

<b>Committee:</b>	School Forum
<b>Meeting Date:</b>	21 May 2015
<b>Title:</b>	Cost pressures for 2015-16 and potential implications for 2016-17.
<b>Author:</b>	Lea Minnican
<b>Decision making / consultative / information:</b>	Decision Making
<b>Who can vote?</b>	All voting members of the Schools Forum

**What is the Forum being asked to decide?**

1. Forum is being asked to endorse our analysis of the cost pressures.
2. Forum is being asked in principle to agree that this analysis will be used as the basis of setting the DSG budget for the 2015/16 financial year. Further details including revised schools and early year's proformas and any movement between blocks will be brought to the forum at a later date or approval.

**Reason for recommendation**

3. The Schools Forum is responsible for signing off the Suffolk funding formula and for agreeing the split of DSG funding between the three blocks. Any underspends on the DSG gets carried over and distributed to schools through the AWPU the following year, conversely if the DSG overspends this has to be recovered from schools the following year. For the last two years, there has been some significant underspends in central services and early years, which have supported overspends in high needs.
4. The Forum may need to make some difficult decisions regarding the DSG funding for 2016-17 and take decisions regarding the split of the blocks and if this needs to be changed. It is therefore important that our underlying financial assumptions are shared and discussed, so future decisions which will affect schools' budgets are grounded in an agreed understanding of pressures.

**Alternative options**

5. Continue with all budgets as they are and recoup any overspends in the following year. This is not sustainable in the long term.

6. Keep the blocks at the 2015/16 in 2016/17 and task each block to recover their own overspends/cost pressure. This limits the scope of actions that can be taken by the local authority.

### **Who will be affected by this decision?**

7. All providers, be they schools early years, or high needs providers will be affected by any changes in the distribution of funding between the three blocks.

### **Main body of the Report**

#### ***Schools Block***

8. The Schools Forum will be aware that £1.2m is held back each year to fund growth within schools, this pot also funds significantly growing schools and new schools in setting up. In 2014 – 15 this pot overspent by £400k, it is predicted to overspend by £200k in 2015-16 and this is before any proposed changes are made to the growth policy to provide more funding for new start up schools.
9. The Forum should note that due to growing demand, especially for new primary school places there will be an unprecedented level of growth in schools over the coming years. The Education and Learning Infrastructure Plan, which was presented to the Forum on 13 January 2015, sets out this growth. The council's capital programme agreed early in 2015 includes provision for three new primary schools to be commenced each year until 2019, and for between five and eight significant school extensions each year as well. All of these will require start-up funding.
10. The government made a change in 2014/15 to the licence and subscriptions charges and decided it would be more cost effective for the government to pay for these licences centrally and top sliced the funding from the Local Authority. We received the top sliced figures for 2015/16 in February, so after the proforma submissions and the top sliced as increased by £190k for the next financial year, as the government has added more licences in. This will be a cost pressure in 2015-16 and we will need to decide how this will be funded in 2016-17.
11. This will be offset in part by £170k reduction in the subsidy for occupational health, this service is now being run by Schools Choice so the DSG funding is no longer required as they will to make the service financially self-supporting.
12. The central redundancy and intervention fund both underspend by approx. £500k each in 2014-15, the current forecast for 2016-17 is that intervention budget will be fully utilised. There are a number of our larger schools who are going out to consultation on restructures to support savings plans. Whilst we cannot accurately forecast the cost, as it depends largely on the split between redundancy and premature retirement, it is currently expected that this budget to be fully spent, or potentially overspend, we will be able to revise this as the schools get further through the process.

13. There is currently £437k of unpaid Academy debt over 90 days old; most of this relates to older transactions dating from when the Commercial Transfer Agreements (CTA) were less robust. However the Local Authority will pursue all of these debts rigorously and is currently initiating legal action against a number of academies. If however these debts have to be written off, this will be a hit to the DSG in 2015-16 so will therefore have to be deducted from the 2016-17 pro-forma through reducing the AWPU for all schools.

<b>Category</b>	<b>Total</b>	<b>No of Academies debt relates to</b>
Medical and Permanent exclusion Claw backs	66,883	7
Capital Loans - for SOR	247,316	3
Other	24,976	6
Property Charges	28,048	4
Salary Recharge	16,646	1
Sport Centre	53,662	1
<b>Grand Total</b>	<b>437,531</b>	<b>13</b>

14. We have also recently received further guidance from the EFA regarding the treatment of Surplus and deficits in schools converting to Academy. We are awaiting some clarification from the EFA to some questions we have raised but if our understanding is correct it further limits our ability to recover loans and deficits and therefore increases the risk to the LA, this could potentially be a risk to the LA base budget if the EFA confirms this is the case it will also result in change of behaviour by the LA and a much less tolerant approach to planned and managed overspending, we would have to reduce loan agreements, make additional conditions, and act sooner to issue NOFC or withdraw delegation.

### ***Early Years***

15. As the Forum will remember there have been a number of Early Years papers presented for discussion in 2013/14. In January 2013 the Early Years and Childcare Service embarked on a significant piece of work to look into the financial issues faced, in particular, by the private, voluntary and independent (PVI), early years and childcare sector. This was with the aim of passing more funding to providers (i.e. retaining less within the LA) and in the context that no new funding was available from the government. For more information see the Schools Forum paper where the changes to the early year funding formula was agreed.

[https://www.schoolsurf.suffolkcc.gov.uk/docs/unrestricted/Consultative\\_Groups/Schools\\_Forum/2013-10-18\\_Meeting\\_Papers/index.aspx](https://www.schoolsurf.suffolkcc.gov.uk/docs/unrestricted/Consultative_Groups/Schools_Forum/2013-10-18_Meeting_Papers/index.aspx)

16. As a result, the Early Years and Childcare Service has restructured and successfully reduced the centrally retained budget in order to pass more funding by way of increased hourly rates to all early years providers. This work addressed government policy guidance and concerns expressed by the sector in Suffolk that rates were low and had not been increased for some years, as this was impacting their financial viability. The first increase to hourly rates in 2014/15 was made possible because the Service had been holding a number of vacancies. The second smaller increase in hourly rates in 2015/16 was implemented as a result of the Service restructure. It should

be noted this has been achieved by the reallocation of the Early Years Block funding not by an increase in the Early Years Block funding.

17. Despite passing more funding to providers from within the EY Block the 3 and 4 year old place budget has overspent over the last two years, by approximately £500k per annum. The increase in expenditure is due to a number of factors as directed by government policy; the increase in the PVI workforce gaining higher qualifications, enabling them to claim the higher quality rates, an increase in the number of 3 and 4 year olds taking up their free entitlement and more providers offering the 15 hours more flexibly for parents. It should be noted that when more children take up their free entitlement this generates more income from the DfE to reflect the additional early years pupil numbers. However, the Early Years Block allocation has not been increased in Suffolk to reflect the increase in pupil numbers which accounts for the overspend as described above.
18. To date, the 2 year old funding has been offsetting the 3 and 4 year old overspend. This has been possible because the two year old funding has been allocated by the DfE based on estimates of children being eligible. From April 2015, funding will be participation based (rather than grant based) in the same way as 3 and 4 year old funding i.e. by take up of places, and claimed via the January census. This means in future there will be no surplus to offset the current under resourced 3 and 4 year old budget. To address this, the 2, 3 and 4 year old place funding allocated to the Early Years Block should be based on the actual pupil numbers as per the (January) census, in line with the principle used to allocate funding to the Schools Block.
19. For additional information regarding the Early years model and funding please see Annex A attached, which is an information document that was prepared for the RAWG group.

### ***High Needs***

20. The high needs block is due to overspend by £3.3m in 2014/15, with the additional £2.6m funding in 2015/16 the overspend will reduce to £770k if nothing else changes which for the sake of prudence would be our current estimate at this time. Below is how the £2.6m has been invested for 2015/16 so far.

#### **£1.0m to meet increasing demand**

21. £1m of the total investment is being used to meet demand pressures in our specialist provision and number of our Special Schools have agreed to an increase in planned places. Some of our PRUs have also had some of this funding allocated where there have been increases in places agreed, however the cost per place at the PRUs have reduced to reflect the current financial climate, and how best the LA can utilise its DSG High Needs Block funding.

Demand pot Total -	£1,000,000
Special Schools allocated -	(£440,000)
PRUs allocated -	(£294,000)
Remaining balance -	£266,000

22. Due to the financial pressures, it is not financially viable to allocate funding based on current costings and cost per place basis at our specialist provision, the LA have devised a process where our Special Schools / PRUs and Specialist Centres can put cases forward if there is a requirement for additional funding. These cases will be looked at as and when received on a case by case basis by the LA as commissioners.

#### £0.32m - Targeted Support

23. £0.32m has been allocated to support mainstream schools with a high proportion of pupils with additional needs. The allocation is based on a threshold of high need pupils in receipt of LA top up funding, using the Autumn Term 2014 top up return data and October 2014 school census number on roll data. All schools in receipt of this funding have been notified and received the additional income in April 2015.

#### £0.3m Post 16 Top Ups

24. £0.3m has been allocated to support Post 16 top up. This element of funding changed significantly and the LA saw a reduction with the funding reforms. The increase is to reflect what the LA thinks the budget should be to support Post 16 learners with additional needs going forward.

#### 0.98m HNB Service Development Investment

25. LA commissioners are looking to spend the service development funding of just under £1.0m in a number of ways:

- o Post 16 developments in South Suffolk. Due to changes in the Post 16 offer in South Suffolk the LA and providers are working together on what can be provided and for the amount of financial resource required. This also to ensure that the offering is consistent throughout Suffolk.
- o Further investment in the County Inclusive Resource Team. The team has recently won an award for its approach in supporting children and young people with autism in mainstream schools in Suffolk and with an increase in referrals of 200 further investment is required to continue providing an outstanding service to Suffolk schools.
- o The LA are looking to commission a specialist Behavioural, Emotional & Social Difficulties (BESD) provision where there is currently a gap. This initial investment will lead to longer term saving on expensive out of county placements.
- o Development of In Year Fair Access Protocol (IFAP) and supporting framework, taking a holistic approach and which will enable equitable distribution of vulnerable learners across local primary and secondary schools along with providers of specialised provision.

26. The Forum also need to consider changing the current policy for Medical and Permanent exclusions. The current policy is that funding is recovered from the relevant school/academy at the point the exclusion takes place. The amount recovered is lower than the actual cost and the deduction is just a contribution. Under the LMS scheme this is an acceptable deduction and therefore the funding is recouped directly for maintained schools.

### Permanent Exclusions

27. For Academies the relevant charge has to be invoiced, some Academies are paying these invoices however an increasing number are not. Permanent exclusion income is generated via the claw back system. For each pupil permanently excluded we transfer the AWPU pro rata + £2,000 into our income cost centre. When there is a successful appeal on the PEX then we are able to charge the school a further £4,000 if they do not take the pupil back. The £4,000 is within the DFE Guidance however the AWPU recovery and £2,000 penalty is not enforceable. The legal advice is we are within our rights to charge for this although the amount we are charging is against the legislation, we should be using a formula that would result in us charging double what we currently are.
28. Below are the total figures for the last three financial years which will provide an average of how much income we will potentially lose if we cannot recover the AWPU and £2,000 per PEX.

### Income for Permanent Exclusions over the last three financial years

Financial Year	Amount of Income
12/13	£445,670
13/14	£549,412
14/15	£535,790

29. The table above shows the income we have received, and doesn't include any Academies write offs under the Suffolk County Council Bad debt policy. To reduce the risk of further overspends we would need to 'top slice' schools by a further £600,000 to accommodate the loss of income if we were no longer able to recoup funding from schools/ Academies when they have made the decision to Permanently Exclude.

### Medical casework

30. The funding we have spent on medical casework as set out in the table below only reflects what the Local Authority have spent on 1:1 tuition for medical cases. The figures do not include any spend that schools/ Academies may have used to support pupils themselves as they chose not to commission our service. This point needs to be considered when assessing the amount of additional funding the Local Authority would need if we were to provide the service without charge as there would be more schools/ Academies requesting this support.

## Income generated by 1:1 medical casework from 2012

Financial Year	Cost to run service
13/14	£595, 771
14/15	£313, 284 + (£80,000 written off)

31. pupil and be incredibly complex and if Academies still do not pay the individual debts We also need to include the amount of recoupment that was written off under Suffolk County Council bad debt policy because of non-payment. This was approximately £80,000 in the financial year 2014/15. Therefore, to run the service including the non-payment amounts the LA would need an additional 'top slice' of approximately £494,527.6, which is the average of the last two financial years.
32. Therefore, to ensure that we mitigate all risk we would probably require an overall 'top slice' of £1.1 million from schools. However, this provides no financial deterrent in terms of permanent exclusion or accessing medical 1:1 tuition and we may see a rise in both PEX's and numbers of pupils using the 1:1 service. Although the alternative, is to risk further overspends. This equates to approx. £12.5 reduction to AWPU.
33. The only way to balance both risks for PEX would be to use the formula as set out in the legislation, but this would require an individual calculation for each with each Academy would have to be chased separately, as the amounts are relatively low we need to consider the cost of staff time in preparing the invoices and the paperwork for legal and legal fees in pursing these debts versus the amounts that are recovered.

## ***Implications***

34. If all of these items come to fruition and these are very early indications which we will be able to refine as we go through the year. Then the DSG would be looking at an over-spend of £965.8k in 2015/16, of which £437k would be non-recurrent. This would equate to a reduction in AWPU of £11.1 per pupil in 2016/17. This does not include the proposed policy change for exclusions (£12.5 reduction to AWPU) or increases to the growth start-up funding (£6.5 reduction to AWPU).Therefore is total schools could be looking at a reduction of close to £30 per pupil. Please see Annex A.
35. In 2015/16 we will monitor and manage the budget prudently, and have already put in place new arrangements to monitor the highest risk areas of DSG. However we must recognise that many of the larger and more risky parts of the DSG are hard to predict, as unlike staffing budgets in a school, expenditure is unevenly spread throughout the year and much is not known until close to year end. Examples are redundancy budgets and start-up funding.

36. In doing so we will pay particular attention to the highest risk areas, these are
  - o High needs, in particular out of county and top up budgets.
  - o Redundancy.
  - o Early years and the over funding for two year olds end this year
37. In the longer term our highest risks are
  - o School start ups
  - o High needs, recognising the long term nature of many of the solutions
  - o Early years,
38. Overall we may need to reconsider in the long to medium term the balance between the block, and it may be necessary to consider and model a modest reduction in the schools block.
39. Note this is all very dependent on future governments funding policy.

## Annex A

	Budget 2015-16	Forecast Over (-)under spend for 2015-16	
Advance skill Teachers	778,294	317,342	Assume same as last year
Behaviour Interventions	30,000	0	Assume same as last year
Landlord responsibilities	646,240	0	Assume same as last year
Legal Costs	84,186	-18,314	Additional £5k Academy debts
Music	293,090	1,956	Assume same as last year
Occupational Health	170,000	170,000	Not needed in 2015-16
Safeguarding Childrens Board	26,900	3,820	Assume same as last year
School Forum	11,550	8,948	Assume same as last year
Schools Admission	137,560	97,363	Assume same as last year
			Large redundancies expected two large schools
Schools Redundancy	1,019,500	0	
Copyright and Licences	290,000	-190,000	Increase in Government fees
Growth Fund	1,280,800	-200,000	Based on growth affordability calculations, without potential for new start up
Contribution to integrated teams and CAMHS	3,305,870	198,994	Assume same as last year
Contribution to LACESS	447,674	92,814	Assume same as last year
Contribution to LIS Staffing	679,770	-19,621	Assume same as last year
			Budget will reduce in 2015-16 for Acadmies, 0 but assumme all funding will be spend
De-delegation Schools Intervention Fund	897,482	0	
De-delegation Behaviour Support Strategy	745,149	0	Budget will reduce in 2015-16 for Acadmies, 0 but assumme all funding will be spend
			Budget will reduce in 2015-16 for Acadmies, 0 but assumme all funding will be spend
De-delegation Support to Ethic Minorities	116,856	0	
			Budget will reduce in 2015-16 for Acadmies, 0 but assumme all funding will be spend
De-delegation Trade Union Cover	60,566	0	
Academy Debt - Write off		-434,079	
Total Schools Block	11,021,487	29,224	
EY - Contribution to Early Years Central Costs	2,166,108	200,000	
EY - Early Years SEN	90,000	77,239	
EY - Payments to PVI	17,862,040	-500,000	Rates have increased so assume, the overspend will still hold at current level
EY - School Nursery payments	7,320,339	0	
			This funding is based on participation so we 0 will only receive what we need to pay out.
EY - 2 year old funding	6,433,913	0	
EY - Pupil premium	521,000	0	Assume all will be allocated
Total Early Years Block	34,393,400	-222,761	
HN - School top up funding	17,740,314	-772,353	
HN - Place Funding	13,086,000	0	
HN - Out of County	8,208,658	-950,000	
HN - Central Services - EOTAS	5,159,599	0	
			950,000
Total High Needs Block	45,144,571	-772,353	
Total DSG excluding individual School Budgets and the forecast overspend for 2014-2015	90,559,458	-965,890	
Approx pupil no for Suffolk incl Academies excluding early years, free schools, special and PRU pupils		87,000	
Potential Reduction per pupil to the AWPU in 2016-2017		-11.10	

## **Early Years and Childcare**

Budget Briefing paper for Resource Allocation Working Group and Value for Money Group

4<sup>th</sup> and 5<sup>th</sup> December 2014 respectively

### **Context**

The local authority has a number of statutory duties under sections 6, 7, 7A, 9A, 12 and 13 of the Childcare Act 2006. These are set out in the [Early education and childcare statutory guidance for local authorities](#), September 2014 published by the DfE.

Specifically the duties are:

- Section 6, which places a duty on English local authorities to secure sufficient childcare for working parents.
- Section 7 (as substituted by section 1 of the Education Act 2011), which places a duty on English local authorities to secure early years provision free of charge. Regulations made under section 7 set out the type and amount of free provision and the children who benefit from the free provision.
- Section 7A (as inserted by the Children and Families Act 2014). Regulations made under section 7A make provision about how local authorities should discharge their duty under section 7.
- Section 9A (as inserted by the Children and Families Act 2014). Regulations made under section 9A limit the requirements local authorities can impose when they make arrangements to deliver early education places for two-, three- and four-year-olds.
- Section 12 which places a duty on English local authorities to provide information, advice and assistance to parents and prospective parents.
- Section 13, which places a duty on English local authorities to provide information, advice and training to childcare providers.

The Early Years and Childcare Service has specific responsibility for ensuring these duties are discharged.

### **The importance of high quality early education for 2, 3 and 4 year olds**

There is a wealth of evidence which supports the premise that where 2, 3 and 4 year olds access high quality early education there can be lasting benefits to their social, physical and mental development, including helping them to prepare for school. This is particularly relevant for disadvantaged children however; the benefits exist for all children.

It is therefore vital to ensure that appropriate resources are available to support the continued development and sustainability of high quality places for Suffolk's

youngest children, thereby making a lasting impact for each child and strategically 'raising the bar'.

## Background

In January 2013 the Early Years and Childcare Service embarked on a significant piece of work to look into the financial issues faced, in particular, by the private, voluntary and independent (PVI), early years and childcare sector. This was with the aim of passing more funding to providers (i.e. retaining less within the LA) and in the context that no new funding was available from the government.

At the same time, the government launched the first of two consultation documents which included a proposal that local authorities should aim to pass more funding to providers. For reference, links to these documents can be found in the Sufficiency report embedded below.

The outcome of both Suffolk's and the government's work is outlined in the following documents:

1. The Sufficiency report produced by Graham Lovitt, Consultant to the Early Years and Childcare Service.



Sufficiency Report

2. The paper (C, EYSFF SF) presented to and agreed by, Suffolk's Schools Forum on 21<sup>st</sup> October 2013.

[https://www.schoolsurf.suffolkcc.gov.uk/docs/unrestricted/Consultative\\_Groups/Schools\\_Forum/2013-10-18\\_Meeting\\_Papers/index.aspx](https://www.schoolsurf.suffolkcc.gov.uk/docs/unrestricted/Consultative_Groups/Schools_Forum/2013-10-18_Meeting_Papers/index.aspx)

In summary, the Early Years and Childcare Service identified a sum of £500K in the Service's pay budget (posts held as vacant at the time) which it included in the Single Funding Formula and which was paid to providers in an increased hourly rate from April 2014.

Providers also received additional monies which were added to the hourly rate as a result of changing procedures for claiming for children with additional needs. The processes were thought to be unnecessarily bureaucratic for both the providers claiming, and the LA processing them. This approach was also in line with the schools funding formula and it was therefore agreed.

In addition, the Early Years and Childcare Service embarked on a re-structure during 2014, implementing a more streamlined service from September 2014 to reflect the changes required of local authorities by the DfE in the [Statutory Guidance July 2013](#).

It was envisaged that these changes would be the beginning of a wider review of how the early years and childcare market is funded and supported by the LA in future.

## **The future for the Early Years and Childcare Sector in Suffolk**

The statutory duties informed the redesign of the Early Years and Childcare service. To ensure the LA can meet its statutory duties it is clear that it must continue to have a role in developing and shaping the market particularly as the demand for places increases.

The increase in demand is affected in Suffolk by two key drivers:

1. The widening of the national criteria in September 2014 for eligibility for a 2 year old place to include approximately 40% of the 2 year old population (DfE estimates this to be 2721 in Suffolk) and
2. The housing developments across our county which require additional places for 2, 3 and 4 year olds to be available so that they are all to be able to take up their entitlement.

In addition, service staff and the broader CYP workforce continue to encourage families to take up their full 15 hours entitlement.

This responsibility is complex as it involves understanding the peaks and troughs of demand across the year both from a provider's perspective and a more strategic LA perspective.

The market continues to be affected by the throughput of children over the course of the year; for example, the PVI sector expects to have fewer children in their care in the autumn term because the majority of 4 year olds will take up their place in schools (the maintained sector). This requires the PVI provider to take a robust approach to financial planning in order to have sufficient funds to support it until an increased number of children and therefore income is available, usually in the spring and summer terms.

This cycle is unlikely to change even with the introduction of free early years and childcare places for 40% of two year olds from September 2014.

## **Budget issues**

In summary, the allocated budget for the 3 and 4 year old places is not based on the actual take up. However, the payments made to providers are based on their actual claims i.e. the number of children and the hours they take up in their care. This is a statutory requirement. This means that the budget will overspend because it is less than the claims from providers.

Historically, the Suffolk LA budget allocation for 3 and 4 year old places has been less than that generated by the January census data which is then used by the DfE to calculate the total amount for early years places in Suffolk.

This year the budget allocation of £ **16,600,040** is expected to be overspent by £500K and it is anticipated that this will continue in future unless sufficient budget is allocated at the beginning of the financial year.

It should be noted that the 3 and 4 year old place budget is separate to the budgets used to run the Early Years and Childcare Service.

There are a number of reasons why the 3 and 4 year old place budget is no longer sufficient and will be overspent.

The early years and childcare market is changing:

1. Demand has increased – more children are taking up all or more of their 15 hours. It should be noted this is a positive, given the likely outcomes for children, families and the impact on ‘raising the bar’.
2. The hourly rate has increased as previously described.
3. More providers are able to claim the highest rate because they hold higher qualifications. It should be noted this is a positive as evidence suggests higher qualifications have a significant impact on raising standards and therefore children’s outcomes.

This year the over spend on the 3 and 4 year old free entitlement budget can be offset by an under spend on the 2 year old budget. This is because the 2 year old DfE budget allocation has been based on an estimate of take up, which is currently higher than the actual take up. However, going forward (from April 2015) this will not be the case, as the 2 year old allocation will be calculated in the same way as the 3 and 4 year old allocations, i.e. based on take up on census day in January of any one year.

To roll the 3 and 4 year old budget forward from one year to another does not therefore take account of the additional costs via the provider claims process which as described, is based on actuals.

## **Proposal**

In order to avoid a year on year overspend on the 3 and 4 year old free entitlement budget and to create a sustainable service which can meet the DfE requirements of increased provision and de-centralisation of costs, it is proposed that the place budget is increased to a level that reflects the funding allocated by the DfE (based on census data).

This could be achieved by using the census count to inform the Suffolk LA budget allocation for 2, 3 and 4 year old place funding.

This approach would reduce the risk of the budget continuing to overspend in future years as a result of actual take up of places being greater than those that are funded.