



EDUCATION AND YOUTH OVERVIEW & SCRUTINY COMMITTEE

Date of Meeting	Thursday, 31 January 2019
Report Subject	2019/20 Council Fund Budget Update
Cabinet Member	Cabinet Member for Education, Leader of the Council and Cabinet Member for Finance
Report Author	Chief Officer (Education & Youth)
Type of Report	Strategic

EXECUTIVE SUMMARY

Under stages one and two of the budget setting process for 2019/20 the Council has approved the proposals for cost estimate reductions for Corporate Finance and Service Portfolios respectively.

Under stage three, the closing budget stage, the Council will need to set a balanced budget to meet its legal duty. The budget gap to be bridged to reach a legal and balanced budget stands at £3.102m

Whilst the funding position for local government and Flintshire has improved on the original forecast at three stages – at the Provisional Settlement (October), at the intervention of the out-going First Minister (November) and at the Final Settlement (December) – the Settlement is still inadequate to meet our funding requirements. Beyond a further financial intervention by Welsh Government the only remaining options to balance the budget are Council Tax income and drawing upon reserves and balances. The scope for the latter is limited.

Council will consider a report on the final stage 3 budget on 29 January and the outcome of the meeting will be reported verbally to the meeting.

The significant cost pressures facing schools have been identified and factored into the budget setting process. The proposed uplift to the schools delegated budget is £2.170m (2.47%). The Teachers Pay Grant awarded by Welsh Government to assist Councils with the cost of the teachers' pay award will increase the funding to schools by a further £0.375m bringing the overall increase in funding to schools for

2019/20 to £2.545m (2.89%).

There has been regular communication with Head Teachers about the challenges facing the Council in setting a balanced budget and they have indicated their willingness to work proactively through their professional associations and to appeal to the Education Minister directly to demonstrate the real challenges that they are facing in maintaining quality educational provision with reducing budgets.

RECOMMENDATIONS

1	To note the updated budget forecast for the Council as the basis for setting a legal and balanced budget for 2019/20.
2	To note the total funding uplift which is proposed for schools in 2019/20.
3	To note the principle that the Council will be funding 1% of the teachers' pay award with schools expected to absorb the balance of cost.
4	To note that the funding proposed for 2019/20 does not include any allowance for the increase in teachers' pension costs or the teachers' pay award from September 2019.

REPORT DETAILS

1.00	ARRIVING TO THIS FINAL STAGE OF THE BUDGET 2019/20
1.01	Budget Process and Timeline The annual budget for 2019/20 has been developed in three stages.
1.02	A report to Cabinet in April provided the first detailed overview of the financial forecast for 2019/20. At that stage the projected budget gap stood at £12.2m; this reduced to £10.6m when taking account of the accounting policy change of the Minimum Revenue Provision (MRP) and the impact of the stepped annual increase in the charging cap for domiciliary care. A report to Cabinet on 25 September provided an update on the financial forecast for 2019/20 detailing a projected budget gap of £13.7m.
1.03	Budget Member Workshops were held on 13 and 23 July and a further one held on 18 September. At these sessions members were updated on the latest local financial forecast in the context of the overall national position. An additional workshop specifically for this committee was held on 8 October and provided members with an opportunity to understand portfolio budgets in more detail. The risks and resilience levels of service areas was also considered at this session.

1.04	Stage 1 Corporate Financing Solutions and Stage 2 Portfolio Investments and Pressures were reviewed by Education and Youth Scrutiny Committee on 1 November. A special meeting of County Council approved both stages of the budget on 20 November.															
1.05	<p>Portfolio Business Planning Efficiencies</p> <p>Table 1 below shows the approved efficiencies for the Education and Youth Portfolio. An extensive process of budget review and challenge was conducted over the summer and it was determined that there is no scope for further reductions within the Education and Youth Portfolio for 2019/20.</p> <p>Table 1: Portfolio Efficiencies</p> <table border="1" data-bbox="320 600 1394 1084"> <thead> <tr> <th colspan="2"></th> <th style="text-align: right;">£m</th> </tr> </thead> <tbody> <tr> <td>Integrated Youth Provision</td> <td>General reduction in variable cost spend across cost centres to achieve a 3% efficiency</td> <td style="text-align: right;">0.014</td> </tr> <tr> <td>School Planning & Provision</td> <td>Reduction in portfolio insurance budget</td> <td style="text-align: right;">0.005</td> </tr> <tr> <td>School Improvement Systems</td> <td>£38k removal of WJEC SLA as negotiated by Welsh Government & ADEW. £20k reduction in early entitlement budget based on falling birth rate and consequent reduction in pupil numbers.</td> <td style="text-align: right;">0.058</td> </tr> <tr> <td colspan="2">Total Efficiency</td> <td style="text-align: right;">0.077</td> </tr> </tbody> </table> <p>The central educational budget has been reduced by 30% over the last four years and this has impacted on service delivery particularly to our most vulnerable learners with additional learning needs.</p> <p>These reductions have occurred at time when demand for services is increasing. Further budget reductions would have a negative impact on Flintshire's levels of attainment, pupil exclusion numbers and referrals to costly out of county placements. It would place pressure on our schools who are struggling to cope with the reduced level of service and rising demand of those pupils with additional learning needs.</p> <p>The implementation of the ALN and Education Tribunal Act (Wales) 2018 in September 2020 will result in higher demands on schools and the Inclusion Service in terms of capacity and resources. There is a significant amount of preparatory work which has commenced in readiness for the implementation placing further pressure on the Inclusion Service.</p>			£m	Integrated Youth Provision	General reduction in variable cost spend across cost centres to achieve a 3% efficiency	0.014	School Planning & Provision	Reduction in portfolio insurance budget	0.005	School Improvement Systems	£38k removal of WJEC SLA as negotiated by Welsh Government & ADEW. £20k reduction in early entitlement budget based on falling birth rate and consequent reduction in pupil numbers.	0.058	Total Efficiency		0.077
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1.06	<p>Final Settlement</p> <p>The final settlement was announced by Welsh Government on 19 December. Aggregate External Finance (AEF) for Flintshire was a 0.3% (£0.569m) reduction in funding in cash terms (0.2% average increase across Wales). AEF combines Revenue Support Grant (RSG) and National Non-Domestic Rates (NNDR).</p>															

	<p>There were two new transfers into the settlement:</p> <ul style="list-style-type: none"> • Teachers Pay Grant (£0.694m); and • Free School Meals Grant (£0.261m). 																				
1.07	<p>Schools Funding 2019/20</p> <p>In building up the budget forecast for the Council the significant cost pressures on schools in 2019/20 have been assessed. Table 2 below shows the proposed funding which will be allocated to schools and delegated through the schools funding formula.</p> <p>Table 2: SCHOOLS FUNDING 2019/20</p> <table border="1" data-bbox="320 640 1345 1108"> <thead> <tr> <th>DESCRIPTION</th> <th>£m</th> </tr> </thead> <tbody> <tr> <td>NJC - Pay Costs</td> <td>1.402</td> </tr> <tr> <td>Teachers Pay</td> <td>0.319</td> </tr> <tr> <td>General Inflation</td> <td>0.192</td> </tr> <tr> <td>Free School Meals Increase</td> <td>0.257</td> </tr> <tr> <td>Total Funded from RSG</td> <td>2.170</td> </tr> <tr> <td>% Increase on Delegated Schools Budget</td> <td>2.47%</td> </tr> <tr> <td>Teachers Pay Grant (Estimate)</td> <td>0.375</td> </tr> <tr> <td>Total Funding increase</td> <td>2.545</td> </tr> <tr> <td>Overall % Increase for Schools</td> <td>2.89%</td> </tr> </tbody> </table>	DESCRIPTION	£m	NJC - Pay Costs	1.402	Teachers Pay	0.319	General Inflation	0.192	Free School Meals Increase	0.257	Total Funded from RSG	2.170	% Increase on Delegated Schools Budget	2.47%	Teachers Pay Grant (Estimate)	0.375	Total Funding increase	2.545	Overall % Increase for Schools	2.89%
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1.08	<p>Pay Awards - Schools</p> <p>Over 70% of expenditure in schools relates to staff costs. In 2019/20 pay awards for support staff and teachers will represent a significant cost pressure.</p> <p>The Council has been robust in its challenge of Nationally set policies which are unfunded e.g. pay awards for teachers and support staff and an increase in employers' pension contributions. Whilst we are not commenting here on the efficacy of such policies, the risks that they pose to both the Council and schools to balance their respective budgets and maintain quality educational provision cannot be understated.</p>																				
1.09	<p>NJC Pay Awards</p> <p>The impact of the National Joint Council (NJC) pay awards on schools is included as shown in table 2 above. The estimated increase in support staff costs arising from the 2019/20 NJC pay award will be in the region of £1.4m. This is an increase in the overall pay bill for schools of around 5.6%.</p> <p>The NJC pay award was a two year award and the pay modelling work to revise the Council's pay spine is ongoing. The cost of the preferred pay model exceeding the base provision in the draft budget remains an open risk.</p>																				

1.10

Impact of Confirmed Grant Announcements

Teachers Pay Grant 19/20

Following the Provisional Settlement the First Minister announced an additional grant for 2019/20 of £7.5m across Wales to meet cost pressures of implementing the teachers' pay award – an additional £0.375m for the Council.

Teachers Pay Grant 2018/19

Flintshire received notification of the Teachers Pay Grant for 2018/19 on 3 January 2019. The terms of the grant state the following:

The purpose of this additional funding is to help alleviate the immediate pressures associated with the 2018 teachers' pay award and allow local authorities some flexibility when planning for 2019-20.

Flintshire will receive £0.784m before the end of the financial year and this will be passported to schools in full. The funding will be allocated on the basis of the September payroll and is therefore based on actual costs. Schools have been notified of how much they will receive so that they can factor it into their budget planning.

Due to the slight improvement in the final settlement and the First Minister announcement the Council aims to meet the minimum position set out in the statement below. This means that schools will have to absorb 1.2% of the teachers' pay award from within their delegated budgets.

In planning our corporate budget for 2019/20 it is the Council's intention that we will make provision for an uplift in the base funding for schools to meet 1% of the pay award, as a minimum. Our aspiration is to be in a position to provide an uplift for the full amount.' (October Council Statement)

1.11

Teachers Pay Award

The national pay award for teachers which was implemented in September 2018 is set out below.

3.5%	Main Scale
2.0%	Upper Pay Scale (UPS)
1.5%	Leadership

The overall cost of the pay award in Flintshire is estimated to be £1.3m (2.2%) increase on the teachers' pay bill in 2019/20.

An important point to note is that teachers pay awards are based on the academic year. In 2019/20 there will be a further pay award from September 2019. At this stage we have no intelligence of what this will be. However, without national funding to support this rise the cost pressure will have to be absorbed by schools.

1.12

Teachers' Pension

The Teachers' Pension scheme along with other national public sector pension schemes is required to complete a valuation every four years to assess the cost of providing pensions in the long-term. The latest valuation will result in an increase of employers' pension costs from 16.48% to 23.6% from September 2019. The financial impact of this increase for Flintshire schools in 2019/20 is estimated to be £2.06m.

Although the Treasury has identified £4.7 billion to support employers with this increase in costs at this stage there is no indication whether the Welsh Government will receive additional funding to support Local Government with the increase in pension costs. Without any additional funding this represents a significant risk to the Council and Schools for 2019 and beyond.

1.13

Revised Financial Forecast

The updated forecast, following approval of both Stages One and Two, the announcement of the Final Settlement, and other changes, is shown in Table 3 below. The remaining budget 'gap' still to be balanced stands at £3.102m.

Table 3: Revised Financial Forecast

Item	£m
Revised Gap at Provisional Stage	15.262
Less: Stage 1 Budget Proposals Approved	(7.937)
Less: Stage 2 Budget Proposals Approved	(0.630)
Less: Final Settlement Revised Reduction in Grant	(1.163)
Less: Further Changes emerging Dec/Jan	0.170
Less: Impact of Grant Announcements	(2.600)
Revised Working Budget Gap at Stage Three	3.102

1.14

Stage 3

Stage Three is the final and the closing stage of the 2019/20 budget process. Having taken account of all changes since the position reported in December there is still a remaining 'gap' of £3.1m to be bridged to achieve a legal and balanced budget.

Beyond a financial intervention by Welsh Government the Council will need to rely on Council Tax to bridge the 'gap'. Welsh Government has made a budget planning assumption that Council Tax will rise at an average of 6.5% across Wales. There is no 'cap' which restricts the level at which any Council can set Council Tax. This is a decision devolved to local authorities.

As the position stands the Council will have to rely on a Council Tax rise in the region of 8.4/5% to meet its own expenditure requirements for 2019/20 after the utilisation of the small use of reserves.

	<p>The addition of the increase in the North Wales Fire and rescue levy will bring the overall Council Tax increase to 8.9%.</p> <p>Council will consider a report on the final and closing stage of the budget on 29 January and the outcome of the meeting will be reported verbally to the meeting.</p>
1.15	<p>Specific Grants</p> <p>Welsh Government announced details of grant funding for Education as part of the final settlement statement issued on 19 December 2018. Appendix 1 shows the education grants.</p> <p>Grants form a significant element of funding for schools. The levels of funding and terms and conditions for specific grants have not yet been received from Welsh Government so it is difficult to assess the impact on the Council.</p> <p>In recent years there has been a reduction in funding for key grants such as Education Improvement Grant which funds a range of activities including Foundation Phase in schools. Although there is no reduction nationally in Education Improvement Grant as shown on appendix 1, the impact of pay awards for both teachers and NJC support staff means that in real terms this represents a reduction in funding to schools and the Council.</p> <p>A further point to note is the increasing number of grants which Welsh Government have instigated for education over the past two years. Although additional funding is welcome to support schools such grants often come with conditions attached and create a lot of work for both the Council and schools and the allocations are not notified on a timely basis. These additional grants for specific ministerial priorities are set against the backdrop of schools having insufficient core funding to achieve their priorities.</p>
1.16	<p>Local Budget Timetable</p> <p>Stage 1 : Corporate Solutions - Corporate Resources and Cabinet – October - Council – November</p> <p>Stage 2 : Service Portfolio Solutions - Overview and Scrutiny workshops and formal meetings – October - Cabinet and Council – November</p> <p>Stage 3 : National Solutions - Cabinet, Corporate Resources and Council – December/January</p> <p>Final Budget Setting – County Council – 29 January and 19 February 2019</p>

2.00	RESOURCE IMPLICATIONS
2.01	As set out within the report.
3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	Engagement of school leaders and governors has taken place throughout the year which has ensured a two way communication between school leaders, senior officers and cabinet members. The first meeting was held in early May with the invitation extended to all Headteachers and Chairs of Governors with further meetings in the Autumn term.
3.02	<p>Engagement has taken place over this three-stage iterative budget setting process with:-</p> <ul style="list-style-type: none"> • Primary and Secondary Heads Federation • Headteachers and Chairs of Governors of all local schools • School Budget Forum • Education Consultative Committee • Flintshire Governors Association • Group Leaders • Members through three stages of workshops in July and September • MPs, AMs and Regional AMs • Welsh Government • Welsh Local Government Association • County Forum (of local town and community councils) • Flintshire Joint Trade Union Committee • Flintshire Local Voluntary Council • Flintshire Public Services Board partners • Chief Officers • Service Managers • Portfolio Teams (through the business planning process) • the workforce (through two seminars with a combined attendance of 225).

4.00	RISK MANAGEMENT
4.01	Head Teachers and their Governing Bodies will be responsible for managing the risks at a local school level. They will be supported by Council officers where specific expertise is required e.g. in financial and human resource management. All schools have an Equality Policy within which they work to mitigate the risks to those with protected characteristics.
4.02	The low resilience of central services is highlighted as a significant risk. There are huge pressures on the Inclusion service with rising demand and more complex referrals. This has the risk of increasing the number of children and young people requiring expensive out of county placements.

4.03	The September 2019 Teachers pay award and increase in teachers' pension costs is a significant risk and Welsh Government will need to be pressed by the Council and teachers professional organisations to offer a funding solution.
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5.00	APPENDICES
5.01	Appendix 1: Welsh Government Grant Funding for Education 2019/20

6.0	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Cabinet Report – 20 November 2018; 2019/20 Council Fund Budget: Updated Forecast and Stage 1 and Stage 2 Budget Proposals http://committeemeetings.flintshire.gov.uk/ieListDocuments.aspx?CId=391&MId=4237&Ver=4&LLL=0</p> <p>Council Meeting 11 December 2018 Slides – Council Fund Budget 2019/20: Stage 3 Update http://committeemeetings.flintshire.gov.uk/ieListDocuments.aspx?CId=143&MId=4239&Ver=4&LLL=0</p> <p>Corporate Resources Overview and Scrutiny Committee 15 November 2018 – Presentation on the Stage 1 and Stage 2 budget Proposals http://committeemeetings.flintshire.gov.uk/ieListDocuments.aspx?CId=141&MId=4285&Ver=4&LLL=0</p>
	<p>Contact Officer: Claire Homard, Chief Officer Education & Youth Gary Ferguson, Corporate Finance Manager</p> <p>Telephone: 01352 702101</p> <p>E-mail: gary.ferguson@flintshire.gov.uk claire.homard@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>Expected Performance Levels – the position Flintshire is expected to be in terms of educational performance at the end of each key stage, based on its percentage of pupils entitled to Free School Meals, benchmarked across all 22 Welsh Local Authorities. Flintshire is expected to perform 6th or better overall.</p> <p>Revenue Support Grant (RSG): the annual amount of money the Council receives from Welsh Government to fund what it does alongside the Council Tax and other income the Council raises locally. Councils can decide how to use this grant across services although their freedom to allocate according to local choice can be limited by guidelines set by Government.</p>

Specific Grants: An award of funding from a grant provider (e.g. Welsh Government) which must be used for a pre-defined purpose.

Aggregate External Finance (AEF): represents the support for local revenue spending from the Welsh Government and is made up of formula grant. Formula grant includes the revenue support grant (RSG), and the distributable part of non-domestic rates (NDR). Amounts are determined annually and in advance of each new financial year as part of the Local Government Financial Settlement.

The Settlement: the amount of its funds the Welsh Government will allocate annually to local government as a whole, as part of its total budget and to individual councils one by one. The amount of Revenue Support Grant (see below) each council will receive is based on a complex distribution formula for awarding Aggregate External Finance (AEF). The formula is underpinned by assessments of local need based, for example, of population size and demographics and levels of social deprivation. The Provisional Settlement is the draft budget for local government published by the Welsh Government for consultation. The Final Settlement is the approved budget post-consultation.

Budget: a statement expressing the Council's policies and service levels in financial terms for a particular financial year.

Revenue: a term used to describe the day to day costs of running Council services and income deriving from those services. It also includes charges for the repayment of debt, including interest, and may include direct financing of capital expenditure.

Ministerial Protection – recommendations from the Cabinet Secretary for Education in Welsh Government to the level of uplift to school budgets to cover inflationary pressures created by nationally agreed pay awards.