

## Financial Update and Budget Monitoring report

### 1. Purpose of the Report

This report looks at the budget monitoring position of the Dedicated Schools Grant, it considers the financial position of the mutual funds held by the Forum, it looks at the latest position on the DSG and capital funding, together with the cost pressures falling on schools.

### 2 Recommendation

#### The Forum agree

- i. To agree a new standardised budget monitoring template for termly returns to the Local Authority
- ii. To note the cost of milk will be charged to schools when no grant funds are available

### 3 High Needs SEN

The High Needs SEN budget consists of the funding that is given to Special, Primary and Secondary schools for children with support at "matrix" 6 and above, to resource bases, to FE providers and to independent schools. In 2014/15 it is projected the overspend will be £1.9m which is the same level as reported in February. The number of pupils in each type of placement are shown below

Type of placement	Numbers
Matrix and Resource Bases	657
Special Schools	530
Independent schools	413
Total	1600

### 4. School Budget Monitoring Returns

- 4.1 The December budget monitoring returns were due by the end of January. At the time of writing this report there are still 4 outstanding. The Chair of Governors at each of the Schools has been written to following unsuccessful reminders to the Heads and Bursars. There will be a verbal update at the meeting.

- 4.2 The process is if a school has not made a return the school bursar receives an e-mail and this is later followed up with an e-mail to the Headteacher. General reminders are included in the schools newsletter before and after the deadline. Within the process, if no return is received a letter will be sent from the Head of Resources and Performance, Children and Young People to both the Headteacher and Chair of Governors.
- 4.3 As reported at a previous meeting the accuracy of forecasts has been questioned with many schools who over estimate their expenditure but there are examples of where the opposite is true.
- 4.4 At the Forum meeting in December 2014 it was detailed that at the time of setting their budgets, schools were anticipating the end of year balance would be £5m. The September budget monitoring returns were indicating the end of year balance in all schools would be £10m. The December returns are now showing a carry forward forecast of £11.6m. This compares with a forecast of £12.1m at December 2013. Indications from the returns in previous years would suggest there is an element of under forecasting of the year end balances. If we assume that this under forecasting is consistent year on year the schools carry forward at the end of 2014/15 would be £15m which is slightly lower than 2013/14.
- 4.5 The budget monitoring returns received from schools vary in terms of both format and quality. Some returns do not provide an end of year forecast but compare expenditure with a profiled budget while many have little supporting narrative. The capacity to examine all returns promptly is limited. When issues are identified there can be a delay before schools are challenged. If the template included additional data this process could be speeded up.
- 4.6 To overcome these issues it is proposed that a standard budget monitoring template is introduced. This will have validation checks built into the template to make basic checks on the data, for example a check will be made on whether the average cost per month of the salaries forecast be in line with the average monthly cost of salaries paid to date, a comment will be needed to be provided if not. There will be a level tolerance before a comment needs to be provided.
- 4.7 These inbuilt warning messages should aid discussions within the school between the school bursar, Headteacher and Governors on the progress of the budget and the financial forecasts. The template will also ask for more commentary which will not only aid the discussions internally within the school but will demonstrate the budget is being controlled adequately. Before the next monitoring statement is due consideration will be given to how the financial data in the template can be populated from the schools local accounting systems.

- 4.8 For 2016/17 the budget planner would also move to this basis.
- 4.9 There remains two schools which have submitted deficit licence applications, Deptford Green and All Saints. These are being reviewed for approval when the May budget returns are notified.

## **5. Level of the Dedicated Schools Grant**

- 5.1 The Education Funding Agency has notified us of a deduction they plan to make to the DSG for our resident pupils that were at Alternative Provision in October 2014 at a free school which opened in 2012 or 2013. In the first and second year that these free schools were opened all the costs were met from a central DFE budget
- 5.2 The deductions to be made will be based on an assessment of the number of pupils from the Local Authority, including those of its schools and academies that have commissioned places directly, being placed in each AP free school's provision.
- 5.3 Currently we have seven such pupils (The City Gateway (Hybrid Academy)- 1, Harris Aspire Academy - 6 pupils). The deduction will be 7/12 of £10k or £41k in total.
- 5.4 As schools commission places out of borough it could be assumed there would be a lower requirement to commission in-borough places at Abbey Manor College. In practice this is unlikely to happen as the secondary rolls start to increase over the next few years and extra places potentially are required.
- 5.5 Schools will need to ensure when they are placing pupils that they are only paying for the top-up funding and not the base funding which is met from this deduction.
- 5.6 A full report will be brought to the Forum in June on Alternative Provision which will detail the funding flows between establishments and consider some wider issues.

## **6. School Milk**

- 6.1 Under the Nursery Milk Scheme, all children under five in a childcare or early years settings for two or more hours a day, are eligible to receive a free daily drink of milk (1/3 pint). This includes some 4 year olds in reception classes at primary schools. The Nursery Milk Scheme reimburses childcare providers for the full cost of purchasing milk they provide - free of charge, to children in their care.
- 6.2 From 1 January 2015, schools across England are legally required to ensure milk is made available during the school day to all pupils (5-18

years) who want it. Schools can make milk available at either mid-morning or afternoon break or at lunchtime. Those infant school pupils who are receiving free school meals as part of universal free meals will receive it as part of their lunch by agreement with Chartwells. Older pupils who are registered for Free School Meals will receive the milk free at whatever time the school makes it available. For pupils aged 5-16 who do not have a free entitlement, schools will be expected to pay for the costs of the milk and charge parents.

- 6.3 The administrative cost in the past has not been significant but with both public health and the government promoting school milk it is likely to grow and it is proposed the cost will be charged to individual schools to pay.

## **7. Cost pressures on schools - Schools Budget position 2015/16 and beyond**

At the last meeting of the Schools Forum, members asked for a summary of the inflation and cost pressures facing schools. There are a number of significant cost pressures falling on schools over the next two years. These are mostly staff related. Schools will not only need to meet the cost of the pay awards but will face the financial consequences to changes to employers contributions, national insurance and pension costs.

At the time of writing this report it is expected that Ministers will provide details of a pay review for public sector workers. It is thought that this would allow schools to have the flexibility to offer individual teachers in the main pay bracket a raise of up to 2% next year, subject to performance.

Commentators are saying that as there is not coalition agreement on the School Teachers' Review Body (STRB) recommendation, this and any announcement may be delayed until after the election. The figures below assume that the cost of future public pay awards are at 1%. If any details are announced before the meeting the information below will be updated and tabled.

### **7.1 Pay Award Teachers**

Government assumptions on pay awards for 2015/16 have been set to average no more than 1% across the public sector. There is of course the part year effect of the pay award from last year leaving a cost pressure of a full 1% in 2015/16.

### **7.2 Pay Award – Admin and support staff**

The admin pay award runs from 1 January 2015 to the end of March 2016. The costed award was 2.2%

### 7.3 Superannuation

The rate for Teachers superannuation will rise from 14.1% on the 1 September 2015 to 16.4%. Making an overall average for 2015/16 of 15.5%. Admin and support staff pension costs will rise by 0.5% both in April 2015 and April 2016.

### 7.4 National Insurance employers contribution

While the payments thresholds have been raised for April 2015 by far the largest change is in April 2016.

The change involves merging the state second pension with the basic state pension. This will abolish the current practice whereby employees get a National Insurance (NI) rebate of 3.4% for contracting out of the second state pension to enter final-salary schemes, which mostly impact on workers in the public sector such as teachers and workers who are in the Local Government pension scheme - who have to opt out to enter these schemes.

### 7.5 Employers will now have to pay higher NI, amounting to that 3.4% of their employees' relevant earnings. This is for the funding band where an employer is paid between £677 to £3,532 per month

2015-16 Rates		2016-17 Rates*	
Pay band per month	%	Pay band per month	%
£0-£676	0%	£0-£676	0%
£676-£3,532	10.40%	£676-£3,532	13.80%
£3,532 +	13.80%	£3,532 +	13.80%

\*Assume no change to the threshold rates

## 8. Energy Bill

The cost of energy is falling at present and while the pattern will vary from school to school depending on the type of contracts that are in place we estimate the average fall is 5%.

**9. Other Prices**

Schools Service Level agreement are generally increasing by 5% but other prices are below 1%. The cost pressure allows for an average increase of 1%.

**10. Overall Impact**

The overall increases are shown below

**Cost pressures within schools**

Budget Heading	% of budget	School Funding £m	Increase	2015/16		2016/17	
				Total	Budget Impact	Total	Budget Impact
Teaching Staff	50%	111	Pay	1.0%	0.5%	1.0%	0.5%
			Pension	1.3%	0.7%	1.0%	0.5%
			Nat. Insurance	0.0%	0.0%	1.5%	0.8%
Other Staff	25%	56	Pay	2.2%	0.6%	1.0%	0.3%
			Pension	0.5%	0.1%	0.5%	0.1%
			Nat. Insurance	0.0%	0.0%	1.5%	0.4%
Energy	1%	2	Prices	-5.0%	-0.1%	0.0%	0.0%
Other supplies	24%	53	Prices	1.0%	0.2%	1.0%	0.2%
<b>Total ISB</b>		<b>222</b>		<b>2.0%</b>		<b>2.8%</b>	

This table excludes local issues such as the reduction in the matrix funding

10.1 Most of the publicity nationally has been around the real terms funding of schools budgets over the life of the next parliament and that it will reduce by 7% if the funding level per pupil stays cash frozen. This has come from an analysis by the Institute of Fiscal studies. This relates to the 5 year life of the parliament. If assuming after the two years quoted above the inflationary pressures are around 1% and no further changes are made to pension and national insurance contributions, the figures broadly seem in line.

10.2 Looking at overall budgets in real terms if these circumstances pertain, then schools would see the following typical reductions where pupil numbers do not change:

School Type	Primary School		Secondary School	
	210 Pupils £	400 Pupils £	850 pupils £	1200 pupils £
Typical Budget	1,130,000	2,180,000	6,130,000	9,360,000
7% Reduction	79,100	152,600	429,100	655,200

- 10.3 Overall there would be a £17m reduction in funding in real terms for state funded schools within Lewisham.
- 10.4 School funding is not quite as straightforward as a number of other circumstances interact with costs particularly with the growth in pupil numbers. This will start to offset the difficulties in the secondary sector as the primary growth works its way through the school system.
- 10.5 The above details the cost pressures it is anticipated schools will face over the next few years. There are other budgetary pressures on the Dedicated Schools Grant that will need to be financed.

Particularly the national rates revaluation will take place in 2017 and there is expected to be a large increase in the rates bills which will fall on the DSG rather than the contingency. All the cost pressures from the medium term financial plan is shown below

	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
<b>Business Rates</b>		600		
<b>New Secondary Places</b>		150	250	400
<b>High Need pupil growth</b>	1200	1200	1200	1200
<b>Extending the age of SEN children to 25</b>	200			
<b>Total</b>	1400	1950	1450	1600

## 11. Post 16 funding

Schools have been notified of their post 16 funding. The funding is detailed below:

### **Impact Of EFA 6th Form Funding Notification On LA Funding Prediction**

	2015/16	2016/17*
Addey and Stanhope School	7,336	11,004
Forest Hill School	10,869	16,303
Prendergast Hilly Fields College	44,958	16,038
Sedgehill School	- 169,066	- 259,860
Sydenham School	37,066	55,599
	- 68,837	- 160,916

## 12. Mutual Funds

The Schools Forum has a number of mutual funds it manages on behalf of schools. At the end of the year any balances are returned to schools or rolled forward to the next year. The current position of the funds is described below:

Fund	Budget	Spent or committed to date	Balance
	£000	£000	£000
Growth Fund	1,739	1,920	(181)
Contingency	1,253	780	473
Maternity Fund	831	694	137

### 12.1 Growth Fund

All Growth Fund allocations have now been actioned. The expenditure of £1.87m is £126k in excess of the budget as a result of the creation of more new places than was anticipated.

The 2014/15 Growth Fund budget is £1,739k and is made up as follows

- £672 bulge classes (equivalent of 12 bulge classes),
- £762k expanding schools (some new, some continuing. Covers 13 schools) and
- £305k continuing funding for resources (funding is paid each year as new places move through the school).

### 12.2 Contingency

As expected we have received the back dated business rates bill for Rushey Green. The cost is £500k and will need to come from the contingency. The level of the adjustment is so high as the back dating is to 2010.

### 12.3 Non-Sickness Supply Fund



At the end of last year the non-sickness supply budget was under spent by £89k.

The Autumn Term claims have now been actioned. The Summer and Autumn Term claims breakdown is as shown in the table below:

Phase	Claim Type	Number	Amount	Average
			£	£
Primary	Jury	4	1,982	495
	Maternity	36	249,243	6,923
	Paternity	5	6,371	1,274
	Suspension	4	18,629	4,657
		49	276,225	5,637
Secondary*	Jury Service	3	2,706	902
	Maternity	16	132,025	8,252
	Paternity	1	1,640	1,640
		20	136,371	6,819
Special	Maternity	3	13,036	4,346
	Suspension	2	10,008	5,004
		5	23,045	4,609
		74	435,639	5,887

\* includes all-through schools

The pattern of expenditure on maternity in previous years has not been followed to date in the current year. It looks as if the fund will underspend at the year end. If this is the case the funding will be returned to schools. The amount will be confirmed once the accounts are closed and actioned in 2015/16 financial year.

### **13. Capital Funding**

- 13.1 The basis of the calculation of Devolved Formula Capital has remained unchanged. Every school will receive a fixed lump sum and a variable amount based on pupil numbers. The lump sum and per pupil rates will stay the same for the next 3 years. The pupil numbers used are based on the January school census.
- 13.2 For Devolved Formula Capital, each institution gets a fixed lump sum of £4,000 and a variable amount based on their pupil numbers multiplied by the appropriate rate per pupil .

	Per Pupil
Nursery / Primary	£11.25
Secondary	£16.88
Post-16	£22.50
Special	£33.75

13.3 The DFE have introduced a new School Condition Allocations to replace the school maintenance allocation. It has three components:

- Core condition funding based on pupil numbers;
- High condition needs funding for those with disproportionately high needs; and
- Floor protections to provide some stability in the transition to the new system.

13.4 School Condition Allocations take into account the information from the Property Data Survey Programme (PDS) about the condition of schools. For the majority of schools the survey data shows that existing condition needs correlate well with pupil numbers, which are also a proxy for the size of the estate. Thus there is core funding built into the formula. The PDS shows that some LA's have particularly high existing condition needs relative to their size. In recognition of this a further allocation has been made. In addition to their core condition allocation. This is based on the extent to which the condition needs identified in the PDS exceed a threshold. There is also a floor protection in 2015-16 to ensure that no relevant body gets less than 80% of the funding it received in the 2014-15 maintenance allocations.

13.5 Lewisham's PDS dashboard is provided in Appendix a.

13.6 The funding allocations for this and last year are shown below

	Devolved Formula Capital		Maintenance		Total
	Local Authority	Voluntary Aided	Local Authority	Voluntary Aided	
	£'000	£'000	£'000	£'000	£'000
<b>2014/15</b>	<b>590</b>	<b>210</b>	<b>3,090</b>	<b>1,082</b>	<b>4,972</b>
	Devolved Formula Capital		School Condition Allowance		Total
	£'000	£'000	£'000	£'000	£'000
	<b>2015/16</b>	<b>596</b>	<b>215</b>	<b>3,344</b>	<b>989</b>

13.7 Basic Need

Basic need funding is allocated on the basis of a comparison of forecast pupil numbers with school capacity, with shortfalls in capacity attracting funding. The allocations for financial year 2017-18 are based upon the projected need for new places by September 2018.

13.8 The allocation for Lewisham is as follows

Total Basic Need allocations (announced February 2015)	Amount payable 2015-18			
	2015-16 Top Up	2016-17 Top Up	2017-18	Additional payment towards new primary schools / whole primary school expansions (to be paid in 2017-18)
10,572,584	0	0	9,435,400	1,137,184

13.9 Additional allocations for 2015-17

The 2015-17 basic need funding included £300 million held back for those Local Authorities with unexpected increases in forecast pupils. This has been allocated, alongside the funding for 2017-18. Lewisham does not meet the criteria and will not receive any of this funding.

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