Schools Forum				
REPORT TITLE	**Finance Report and Update on Key Issues**			
KEY DECISION	**Yes**		**Item No.**	**5**
WARD	**N/A**			
CLASS	**Part 1**	**Date**	**15 March 2018**	

1 Purpose of the Report

1.1 The purpose of this report is to update members of the Lewisham Schools' Forum on the latest issues and key financial developments which impact on schools.

2 Recommendations

2.1 The Schools Forum is recommended to:-

2.1.1 Note the latest position on the budget monitoring returns.

2.1.2 Agree the revised Minimum Funding Guarantee final estimate at 0.28%.

2.1.3 Agree the school contingency bids for schools A, B and C, as set out in the body of the report.

2.1.4 Agree 3 and 4 year old hourly funding rate.

2.1.5 Note the Capital Reserve update and expect to be presented with a proposed plan for usage at the next Schools Forum in June 2018.

2.1.6 Note the position of the Schools Financial Value Standard.

2.1.7 Note the early closing of accounts process for 2017/18.

3 School Budget Monitoring Returns

3.1 The schools December budget monitoring returns were due by the end of January 2018. Members are asked to note that the latest indications are that the schools carry forward at the end of the year will be £10.3m for revenue balances and an £800k capital balance. Therefore, the total combined balances are forecast at £11.1m for the year-end.

3.2 This figure compares to the £7.3m which had been forecast in the schools budget plans received in April 2017, which would indicate that the early projections were a 'worst case scenario'.

3.3 To date the local authority has now received the following returns from schools. These have been summarised in the table below:

	Received	Outstanding
Primary	61	2
Secondary	11	0
Special	5	0
Nursery School	2	0
PRU	1	0

Note: Finance is currently looking at the latest school submissions in detail any discrepancies found will impact on balances reported above.

3.4 As at the end of February 2018, a total of 13 schools are forecasting deficits with an aggregate forecast position of £4.4m. In addition, there are three schools deemed to be at risk with an aggregate forecast position of £146k. Members will be aware that several measures are being put in place to improve the position via individual financial support and advice. Furthermore, where it’s deemed appropriate and subject to the necessary agreements, the issuing of loans are considered as corrective measure.

4 Minimum Funding Guarantee

4.1 From the 2018/19 financial year, local authorities are responsible for setting the pre-16 minimum funding guarantee (MFG) in their local mainstream primary and secondary Individual School Budgets (ISB) formulae. This MFG protects schools from excessive year-on-year per pupil reductions resulting from changes in pupil characteristics or in the formula method, whilst allowing changes in pupil numbers to be reflected. It is a requirement that consultation takes place with the Schools Forum.

4.2 In the past, the MFG level has been set by the Department for Education and restrictions remain in place: for 2018 to 2019, the MFG has to be set between 0.5% and minus 1.5% per pupil.

4.3 The MFG should not be confused with the 0.5% increase per pupil provided in the calculation of the Dedicated Schools Grant.

4.4 The Schools Forum has previous agreed to set the MFG at the maximum affordable level (December 2017) and, once information on pressures like National Non-Domestic Rates and changes to the PFI factor calculation were provided, to set the rate at 0.25% (January 2018).

4.5 Once the detailed calculations of the ISB formula were completed, the available funding allowed for the MFG is to be set at a level of 0.28%.

4.6 Therefore, the Schools Forum is being asked to note and approve the higher than previously agreed MFG to a level of 0.28%.

5 School Contingency Bids Update

5.1 Under the terms of reference for the contingency fund, there is provision for the allocation of amounts to schools with reductions of more than 5% in their ISB allocations.

5.2 Where funding falls from one year to the next, the normal expectation would be that schools should manage this.

5.3 In recognition of the fact that there is a practical limit to how much can be achieved in the first year following a step change in funding, given the time frame for redundancies and the needs of the curriculum, the contingency fund has provision which requires schools to manage the first 5% of the reduction and allows Schools Forum to replace the amount lost above that 5%.

5.4 Circumstances within the school will be taken into account by the Schools Forum on deciding the level of support.

5.5 Members of the Schools Forum should note that the following schools faced a 5% fall in their ISB formula share between 2016/17 and 2017/18.

	Fall in funding above 5%	**School's Budget Position**
Primary A	£126,267	Viable budget plan
Primary B	£7,500	Only just balanced budget plan
Secondary C	£337,566	Large Deficit

5.6 Primary School A

- Year on year reduction of £295k which equates to 8.75%.
- Reductions in Free School Meals (FSM) Ever 6 funding, IDACI deprivation funding, prior attainment funding and EAL funding totalling 13% across these categories.
- Further £80k reduction in Pupil Premium funding.
- Started 2017/18 with a £583k revenue surplus which is forecast to fall by £202k this financial year.
- Year on year reductions in staffing spend are set to hit £260k

5.7 Primary School B

- Year on year reduction of £118k which equates to 5.34%.
- Reductions in FSM Ever 6 funding, IDACI deprivation funding, prior attainment funding and EAL funding totalling 8% across these categories.
- Started 2017/18 with a £56k revenue surplus which is forecast to fall by £44k this financial year.
- Year on year reductions in staffing spend are set to hit £113k

5.8 Secondary School C

- Year on year reduction of £713k which equates to 9.5%.

- Reductions in FSM Ever 6 funding, IDACI deprivation funding, prior attainment funding, mobility funding and EAL funding totalling 14% across these categories.
- Further £550k reduction in 6th form and Pupil Premium funding.
- Started 2017/18 with a £846k revenue deficit which is forecast to increase by £363k this financial year.

5.9 As all three schools have been subject to a year on year reduction in funding of more than 5%, which is at least in part due to cohort changes that are difficult to predict, and all have made significant savings (with Secondary C on the verge of a balanced budget were the allocation to be agreed), it is recommended that the allocations be agreed.

6 The 3 and 4 Year Old Hourly Funding Rate

6.1 The Department for Education provides the DSG in four blocks (up from three in previous financial years). The Early Years Block is comprised of funding for:

- 3 and 4 year old universal provision
- 3 and 4 year old extended provision (working families provision)
- 2 year old provision (disadvantaged households)
- Early Years Pupil Premium
- Disability Access Fund
- Nursery school protection

6.2 The Early Years block allocation is initially calculated on the January census returns 15 months prior to the start of the financial year. In the July of the financial year, the allocation is updated to reflect the January census returns 3 months prior to the start of the financial year concerned. In the following July after the end of the financial year, the allocation is updated so that two terms reflect the January census returns from during the financial year concerned.

6.3 As the actual amount of the allocation is not fixed prior to the start of the year, there is a risk that funding rates for schools and PVI's could be set at an unaffordable rate.

6.4 The calculation of the hourly rate for 3 and 4 year old provision is the result of regulations and previous policy decisions, rather than a decision in itself.

6.5 It should be noted that the Regulations require that:

- No more than 5% of 3 and 4 year old funding can be held back for central spend
- No more than 10% of 3 and 4 year old funding can be held back for supplements
- Every local authority must have an Inclusion Fund to provide funding to support better outcomes for pupils with SEN.

6.6 The previous policy decisions were that:

- The central spend share should be set at 5% (includes funding passed to providers for additional free hours).
- 5% of the funding will be set aside for a Deprivation supplement (provided on the basis of pupils' home postcodes).
- The Inclusion Fund total be set at £200,000 (this funding is all passed to providers).

6.7 Current calculations indicate that once the above amounts have been removed from the funding total and the resulting figure has been divided by the estimated hours, it will be possible to set an hourly rate of £5.00. This is slightly in excess of the £4.94 hourly rate that providers were notified of prior to the start of the 2017/18 financial year. Early notification was given as the 2018/19 financial year is the year by which the PVI hourly rate must be in line with the funding rate for schools.

	3 and 4 Year Old Hourly Rate Calculation	**£**
A	DfE 3 and 4 Year Old Allocation	£ 21,098,447
B	5% Central Spend	£ 1,054,922
C	5% Deprivation Supplement	£ 1,054,922
D	Inclusion Fund	£ 200,000
E=A-B-C-D		£ 18,788,602
F	Estimate of Hours of Provision	3,754,172
G=E/F	Indicative Hourly Rate	£ 5.00

6.8 As previously stated, the DfE's current allocation is based on pupil data from January 2017 and will be updated twice to take account of pupil data from January 2018 and January 2020. It is therefore prudent that an estimate of the pupil data at these points in time be made before the hourly rate be finalised. At the time of the publication of these papers, the final census data for January 2018 is not yet available so the £5.00 hourly rate remains indicative.

6.9 Schools Forum is asked to agree that, should the £5.00 rate prove to be affordable, it be adopted for all providers from April 2018.

7 Capital Reserve

7.1 Within the Capital Programme, there is a historic budget of £1.2m brought forward balance from DSG CERA money that was originally earmarked for 'House on the Hill'. This money is now deemed to be unallocated as there have been no related transactions for years.

7.2 The local authority is presently considering various options for effective use of this budget and hence would deliberate at operational management level and inform Schools Forum once a concrete proposal is developed. One of the options being considered is to cover looming pressures within High Needs

Block. Members should note that a further update will be provided at the next Schools Forum in June 2018.

8 Schools Financial Value Standards (SFVS)

8.1 At the time of writing this report there were 63 (from 86) schools who have not returned their SFVS. Returns outstanding on the 31 March 2018 will need to be reported to the Department of Education.

8.2 However, officers remain optimistic that this position will significantly improve over the next two weeks when many schools are schedule to hold their Governing body meetings. Members are nevertheless urged to remind their representative groups that with the tightening of the financial position in schools that it is important to undertake the standards and that governors' ensure proper processes are being undertaken in schools and to ensure that there is also proper governance.

9 High Needs Block

9.1 The high needs block is currently forecasting a balanced position for this year. However, for next year onwards the growing numbers of pupils with high needs indicate that we will start to see significant overspends going forward. Unfortunately this is the prevailing position across the country. The high needs sub group will be asked to look at the position over the coming months to look at areas where cost might be reduced.

9.2 The High needs block budget in 2018/19 will specifically see increasing provisions in:

- Increase demand for 105 independent places a year costing circa £1.4m
- Increase in top-up rate for Abbey Manor college by £6k per pupil
- Increase in top up funding for New Woodlands as pupils move onto EHCP based funding. These have estimated costs of some £500k
- Mainstream re-banding of SEN Matrix and Resource bases estimated increase costs of £270k
- Provision for a Primary PRU with 30 places (September start) estimated at £191k

9.3 Based on above increases in demand, estimated most likely budget pressure outcome is forecast as follows:

- £380k in 2018/19
- £2m in 2019/20
- £4.7m in 2020/21
- £8.5m in 2021/22

9.4 The High Needs block sub-group have been tasked with identifying areas where savings can be found to manage the risk of over spend. This proactive approach will ensure measures are planned and controlled.

10 Accounts Closure 2017/18

10.1 The timetable for local authorities for closing their financial accounts has gradually been reducing. Several years ago it was in the September after the year end, then it moved to June. However, this has now however been brought forward to May in 2017/18.

10.2 For the 2015/16 and 2016/17 closing of accounts processes, the council had undertaken a dry-run of an accelerated closedown process in these years. This proved successful. To comply with formal with the regulations, earlier closedown is now obligatory. Members of the Schools Forum should note that the fall of the Easter Holidays will mean that schools will need to supply their data and close their accounts on the 27 March 2018. Comprehensive notes detailing this have already been sent out to schools and training sessions were held for Schools Bursars on 1 March 2018. In Summary, the key dates to note are as follows:

- 1st March – Closing Briefing
- 1st March – Published Guidance and Documentation on

  www.fronter.com/lewisham

- 27th March – Returns due
- 18th April – Agree Final balances
- 20th April – Final School journals
- 4th May – Final DSG and Schools reserves journals

11 Further Information

11.1 Should you require any additional information regarding the items contained in this report please contact:

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