**Wiltshire Council**

**Schools Forum**

**22 March 2018**

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## Schools' Costs 2018-19

### Purpose of Report

1. The Department for Education released a document entitled 'Schools' costs 2018-19 to 2019-20', at the end of February 2018. The document was designed to help the School Teachers' Review Body (STRB), school leaders, governors, academy trusts and others understand costs for schools over the next two years.

2. The purpose of this report is to set out the major issues highlighted and to provide commentary on any additional costs facing schools in the ensuing years, to help schools with budget planning.

### Background

3. In July 2017, the Department for Education (DfE) announced plans to increase core funding for schools. An additional £1.3billion for schools and high needs is to be provided in addition to previous sending plans, across the 2018-19 ad 2019-20 years. This comprised an additional £416million in 2018-19 and a further £884 million in 2019-20.

4. Nationally, this equates to a funding increase of 3.1% on a per pupil basis over the period. Of the total increase to school funding of 3.1%, the funding which is directed specifically to schools (i.e. net of central block, pupil premium and part of high needs block) is forecast to increase by 2.9% in per pupil funding over the two-year period. (Whilst this is an average, some schools in Wiltshire will only have seen an increase of 0.5% in their per pupil income.)

5. The Treasury have forecast the rate of inflation to be 2.9% over the same two-year period, through their measure for inflationary uplift.

6. The DfE also forecast that schools will see increases in financial pressures for the National Living Wage (NLW) and the National Minimum Wage (NMW). Non-staffing costs are projected to increase by 0.7% over the same two-year period. (see para. 11 below).

7. The DfE have split the approach to the cost pressures between
   - Staffing – teaching
   - Staffing – non-teaching
   - Non-staffing
   - New cost drivers
   - Impact of NLW & NMW
   - Inflationary factors

8. The DfE has assumed a national breakdown in proportions for expenditure of;
   - Teaching Staff – 52%
   - Non-teaching Staff – 28%
   - Non-Staff – 20%

**Analysis**

9. Given that school funding is set to increase by 2.9% on a per pupil basis as set out in para 4, the DfE are suggesting that overall, cost pressures in schools could increase for staff costs by a further 2.2% in 2018-19 and 1.4% in 2019-20, before schools would face a real term cost pressure. This has been calculated as;

| **Factor** | **2018-19** | **2019-20** | **Cumulative** |
|---|---|---|---|
| Increase in Staff Costs | 2.2% | 1.4% | 3.6% |
| Proportion of all Expenditure | 80% | 80% | 80% |
| **% increase in annual costs** | **1.76%** | **1.12%** | **2.9%** |

**Table 1: Analysis of overall cost increases before real term pressures prevail**

10. The DfE have estimated that increases in the NLW and NMW, coupled with non-staff pay increases will result in a cumulative increase in costs of 0.7% over the next two years. The non-staff related expenditure is based upon GDP deflators which are projected to be 1.48% in 2018-19 and 1.41% in 2019-20. Taken as 20% of the overall impact on school equates to an increase of 0.3% for each of the next two years.

11. The table below sets out the estimated cost increases as a percentage of schools' expenditure for the next two years on NLW, NMW and non-staff factors.

| **Factor** | **2018-19** | **2019-20** | **Cumulative** |
|---|---|---|---|
| Annual NLW and NMW pay award pressures | 0.0% | 0.1% | 0.1% |
| Inflationary pressures on non-staff spending | 0.3% | 0.3% | 0.6% |
| **Total year on Year cost increases** | **0.3%** | **0.4%** | **0.7%** |

**Table 2: Estimate of cost increases as percentages of schools' expenditure each year**

12. Based upon the projected overall 2.9% increase in funding directly for schools, 0.7% must already be factored in as accounted for in Table 2. Therefore, there is only an overall margin of 2.2% for cost pressures over the next two years before real term cost pressures would prevail.

## Assumptions in the Analysis

13. The DfE's analysis contains several key assumptions. The main assumptions are detailed below along with their potential impact.

    **Teachers' Pension Scheme – Employers Contribution Rates**
    The current employers' contribution rate is set at 16.48%. The analysis makes no reference to a potential increase, due to take effect from April 2019, following the tri-ennial actuarial revaluation. Based upon the Local Government Pension Scheme and other public sector schemes, there is widespread feeling that this rate will increase beyond 18% and the Local Authority has recommended to all maintained schools that they budget using the rate of 18.5% from April 2019.

    **Local Government Pension Scheme**
    As with the Teachers Pension Scheme, contribution rates are set to increase by 1% in each of the next two financial years for maintained schools. Academy schools will already be aware of their own contribution rates which have been set for the three-year period.

    **Staff Pay Awards**
    The analysis does not reflect the potential pay awards. The current offer, form the employers side for support staff, supports a minimum 2% pay award. It is widely anticipated that Teachers pay awards would follow those on offer to support staff, but are omitted from the analysis.

    **Removal of the Education Support Grant**
    The removal of the Education Support Grant (ESG) has placed a significant cost pressure upon academies directly and potentially on maintained schools. In some authorities, the DSG has been top-sliced for maintained schools to support services previously funded under the ESG. Whilst Wiltshire does not currently operate a top-slice, this cannot be ruled out for the future.

    Academy schools will have their transitional ESG protection arrangements brought to a close in the current financial year.

    The DfE are proposing that their new School Improvement and Brokering Grant of £50million along with the Strategic School Improvement Fund for academies of £140million will offset any of the cost pressures through the removal of the ESG.

    **GDP Deflator Index**
    The inflationary factor used by the DfE in its modelling is the GDP Deflator which is estimated as being 1.48% in 2018-19 and 1.41% in 2019-20. These rates are significantly below both the Retail Price Index (RPI) and the Consumer Price Index (CPI) which are more commonly used by schools. Indeed, the LA has encouraged schools to prudently adopt an inflation rate of 3% in their budget forecast planning.

    **Other Factors**
    There have been no assumptions in terms of current Government Policy and similarly no changes in respect of Employers National Insurance contributions. The Apprenticeship Levy has also remained at the 0.5% rate. (This rate has been confirmed as remaining unchanged for the next two years.)

**Proposals**

14. Schools Forum is asked to note the content of the report.

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*Report Author:* *Grant Davis, Schools Strategic Financial Support Manager*
*Tel:* *01225 718587*
*e-mail:* grant.davis@wiltshire.gov.uk