

**EDUCATION FINANCE****1. Introduction**

- 1.1. The financing of schools and local education authorities (LEA) has undergone considerable change over the last three years. Notably:
- changes to the local schools formula, greater delegation of funds and introduction of new arrangements for high needs funding
  - reductions in the Early Intervention Grant (EIG) and the consolidation of this grant into the Revenue Support Grant (RSG)
  - new funds for new responsibilities for two-year olds
  - growing number of academies and impact on LEA funding
  - reduction of the RSG in respect of education and introduction of the Education Support Grant (ESG).
- 1.2 This paper aims to provide an overview of the HLT budget, the current schools funding regime and an update on emerging risks.

**2. Overview of HLT funding sources**

- 2.1. HLT is funded from three main sources: the core budget; the Dedicated Schools Grant (DSG) and traded income.

**The core budget (£26m, excluding recharges)**

- 2.2. The core budget is made up of what was the contract sum paid by the Council to the Learning Trust for the provision of education services and the former EIG which was rolled into the Council's RSG in 2013/14. This budget is subject to similar levels of reductions as those experienced by other front-line services of the Council.
- 2.3. The core budget effectively incorporates the Education Support Grant (ESG). The ESG was introduced in 2013/14 as a separate un-ringfenced grant to local authorities and academies proportionate to the number of pupils for which they are responsible. The grant was funded from a reduction in RSG and therefore was not new money. The ESG is to cover functions commensurate with being an education authority including schools improvement, education welfare and schools asset management. For 2014/15 the indicative ESG for Hackney is £3.529m.
- 2.4. As the Council's core budget (excluding former EIG) for such functions greatly exceeds the ESG, passporting arrangements for the ESG have not been adopted and any increase or reduction in ESG is treated as an overall gain or loss by the Council as a whole. It has already been announced that the ESG is to be cut by 25% in 2015/16 and a consultation on this reduction is currently underway.

**The DSG (£203m)**

- 2.5. Since 2013/14 the dedicated schools grant has been allocated to local authorities in three unringfenced blocks, the schools block, the early years block and the high needs block.

Schools Block	Early Years Block	High Needs Block
delegated budgets to schools (element 1 & 2)	delegated Single Funding Formula (element 1 & 2) for 3 and 4 year old funding and	devolved to schools for SEN
	New 2 year old formula funding	Places (element 1 & 2) and
Centrally managed (subject to Schools Forum agreement)	Centrally managed management, support, contingency, sustainability & capacity building	Top up (element 3)
retained centrally de-delegated growth fund		New post 16 funding
		Centrally commissioned SEN placements & pupils in other sectors
		central support for pupils with statements

- 2.6. There is an assumption that funding in the Schools Block is automatically delegated to schools through the local funding formula, unless by exception it is centrally retained. The schools forum can also vote to de-delegate funds for specific services or to pool risks.
- 2.7. The Early Years Block is delegated to early years settings through the Early Years Funding Formula, centrally commissioned, and part retained for centralised functions.
- 2.8. The High Needs Block covers funding of high needs from birth to age 25 and is partly retained by the LEA, partly delegated and partly centrally commissioned. This includes funding for our special schools and pupil referral units (PRU). The funding mechanism is 'place plus'. Special schools will receive £10k per pupil (£8k for PRUs) and a 'top up' for each young person placed there based on their level of need.

Traded income (£4.7m)

- 2.9. HLT trade services with schools inside and outside the borough. This enables capacity to be retained to continue to support schools in improving educational outcomes. For 2014/15 HLT have budgeted to receive £4.7m in traded income.

**3. HLT budget overview**

- 3.1. In 2014/15 the Council budgets to spend £239m on education, including £156m delegated to schools. Table one analyses the HLT budgets across divisions and the source of funds.

Table one: 2014/15 HLT Budgets

Division	Core (£)	DSG – Schools (£)	– DSG – HLT (EY & HN) (£)	Total (excl Grants) (£)	Other Grants (£)	TOTAL (£)
Business Services (excl Contingency)	4,791,462			4,791,462		4,791,462
Corporate (LBH) Recharges	7,900,572			7,900,572		7,900,572
Contingency	1,000,000	1,615,618		2,615,618		2,615,618
School Improvement & Performance (excl Early Years)	2,504,055	1,348,628		3,852,683	250,000	4,102,683
Early Years	12,984,754		16,248,044	29,232,798		29,232,798
Education Services (excl AN)	900,811	933,346	4,616,928	6,451,085	2,100,000	8,551,085
Additional Needs	3,874,424		21,328,746	25,203,170		25,203,170
Sub-Total	33,956,078	3,897,592	42,193,718	80,047,388	2,350,000	82,397,388
Pre-Determined Formula Payments to Schools		138,933,173	17,512,203	156,445,376		156,445,376
Total	33,956,078	142,830,765	59,705,921	236,492,764	2,350,000	238,842,764

3.2. The following paragraphs provide a brief of what the money is spent on in each division.

#### Business services (£4.8m)

3.3 This relates to support services such as Human Resources, Finance, Legal, ICT and the Management Information Service. A proportion of this expenditure relates to services to schools. Expenditure in table one is net of budgeted traded income of £4.4m.

#### Corporate recharges (£7.9m)

3.3. The budget includes £6m of corporate re-charges and £1.7m HLT pension deficit contribution.

#### Contingency for Schools and HLT (£2.6m)

3.4. £1.6m of this balance relates to the schools' contingency funded from DSG. This will be allocated to schools according to criteria agreed by the Schools Forum. Any balance remaining at year end is redistributed to schools. The HLT contingency of £1m (1.2%) is subject to detailed reporting to the Senior Leadership Team (SLT) and is used for any unforeseen costs such as school related dismissal costs.

#### School Improvement and Performance (£4.1m)

3.5. This relates to extensive support provided to schools to ensure continuous improvement including the Trust Action Group process for schools in need of intervention at secondary and primary level, targeted funding for underachieving groups, and a contribution to the virtual school for looked after children. This is partly funded by core, part by retained DSG and partly by de-delegated DSG agreed by Schools Forum.

### Early years (£29.2m)

- 3.6. Funded by £14m DSG (Early Years Block) and £12.3m Core (primarily former EIG) this funds a range of early years provision, including provision to settings through the early years funding formula (EYFF), children's centres and two-year old provision.

### Education Services (£8.5m)

- 3.7. This funds a range of services commensurate with a LEA including admissions and attendance services, school place planning, adult learning, home tuition team, pupil benefits and safeguarding.

### Additional needs (£25.2m)

- 3.8. Funded through £21.2m DSG (High Needs Block) and £3.9m Core this primarily funds top-up arrangements for pupils with special educational needs in a range of settings (maintained schools, specialist settings, academies, out of borough). Top-up funding relates to the estimated cost of provision over and above what the setting has already been funded for. Other significant areas of spend include transport for pupils with statements, speech and language therapy services, educational psychologists and the visual impairment team.

## **4. Schools funding**

- 4.1. The main source of funding for maintained schools is the DSG delegated via the local authority. Delegation is based on a per pupil local funding formula, set by the local authority and signed off by both the Schools Forum, on which there is head teacher and governor representation, and the Education Funding Authority (EFA). The school funding reforms which came into effect from 2013/14 restricted the number of factors that local authorities could include in their formula and also specified the circumstances for which local authorities could retain elements of the DSG. The impact on schools was mitigated by a minimum funding guarantee which restricted the per pupil amount which a school could lose year on year.
- 4.2. There is clear guidance from the DfE in relation to processes and timelines for setting individual schools budgets with key dates for schools being:
- the local formula to be agreed by Schools Forum by mid-January before the beginning of the new financial year
  - local authority's to confirm budgets for their maintained schools by the end of February before the beginning of the new financial year.
- 4.3. The pupil premium, first introduced in 2011/12, is the other significant source of income for schools. Pupil premium is paid at a set amount per pupil for all pupils entitled to free school meals and looked after children. Pupil premium is passported to schools by the local authority and is set at £1,300 per pupil for primary and £935 per pupil for secondary pupils for 2014/15 and £1,900 per pupil for a Looked After Child.

- 4.4. Local authorities also provide additional funding to schools from their High Needs Block for young people issued with a statement of special educational needs where the individuals needs are assessed as costing over and above the funding already delegated to schools. This is referred to as 'top-up' funding and in 2013/14 the Council paid out £14.7m to schools in top-up funding.
- 4.5. The local authority is responsible for monitoring school balances in maintained schools. Although balances vary from school to school, Hackney has recently introduced a process and set of criteria for warning schools if balances are at risk of remaining too high in consecutive years, and potentially clawing back surplus balances that persist. Any balances clawed back must be used for specific purposes. The tendency to retain balances is more pronounced in periods of financial uncertainty and some schools build surpluses for planned capital improvements.

### **5. HLT budget planning and emerging risks**

- 5.1. HLT build their financial plans on the basis that their core budget is subject to similar reductions as those borne by CYPS. For the two- years 2014/15 and 2015/16 the core budget is estimated to reduce by a total of £1.8m. However, in addition to these reductions the HLT will also be affected by the following forecast changes to the DSG.
  - A cap of 10% of the early years block which is retained centrally (£3.7m)
  - A 5% reduction in the High Needs block.
- 5.2. In relation to Early Years, there was a consultation last year on capping retained DSG at 10% for 2014/15. This was shelved but there is a risk that this could be introduced for 2015/16. The reduction in the High Needs block is based on intelligence gathered at a DfE conference. The budget setting process for the HLT is also complicated by the late announcements relating to the DSG which is only confirmed to the Council at the end of March preceding the relevant financial year.
- 5.3. HLT are currently in the process of undertaking a fundamental review led by SLT of budgets going forward. This is a base budget review of activity and costs for all services that aims to identify those which are discretionary and those which are essential. Based on this decisions will be made on prioritising which activities to reduce or stopped This organisational review will also be supplemented by more focused budget reviews of specific activities or functions which look to improve efficiency across activities or functions. This review process dovetails with the One Approach savings plan of CYPS.
- 5.4. Paragraph 2.4 above refers to the announced reduction in ESG for 2015/16. This reduction is assumed within the overall funding resource of the Council and is not passported directly to HLT.
- 5.5. Recent legislative changes impacting on schools and local education authorities finances include:
  - The implementation of the Children and Families Act from September 2014 will mark a fundamental change for schools as well as all services that support vulnerable children and young people. Education, Health and Care Plans (EHCP) will replace Statements and make planning across sectors essential. EHC plans extend the age range to 25. The Act focuses on the input of parents and this could give rise to an upward pressure on the level of services provided.

- Free schools meals for reception to year 2 from September 2014 have been announced. Funding is based on the level of take-up and set at £437 per pupil per annum. This is less than the average annual unit cost of providing a school meal (£527), but more than the average annual charge for a school meal (£343). This could result in a net loss for individual schools at specific levels of take up.
- 5.6. Additionally, the introduction of the new arrangements for the High Needs block are still bedding in. This is a particular issue in special schools and pupil referral units where all pupils will have a 'top-up' charge and schools are operating in a new market environment. Uncertainty over budgets is therefore greater than under the previous system. Special schools in Hackney are also concerned that they are disadvantaged by higher facilities management costs through the BSF contracts and the delegated cost of contributing to the pension deficit for support and non-teaching staff (of which there are a lot in special schools). Most boroughs delegate this cost to schools but the contribution rate is significantly higher in Hackney.
- 5.7. Finally, Hackney remains one of the highest per pupil funded education authorities. The introduction of a National Funding Formula therefore holds the inherent risk of a fall in overall funding for Hackney schools. The recently launched Fair Funding Formulae consultation which proposes a method of calculation of a minimum funding level for schools and for distribution of a top-up fund of £350m to local authorities for 2015/16 confirms the direction of travel. This is considered in more detail below.

### **6.0 Fair Funding Formula Consultation**

- 6.1 In 2015/16, DfE will add a further £350m to fund schools in what it considers to be the "least fairly funded" authorities. Specifically, after the commitment to fund all local authorities at the same cash level per pupil as in 2014/15 has been met, DfE will allocate an additional £350m in 2015/16, to increase the per-pupil budgets for the least "fairly funded" local areas.
- 6.2 Under the Consultation Paper proposals, LBH will not receive any additional funding but 62 authorities will gain. No authority will receive less per pupil cash funding as a result of this proposal.
- 6.3 The first step in working out which authorities will get a share of the £350m involves calculating a minimum funding level that a local authority will attract for its pupils and schools in 2015/16 on the basis of a formula. If a local authority already attracts at least this minimum funding level, it will not receive any additional funding. If though, it attracts less than the calculated minimum funding level, DfE will increase its funding so that its total funding equals the minimum funding level.
- 6.4 Based on 2014/15 data, DfE has calculated that our minimum funding level is £139.1m, while our actual school's block DSG funding is £160.6m. It follows that our current level of funding is £21.5m above our minimum funding level as calculated by DfE.
- 6.5 Clearly, if this proposal is the first step in the path to introducing a funding formula and if the formula implemented is similar to that used to allocate out the £350m additional funding, then there is a risk to our DSG funding going forward.

- 6.6 However, DfE soon became aware of the concerns of authorities such as Hackney and responded by writing to all education authorities stating that

“We would like to make clear that the use of minimum funding levels to allocate extra funding in 2015-16 is not the same as a national fair funding formula. We do not want to introduce a national fair funding formula until the government has set spending plans over a longer period of time, allowing us to give schools and local authorities more certainty about how the formula will affect them over a number of years. We propose to use a system of minimum funding levels in 2015-16 simply as a way of distributing the additional £350m we have as fairly as possible”

It went on to say that “The Government has no plan to reduce funding after 2015-16 for any local area”.

- 6.7 If we take DfE on its word and in particular the statement that it will not reduce funding for any local area, then our per pupil schools block funding amount should not be cut but because we are so far below the minimum funding level, I think that our per pupil allocation to be frozen in cash terms for some years.

### **7.0 Conclusion**

- 7.1 The financing of schools and local education authorities has undergone considerable change over the past three years and more is to come. The challenges faced include considerable levels of uncertainty over funding arrangements going forward such as the timing of the introduction of a national funding formula and the impact of the Children’s and Families Act. The HLT’s approach, working with the corporate finance team, has been to take an early view of emerging risks and develop a financial plan based on these.
- 7.2 At a school level, the single biggest impact would be the move to a national funding formula. As yet it is unclear when and in what format this will come forward. However, given Hackney’s position as one of the highest per pupil funded education authorities the impact will inevitably be at best, a freezing of per pupil funding in cash terms.