to the transfer into the ISB of UPS2 funding for secondary schools and threshold supply. Excluding these transfers, the increase is £23.3m (or 4.8%)

Within this headline movement between years, the three main changes are:-

	£
i) inflation (including teachers and local govt superannuation)	18.6m
ii) personalised learning funding (Primary + KS3)	6.0m
iii) demography	(1.4)m

Due to the high gas and electricity price rises, the inflation is skewed towards the energy budgets which are primarily distributed in school budget shares through area related funding, rather than through AWPU's. Thus the increase in AWPU's would be lower in the proposed budget shares than it was in the indicative budget shares (approximately 3.2% compared to 3.6%). It is suggested that, in the interest of stability in multi year budgeting, the energy inflation be distributed in a way that protects the AWPU increases included in the indicative budget shares. Schools Forum is asked to approve this proposal.

5.5 Devolved Standards Funds

The new arrangements introduced in 2006/07 will continue in 2007/08.

The School Development Grant has increased by 3.7% per pupil, year on year, when compared with 2006/07.

Details of the 2007/08 Standards Fund programme will be in a separate report to the February meeting.

5.6 Threshold and Performance Pay Grant

The budget represents the balance of the former pay grant after the further transfers in 2007/08 of UPS2 funding for secondary schools and threshold supply to the ISB, in accordance with the proposals set out in the recent consultation document.

5.7 School Specific Contingencies

It is currently projected that the contingency budget in 2006/07 will be fully spent.

The 2007/08 Schools Specific Contingency shown takes account of the ending of the “one-off” funding of £150k included in 2006/07 to support the former three admissions schools. Also the funding previously held in the contingency for in year allocations of EPF and AW&T has been transferred to the provision for SEN pupils’ budget line because it will be held centrally and devolved (rather than delegated) under the new SEN funding arrangements.

The 2007/08 contingency budget is therefore calculated as follows:

-Schools Contingency for 2006/07 agreed by the Forum:	£5.726m
-Discontinuation of element for three admissions schools	£(0.150)m
-Inflation	£0.156m
-Transfer of EPF and AW&T elements	£(3.643)m
-Schools Contingency for 2007/08	£2.089m

Made up of:

Schools in Challenging Circumstances	£0.650m
General Contingency	£1.439m

The Schools Forum is asked to approve this contingency budget for 2007/08.

5.8 KS4 Practical Learning Options

The 2007/08 Budget includes an additional £1.7m for KS4 Practical Learning which was allocated in the 2007/08 DSG as part of the £7.6m personalised learning funding for both the primary and secondary phases.

5.9 Provision for Pupils with SEN with and without statements

The high increase on this line results from the transfer from the Individual Schools Budget of £3.6m of earmarked pupil funding and additional welfare and tuition. A similar amount has been transferred from contingency. These amounts will be devolved to schools under the new mainstream SEN funding arrangements.

5.10 Education Out of School

The budget for Education Out of School has increased by some 15%. The main reason for this increase is the full year effect of the new provision of KS4 Learning Centres.

5.11 Private/Voluntary/Independent Fees for Education of Children Under 5

As described in the budget monitoring report to the December Forum, a provision of £1m towards funding an increase in the participation rate for three year olds (to the 90% figure expected by the DfES), was made in 2006/07. This provision was made from a “one off” saving due to the faster than expected reduction in MFG protection in school budget shares in 2006/07. This saving is not available in 2007/08 and thus this provision does not continue. (This issue is reconsidered in the section below regarding the use of the expected under-spend from 2007/08.)

The other variable impacting on this budget is the funding rate which will be payable to PVI nursery providers in 2007/08. It is proposed to increase this in line with the MFG. This increase in the funding rate can be met from within the existing budget, providing the participation rate remains static.

5.12 Staff Costs-supply cover (not sickness)

This budget has increased by 36%. As described above this is due to a £500k increase in the maternity budget.

6. **Minimum Funding Guarantee (MFG) Allocation**

6.1 The interaction of the Minimum Funding Guarantee (MFG) with the Hertfordshire formula funding and pupil number changes can produce adverse results and lock in protection funding that was intended to reduce over time. Under its powers to agree exceptions to the MFG (providing that these do not in total affect more than 20% of Hertfordshire schools), the Forum has agreed a number of exceptions. Two further exceptions to the MFG, regarding the 2005/06 pupil numbers to be used and the treatment of the new personalised learning funding in the calculation, were agreed for 2006/07 by the DfES. The combination of these exceptions and the above inflation increases in school budget shares has minimised the amount of protection payable under the MFG.

6.2 The cost of operation of the MFG over and above the provision for inflation, pressures (including personalised learning) etc is currently estimated to total £0.6m in 2007/08. However, this is subject to the input of the January 2007 pupil numbers, of other revised formula funding data and the application of the headroom.

7. **Headroom**

7.1 The £5.3m of headroom identified in the indicative 2007/08 budget remains available. The proposals for its distribution will be presented to the Cabinet in February and are as follows:

- a) delegation to schools in budget shares towards funding additional payroll costs, £0.5m
- b) Funding for the Youth Programmes Unit, to provide Education other than at School, £0.4m
(These proposals were agreed by the Forum at its December meeting.)
- c) Additional funding for primary schools (in accordance with the proposals in the consultation document) £2.0m
- d) Mainstream SEN funding (also in accordance with the consultation document's proposals) £1.7m
- e) Provision for redundancy and pension costs relating to school reorganisations £0.3m

f)	Protection funding regarding the delegation of UPS2 funding to secondary schools	£0.5m
g)	"One-off" additional support for MECSS for 2006/07 only.	(£0.1m)
	Total	£5.3m

7.3 Redundancy and Pension Costs

These have historically been part of the LEA budget rather than the Schools Budget. Under new rules introduced by the DfES in 2006/07 they can be included in the schools budget providing that the revenue savings, resulting from the reorganisations, are at least as great as the extra redundancy and pension costs. As the costs tend to be "one off", whereas the savings are ongoing, the DfES has confirmed that it is reasonable to take the total savings from say the first five years, to set against the year 1 redundancy costs. In each reorganisation the revenue savings to the Schools Budget over five years are projected to exceed the estimated redundancy/pension costs.

7.4 Deprivation Review

The Government's review of deprivation funding is ongoing. Authorities must review their funding formulae before 2008/09 to ensure that the optimum funding arrangements are in place to help address the gap in attainment between schools in deprived areas and other schools. Both the total quantum of funding allocated for deprivation and the method by which it is distributed between schools are key parts of this review. In Hertfordshire social deprivation funding in school budget shares was increased in 2006/07. This review will be an item for the 2008/09 work programme.

8. **Underspend on Central Expenditure in 2006/07**

The budget monitoring report presented to the December Forum meeting indicated an estimated underspend of £1.1m. This funding can be carried forward to 2007/08 but is a "one off" resource.

It is proposed that £1m be used in 2007/08 as a provision for the budget for private, voluntary and independent nurseries, against an increase in the participation rate. Hertfordshire has a participation rate for three year olds of 85% compared to the DfES' expectation of 90%. It is prudent to continue to make a provision for an increase in the participation rate.

It is proposed that any remaining underspend from 2006/07 be added to the schools contingency budget in 2007/08.

9. **Central Expenditure Limit (CEL)**

- 9.1 This limit prevents a Local Authority from increasing the level of resources held centrally within the Schools Budget at a faster rate than the ISB, without the agreement of the Schools Forum. The limit for 2007/08 is based on the level of central expenditure in 2005/06, uplifted for increases in the ISB since then. Thus items which caused the authority to exceed the limit in 2006/07 and which were agreed by the Forum last year, such as the retention of most of the pay progression grant funding, do not roll into the base for the purposes of

calculating the limit for 2007/08. They have to be re-agreed by the Forum each year.

9.2 The calculation of CEL is set out in Annex B. (In the calculation shown, the headroom and the carried forward underspend are treated as described above). The Forum will note that the ceiling is exceeded. This is entirely as a result of the following:

- continued retention (rather than delegation) of most of the Pay Progression Grant;
- Retention of the funding for KS4 Practical Learning (the provision of specialised diplomas in KS4 via the strategic area partnership groups);
- Mainstream SEN funding changes -devolution (rather than delegation in budget shares) of the £1.7m headroom allocation for mainstream SEN funding and the £3.6m EPF and AW&T funding currently in school budget shares
- Boxmoor House special school-the continued retention of this budget centrally, following the schools closure in March 2006.

9.3 The first two items are considered by the DfES as technical reasons for exceeding the limit. The last two items are specific to Hertfordshire. We therefore request that the CEL for 2007/08 is increased to the following level.

	£000
DfES Limit	65,013
Central expenditure before exceptional items	64,015
Pay Progression Grant	11,480
Practical Learning	2,629
Mainstream SEN	5,300
Boxmoor House	1,178
Proposed Higher Limit	84,602

The CEL for 2007/08 agreed by the Forum for the 2007/08 Indicative Schools Budget was £85.521m. However, this included all the £5.3m headroom as Central Expenditure (because it was being held in the contingency pending final decisions for its allocation) and did not take account of the mainstream SEN funding changes.

10. Risks Implicit in the Budget Plan

10.1 As mentioned above, the actual Dedicated Schools Grant will be determined by reference to the pupil numbers returned in the January 2007 census. The budget presented to the Forum here is based upon estimated numbers.

- 10.2 As in 2006/07 any over or under spending against centrally retained budgets in 2007/08 will carry forward and supplement or become a first call on the following year's DSG.

The detailed calculation of budget shares will start shortly, following the receipt of the schools census pupil numbers. This may impact on the level of the MFG. If significant anomalies arise, they will be referred to the Forum's February meeting.

11. Conclusion

11.1 The Forum is asked to:

- i) Consider the overall proposals for the 2007/08 budget;
- ii) Agree the proposal to maintain AWPU values by targeting energy inflation into AWPU's.
- iii) Agree the Schools Contingency Budget;
- iv) Consider the proposed distribution of the headroom
- v) Specifically agree the inclusion of the amount of redundancy costs for reorganisations within the central expenditure of the Schools Budget,
- vi) Approve the exceeding of the Central Expenditure Limit.