

| LEWISHAM SCHOOLS FORUM |                                |          |                  |
|------------------------|--------------------------------|----------|------------------|
| REPORT TITLE           | Medium Term Financial Strategy |          |                  |
| KEY DECISION           | Yes                            | Item No. | 6                |
| CLASS                  | Part 1                         | Date     | 10 December 2015 |

## 1. Purpose of this Report

The purpose of this report is for Forum members to consider the medium term strategy for the next 3 years.

## 2. Recommendations

The Forum

- a) Agree to set up a Schools' Funding task group
- b) Agree the terms of reference for the task group

## 3. Budget Strategy

- 3.1 The long term funding position remains uncertain, particularly with the Government wishing to implement a new funding scheme for schools.
- 3.2 The most likely scenario is that we will not see any growth in the DSG in Lewisham for next year and the schools block will be cash frozen although it will rise in line with pupil numbers. In the long term it is more likely (see report National Funding Formula - 1 October 2015) that Lewisham will see a reduction in resources. The high needs block is expected to be cash frozen and there is unlikely to be any funding for the growth in numbers. This trend is expected to continue for the short term but like schools funding, the high needs block will be subject to review. Lewisham are likely to see a reduction in resources here too.
- 3.4 As set out elsewhere on the agenda, the current financial forecasts show the high needs budget is overspending. The budget strategy has been focused on ensuring that special educational needs spending balances to the funds available while protecting the schools' budgets as much as possible.
- 3.5 The medium term outlook from 2016 to 2020, discussed in section 5 of this report shows significant costs that are likely in the future, with the distinct possibility that there will be no extra funding.

#### **4.0 Medium Term Financial Cost Pressures**

The position of next year's funding will become clearer after the announcements on the DSG settlement in December. The longer term funding position remains uncertain particularly with the current government desire to review the schools' funding system.

#### **4.1 Rates bill**

The next general revaluation of the school estate will take place in 2017. With the expansion of schools places it is likely that there will be increases in the funding requirement. Any extra funding will need to be found within the DSG. It is estimated this will be an extra £600k. The DFE have confirmed that there will be no extra funding provided to cover the cost.

#### **4.2 SEN numbers pressures with little likelihood of additional funding**

Current pupil numbers are growing in the primary age group by 2% per annum, in the secondary age groups the numbers are growing but by 1.5%. The current system of funding high needs pupils is such that funding does not grow in line with the growth in numbers. There is a bidding process that Local Authorities are expected to participate in to see if any extra funding should be provided. Allocations are subject to EFA resources and are not made using any transparent formula.

This growth in numbers equates to £1.3m a year, which with the current funding arrangements, would have to be funded from DSG funds for schools. Further, with the high needs budget being cash frozen, a further cost £0.2m of inflationary pressures will need to be met. This means an overall shortfall of £1.5m, which is taken into account in the forecast overspend for 2016/17.

#### **4.3 New responsibilities to age 25**

Local authorities must set out in their Local Offer the support and provision that 19- to 25-year-olds with SEN can access regardless of whether they have an EHC plan. Further education colleges must continue to use their best endeavours to secure the special educational provision needed by all young people aged 19 to 25 with SEN attending their institution.

19- to 25-year-olds with EHC plans should have free access to further education in the same way as 16- to 18-year-olds. Colleges or training providers must not charge young people tuition fees for such places as

the funding will be provided by the local authority and the Education Funding Agency (EFA).

#### **4.4 Cost pressures on schools**

There are a number of cost pressures falling on schools. These are mostly staff related; schools will not only need to meet the cost of pay awards but will face the financial consequences to changes in employers' contributions, national insurance and pension costs.

On the 7 October 2015 the Secretary of State wrote to the chair of the School Teachers' Review Body (STRB) highlighting the Government's policy for public sector pay in 2016-17, which was set out in the Chancellor's Summer Budget of 8 July 2015, namely an average award of 1%. The letter emphasised that some staff could receive more than 1% while others could receive less, but that there should not be an expectation that every employee will receive a 1% award. This is in line with the approach adopted last year.

The STRB are expected to report back to the Minister by the end of April 2016.

The Government plan a new apprenticeship levy of 0.5% from April 2017. At the moment it is not clear whether there will be an impact on schools

The superannuation and national insurance increases have either impacted this year or else fall in 2016/17 which is outside the scope of this strategy.

### **5 National Position**

**5.1** At the last meeting we discussed the current government proposals on a new national formula and their likely impact. The F40 group have provided a model of the formula they would like to see implemented: each authority's funding has been calculated individually and for Lewisham the reduction is around 10% over three years. This equates to roughly £17m across Lewisham's maintained schools.

**5.2** Likewise we saw a possible review of the high needs block funding.

**5.3** Lewisham, when ranked with other authorities, is currently well placed, ranked the 11th highest on both the Schools Block and the High Needs Block. The Government approach has been to smooth the discrepancies between authorities and to ensure more authorities are funded near average levels. Whether they wish to take funding away from a Local Authority is unknown, but if this is the case then there is a

real danger that Lewisham could be in a position of not only looking at significant cost pressures but reducing resources.

- 5.4 If we apply the same percentage reductions to the high needs block as the F40 group propose for the schools' block, then each year over the three period of this plan we would see a £1.5m reduction in resources.

## 6. Financial Impact

|   | 2017/18    | 2018/19    | 2019/20    |
|---|------------|------------|------------|
|   | £'000      | £'000      | £'000      |
| <b>Business Rates</b>                   | 0.6        |            |            |
| <b>High Need pupil growth</b>           | 1.5        | 1.5        | 1.5        |
| <b>National Funding Formula changes</b> |            |            |            |
| Schools Block*(Estimate)                | 6.0        | 6.0        | 5.0        |
| High Needs Block(Estimate)              | 1.5        | 1.5        | 1.5        |
| <b>Total</b>                            | <b>9.6</b> | <b>9.0</b> | <b>8.0</b> |

\*Figures based on the F40 model phasing in the change over 3 years

## 7. Education Services Grant

ESG is paid to local authorities and academies on a per pupil basis as an un-ring-fenced grant. Local authorities receive additional funding for the obligations that they have to fulfil to both academies and maintained schools (known as "retained duties").

The main rate of funding will be £87 per pupil in 2015-16. The retained duties rate is £15 per pupil. There is no longer an enhanced top-up for academies in 2015/16, but academies do still receive protection from large budget reductions. Lewisham received a grant of £3.9m in 2015/16.

The services covered by the grant are

- School improvement
- Statutory and regulatory duties
- Education welfare services
- Central support services
- Asset management
- Premature retirement and redundancy costs
- Therapies and other health-related services
- Monitoring national curriculum assessment

In the Chancellor's Autumn statement he announced savings of around £600m will be made on the ESG, including phasing out the additional funding schools receive through the ESG. The government wants to reduce the local authority role in running schools and remove a number

of statutory duties. The government plans to consult on policy and funding proposals in 2016. Nationally the funding is £800m so this is a significant reduction.

Academies will need to build into the financial plans the reduction

## **8. Schools Position**

There are is also evidence that secondary schools are struggling to balance their budgets, whilst one form entry schools also say they are facing difficult financial decisions.

It would appear outside of the remit of the high needs group to look at the funding formula issues as well as the potentially having to reduce the ISB. It is therefore suggested that the schools' forum set up a second sub group to look at these issues. A draft "terms of reference" document is attached.

## **9. Conclusion**

There is a great deal of uncertainty regarding the future funding of schools. With Lewisham receiving proportionately one of the highest funding per pupil amounts in the country and the Government's desire to even out these discrepancies, Lewisham Schools' could face significant reductions in their budgets. What is unknown is the Government's appetite to make these changes.