

LONDON BOROUGH OF HARROW

Meeting:	Cabinet
Date:	16 December 2003
Subject:	Proposed Schools Budget 2004/2005
Key decision:	Yes
Responsible Chief Officer:	Executive Director (People First) and Executive Director (Business Connections)
Relevant Portfolio Holder:	Finance and Human Resources and Performance Management and Education and Lifelong Learning Portfolio Holders
Status:	Public
Ward:	All
Enclosures:	Appendix 1 – Schools Budget 2004/2005

1. Summary/ Reason for urgency (if applicable)

- 1.1 For the Cabinet to agree the proposed Schools Budget for 2004/2005 for notification to the Secretary of State for Education by 31 December 2003.

2. Recommendations

2.1 To set the level of the proposed Schools Budget for 2004/2005

REASON: To meet the Education Act 2002 requirement to notify the proposed Schools Budget to the Secretary of State by 31 December 2003.

Consultation with Ward Councillors

N/A

3. Policy Context (including Relevant Previous Decisions)

- 3.1 The LEA is required to notify the Secretary of State by 31 December 2003 of its Proposed Schools Budget for 2004/2005.
- 3.2 Section 42 of the Education Act 2002 gives the Secretary of State a reserve power to set a minimum level of Schools Budget for a LEA where it is considered inadequate.

- 3.3 If the Secretary of State decides to determine a minimum level of Schools Budget for an authority he will provide notification within 14 days of the date of receiving the notification and give reasons for the level of budget that has been determined.
- 3.4 If an Authority decides to object to the level of budget determined by the Secretary of State it has 14 days from the date of the notice setting the revised budget in which to do so. Any objection must be accompanied by reasons.

4. **Relevance to Corporate Priorities**

- 4.1 This report addresses the Council's Corporate Priority to promote Harrow as a centre of lifelong learning by offering the highest quality education services, by raising aspirations and outcomes of achievement, and by providing activities for cultural, artistic and leisure pursuits which reflect the profile and the interests of all local communities.

5. **Background Information and options considered**

5.1 **Introduction**

From April 2003 the Government introduced a new funding regime for Education which split the Education Formula Spending Share (EFSS) into two elements. The first element is the Schools Formula Spending Share and is known as the Schools Budget. Included within the Schools Budget is the Individual Schools Budget (ISB) which is the funding delegated to schools through the school formula along with budgets for early years, admissions, education out of school and provision of places for pupils with SEN. The second element is the LEA formula spending share that provides funding for the statutory functions of the LEA.

This report is concerned with the Schools Budget as the LEA has to notify the Secretary of State by 31 December 2003 of its proposed Schools Budget. The notification only requires the Authority to specify the 'bottom line' total of the Schools Budget and not the detail of each individual school's budget. It is not expected that authorities will have taken final decisions on their budgets by 31 December 2003 and that is why the Act requires LEAs to notify their proposed Schools Budget. The DfES has advised that if the figure proposed at 31 December is subsequently reduced substantially then the authority would need to explain the reduction to its schools and parents and the Secretary of State could put the LEA on notice that he intends to set a minimum level of budget for the financial year 2005/2006.

5.2 **Passporting**

The Secretary of State and Deputy Prime Minister have written to all authorities setting out the clear expectation that LEAs will passport the SFSS increase in full into a matching increase in its Schools Budget, barring wholly exceptional circumstances. The Secretary of State has made clear that he will use his reserve power where it is necessary to do so to require an authority to set a minimum Schools Budget.

Harrow has been notified that the Schools Budget for 2004/2005 consistent with passing on the increase in school funding is £103.777m. This is an increase of £6.311m compared with 2003/2004 and is an increase in SFSS of 6.54%.

The cost pressures and other issues identified within the Medium Term Revenue Budget Strategy which are applicable to the Schools Budget are shown in Appendix 1. These have been split between the ISB and other centrally retained budgets within the Schools Budget.

As shown in Appendix 1 there are sufficient resources within the Schools Budget for 2004/2005 consistent with passing on the increase in school funding to meet the base budget, policy and legislative changes and demographic and other growth and provide an additional £5.8m. This reduces to £2.9m when inflationary pressures including a teachers pay-award of 2.5%, non teachers pay-award of 3%, Local Government superannuation increase of 1% and other prices at 2.8% are taken into account. This is a total increase of £5.175m for the ISB, an increase of 6% compared with 2003/2004.

There are however a number of other pressures within schools which are not included within the above and will have to be met from the £2.9m available. These are as follows;

a) Issues relating to 2003/2004

Schools in Harrow identified ongoing funding issues arising out of the budget settlement for 2003/2004. This is part of the national issue about the level of funding for 2003/2004. Cost pressures of £2.881m were identified for 2003/2004 resulting in schools either using balances and/or making reductions in expenditure to set balanced budgets. The £2.881m included the following items:

	Financial Implication
Cost Pressures 2003/2004	£K
	663
Loss of recruitment & retention grant inflated to 2003/2004 price levels	
Cash limiting by Government of standards fund grants continuing, for example, Ethnic Minority Achievement	126
Teachers upper pay spine progression point 2 funded at 80%	184
Replacement of the four standards fund grants ceasing at 2002/2003 price levels	121
Average teacher salaries – incremental drift	1,475
Reduction in general Key Stage 3 standards funds	247
Other small standards funds which ceased but were not replaced inflated to 2003/2004 price levels	65
Total	£2,881K

b) Remodelling the School Workforce

Part of the Government's remodelling agenda is to meet the National Agreement on Teachers Pay and Conditions. This includes the removal of 24 administration and clerical tasks from teachers from September 2003, the reduction in provision of cover by teachers to 38 hours per year from September 2004 and a 10% planning, preparation and assessment time for all teachers by September 2005. A survey completed by schools has indicated that the costs associated with the introduction of the National Agreement is in the order of £16k for a Primary/Special School and £64k for a High School in 2004/2005 with further costs of £14k for a Primary/Special School and £11k for a High School in 2005/2006. The Secretary of State has stated that progress can be made by schools managing their total resources — people and money - more strategically, and working in different ways. The headroom over the average cost pressures should help schools to make the most of the National Agreement. The National Remodelling Team has stated that many schools are already well on the way to meeting the requirements in relation to the 24 tasks within their current budgets and that there are examples

of effective no-cost or low cost solutions used in schools. Many of the remodelling pathfinder schools have been able to sustain the changes they have made from within their existing budgets although they have had significant one off funding to enable them to do so.

c) UPS 3

Further movement of teachers on the upper pay spine to point three is an issue from September 2004. The Government has indicated that they will only be providing grant funding for one third of teachers. This is considerably less than the percentage of teachers who moved from upper pay spine one to two which in Harrow was nearly 100%.

d) Other cost pressures

Considerable work has been undertaken with schools to model the effects of an average 6% increase in school budget shares compared with 2003/2004. This has identified pressures on salary budgets particularly on teaching salary budgets significantly in excess of the 2.5% teachers' pay-award. As an illustration, in one school teachers' salary costs were anticipated to rise by as much as 4% compared with 2003/2004 without the effect of any pay-award. These cost pressures are a combination of incremental drift, increased management and other points and greater demands from teachers for higher starting salaries. Part of this arises from the pressure to continue to recruit and retain good quality teachers in Harrow particularly when some neighbouring boroughs are paying Inner London salaries. These cost pressures do however vary considerably between schools depending on local decisions and priorities and have not been included within the inflationary pressures above. The Government's estimate of cost pressures in schools for 2004/2005 including the pay-award, incremental drift and the hangover from teachers' pay in 2003 is 3.4%. This compares with 2.74% included above for inflation in Harrow schools.

The outcome of the modelling of a 6% increase in a number of schools budgets has shown that if all of the pressures described above were taken into account schools would be faced with potential deficits in 2004/2005.

5.3 Limit on increases in central expenditure

As part of the process of ensuring funding stability for schools in 2004/2005 and 2005/2006 the Secretary of State has announced draft details for consultation on the limitation of central expenditure within the Schools Budget. This limitation will be operated through the LEA Budget, Schools Budget and Individual Schools Budget (England) Regulations 2003.

The following exceptions will be allowed;

- LEA contributions to Standards Fund allocations to schools
- LEA expenditure on devolved transitional funding for schools in financial difficulty
- Increased spend on under 5s relative to 2003/2004

Ministers are expecting that most LEAs will be able to restrict any increase in their central expenditure to no more than the percentage increase in the ISB and that it should be the aim of every authority that as much funding as possible reaches schools' delegated budgets. However it is recognised that in some authorities pressure from particular items may make it difficult to comply with the general limit and therefore the Secretary of State will consider applications for a higher limit in certain circumstances. In making an application authorities will need to demonstrate that the expenditure is unavoidable, why

additional central spend is not being funded by over passporting and the response of the Schools Forum to the proposed request. The deadline for making applications has been extended from 8 December to 13 February for Authorities who are intending to passport. For Authorities not expecting to passport the deadline is the 31 December.

The pressures and other issues identified for 2004/2005 as detailed in Appendix 1 have been applied to the calculation required by the DfES. It is anticipated that Harrow's expenditure on central items within the Schools Budget can be contained within the limit set by the DfES once the exceptions have been taken into account.

5.4 **Minimum Per Pupil Funding Guarantee**

The draft Financing of Maintained Schools Regulations 2004 incorporate a requirement for a minimum funding guarantee for Primary and Secondary schools. The guarantee operates on the following basis;

- If pupil numbers do not change – ensuring an increase in a school's adjusted budget share of at least 4%
- If numbers on roll increase – increasing budget share by the pupil related elements for each additional pupil uprated by 4% and the total of other formula elements by 4%
- If pupil numbers decrease – reducing funding for each 'lost' pupil by a sum representing only the pupil-related amount per pupil and increasing the value of other elements by 4%.

It is anticipated that the funding formula within Harrow with a 6% increase in the ISB budget will meet the minimum funding guarantee for all mainstream schools and in the majority of cases deliver additional resources. This can not however be confirmed until the pupil numbers for each school are known in January 2004.

Because nearly all special schools are funded on the basis of places rather than pupil numbers the guarantee for special schools will instead be a requirement for the cash value of funded places to be increased in 2004/2005 by the guarantee percentage of 4% compared with 2003/2004. This requirement is expressed in terms of pupil characteristics so that the requirement for the increase applies even if the place banding system is altered between years. However the above requirements cannot be met if the new special school funding formula, currently the subject of consultation with all schools and the Schools Forum and subject to Cabinet decision in February 2004, is introduced from next April. The DfES has been asked whether it will be possible to deliver the guarantee on the old formula uplifted by 4% per place and 4% for fixed costs and then compare this with the new funding formula to ensure that the guarantee is met. The DfES has indicated that the above approach certainly follows the spirit of the guarantee but will not automatically be possible under the regulations. Harrow would therefore need to apply for an additional arrangement under Regulation 28 of the Financing of Maintained Schools Regulations. They have stated that the support of the Schools Forum and the Special Schools would help with this application which will need to be made at the beginning of December once the final Financing of Maintained Schools Regulations are received.

5.5 **Support for Schools in Financial Difficulty**

The DfES has issued separate guidance for LEAs for "Supporting Schools in Financial Difficulty". It is recognised that a minority of schools will face unavoidable in-year cost pressures higher than the level of the minimum schools guarantee and will be facing difficulties balancing their budgets as a result of decisions taken in 2003/2004. Ministers

expect LEAs to seek to identify such schools and consider what can be done to direct short term additional support to those schools to avoid disruption to pupils' education. The following funding for targeting support to schools in difficulty has been identified by the DfES:

- a) Use of the headroom between the SFSS increase and implementation of the minimum schools guarantee. This funding which would otherwise have been distributed through the LEAs funding formula can be held to target specific support. The rules and criteria for retaining sums for this purpose are;
 - Schools Forum must be consulted on the LEA's plans
 - No school may be allocated more funding than the total of its expected revenue deficit at 31 March 2005
 - The LEA must monitor the schools' use of the funding and their progress towards a balanced budget
 - Schools allocated support should face unavoidable cost pressures that are higher than the resources available to the school.
- b) Additional targeted grant – Harrow is not one of the third of Authorities who will receive transitional support in 2004/2005 and 2005/2006.
- c) Universal support – If an LEA is able to put forward a compelling case that additional resources are needed in the short term to avoid unacceptable cuts in services, then Ministers will be prepared to consider bringing forward a maximum of £300,000 of DfES grant into 2004/2005. The expectation is that the LEA will receive a consequential reduction in grant across 2006/2007 and 2007/2008. Each application will be considered by the Secretary of State on its merits. There are a number of conditions attached to this support. These are as follows;
 - Passport in full the increase in SFSS
 - Direct resources as far as possible to delegated schools' budgets
 - Plan to target its headroom to the most needy schools
 - Prepare a costed plan to bring its schools' budgets into balance by 2006/2007

This issue has been discussed briefly with the Schools Forum and will be discussed further at future meetings. The initial view of the Schools Forum is that it is difficult to "fairly" identify schools in difficulty who could not take any remedial action to address the situation within the existing systems available to schools. The LEA's point of view is that there is no evidence to support targeted funding to individual schools and that the two schools who have licensed deficits in 2003/2004 are being supported to bring their budgets into balance for 2005/2006. It seems unlikely therefore that any recommendation will be made to retain funding within the Schools Budget for this purpose or for applying for universal support.

5.6 Standards Funds and School Standard Grants

The Standards Fund and School Standards Grant rates for 2004/2005 have been announced by the DfES and will generally provide a cash increase in funding to schools of 4%. The exception to this is the EMAG grant where schools are guaranteed at least the same cash allocation as they received in 2003/2004. These increases should at least cover inflationary pressures in these areas of expenditure.

Consultation

- 6.1 The Schools Forum, Headteachers and Chairs of Governors of all Schools, the Education Consultative Forum and Lifelong Learning Scrutiny Sub Committee have all been consulted on the proposed Schools Budget for 2004/2005. The views from these groups will be reported separately at the meeting.

7. Finance Observations

- 7.1 This is the report of the Executive Director Business Connections and Executive Director People First and deals with financial matters throughout.

8. Legal Observations

- 8.1 The report meets the legislative requirements set out in Part 3. Chapter 2 of the Education Act 2002.

9. Conclusion

- 9.1 This report details the proposed Schools Budget for 2004/2005 to be notified to the Secretary of State by 31 December 2003. The actual Schools Budget will be decided by Council at their meeting in February.
- 9.2 The finance settlement is provisional. The final settlement will not be known until early February 2004.

10. Background Papers

- 10.1 Education Act 2002
DfES School Funding 2004/2005 Papers dated 29.10.03, 19.11.03 and 2.12.03

11. Author

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