

READING BOROUGH COUNCIL

REPORT BY FINANCIAL SERVICES

TO:	Reading Schools Forum		
DATE:	17 March 2016	AGENDA ITEM:	4
TITLE:	Dedicated Schools Grant (DSG) 2015/16, DSG 2016/17 and DFE Funding Consultations		
SERVICE:	Education, Children & Early Help Services	WARDS:	All
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1. PURPOSE AND SUMMARY OF REPORT

- 1.1 This report updates the latest in year financial position on the DSG. In addition there is forward view next year's budget position. Finally the report summarises the recently issued funding consultation papers issued by the DFE.

2. RECOMMENDED ACTION FOR SCHOOLS FORUM

To note:

2.1 The financial position per the latest budget monitoring for 2015/16, namely a net £0.95m deficit (gross deficit on high cost block is £2m, gross surplus on schools block and early years block is £1.05m) to be carried forward into the new year. APPENDIX 1 refers. This estimate is based upon the best knowledge and belief of Finance at the end of February and therefore may be subject to change.

2.2 To confirm the position on the DSG budget for 2016/17 and high cost block deficit funding.

2.3 The recently issued funding consultation on the National Funding Formula and High Needs Funding Reform and a proposed way of responding to the consultation. A more detailed technical summary is included at APPENDIX 2 to the report.

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3 POLICY CONTEXT

3.1 The Council has strategic aims to establish Reading as a learning city and a stimulating and rewarding place to live and visit, to promote equality, social inclusion and a safe and healthy environment for all. Education and the funding of education is a key factor in the achievement of this aim.

4 BACKGROUND

4.1 The DSG funds schools and is ring fenced for school pupil activity. The DSG is based upon actual pupil numbers from the October pupil count preceding the actual financial year. The grant received is split between the:

- Individual School's Budget - the ISB or delegated budget - this is formula driven;
- Centrally Retained School's Budget - the non delegated budget.

4.2 Overspends on the DSG are carried forward and are a first call on the new year's allocation of DSG. Underspends on the DSG are carried forward to support the future year's school's budget.

4.3 The Authority must ensure that DSG is correctly spent and needs to describe the outturn position as to inform the impact upon the new year's budget position. The budget monitoring of the Authority distinguishes between how services are funded, namely by DSG or by the Local Authority.

5 DSG BUDGET MONITORING 2015/16 UPDATE SINCE DECEMBER 2015

5.1 APPENDIX 1 has the latest in year budget monitoring position for the DSG.

5.2 Schools Block: At present there is a £36k underspend forecast.

5.3 Early Years Block: Currently a £1m underspend is forecast against this block. There is a report of the agenda advising of potential commitments in the new financial year against this.

5.4 High Needs Block: Initially a budget gap of £1.3m was reported. The recent consultation identified potential in year savings of c £0.65m with future year savings and strategies to be developed. The majority of these savings have been delayed to April 16 due to effect this will have on school budgets in-year. Some identified savings will still go ahead as these would have happened without any consultation due to vacant posts or low level expenditure on non-placement budgets.

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- 5.5 Finance have reviewed and estimated the current expenditure for 15-16. Current estimated outturn shows a £2.2m overspend on SEN placements with savings of £0.2m on SEN support services, although this may be subject to change in the run up to the year end as it is based upon Finance's best knowledge and belief. Further detail on the financing of the expected carry forward deficit is shown in paragraph 6.3. A verbal update on the forecast and savings for the new financial year will also given at the meeting.
- 5.6 In addition to the risk flowing from the high needs block deficit there is a continuing risk from potential academy converters leaving residual deficits to be funded from DSG.

6 DSG BUDGET 2016/17

- 6.1 We have finalised the details on the Schools Budget at the December and January meetings of Schools Forum. Schools were issued with their indicative budgets on 19 February 2016 and a covering letter from the Director to Schools explained the context of the budget. Maintained schools are required to send details of their finalised budgets to the Authority by 20 May 2016.
- 6.2 With regards the early years block there is another report on the agenda finalising details of the 2016/17 EYSFF. Maintained nurseries will be sent details on their budgets following this meeting. There are no changes to nursery classes in primary schools in terms of funding rates.
- 6.3 With regard to the position on the high needs block deficit being carried forward into the 2016/17 budget, the latest position is as set out below:

	£000
Estimated Overspend	2,000
Underspends from Other areas (to be reviewed)	(100)
Deficit carry forward into 16/17 to be approved by Schools Forum	1,900
<i>Funded by (all figures below are estimates only)</i>	
DSG headroom 16/17 (to be reviewed)	(839)
TOTAL	1,061

- 6.4 Work is ongoing to address this carried forward deficit and also to identify the ongoing 16/17 pressures on the high needs block and there will be a verbal update on the latest position at the meeting.

7 DFE FUNDING CONSULTATIONS

- 7.1 On the 7 March 2016 the DFE issued two funding consultation papers on the National Funding Formula and the High Needs Funding Reform. Both of these papers propose transitional changes from 2017/18 with full changes in 2019/20. The links to these consultation papers are attached below.

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Consultation responses are required back by 17 April 2016. A national early years funding consultation will follow later in the year.

https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula/consult_view

<https://consult.education.gov.uk/funding-policy-unit/high-needs-funding-reform>

7.2 A technical summary of both papers is attached at APPENDIX 2.

Schools National Funding Formula Consultation

7.3 With regard to the current Dedicated Schools Grant, the proposals are that it will be split into 4 elements:

- High Needs Block
- Early Years Block
- Schools Funding Block
- Central schools Block

7.4 From 2017-18 the government will produce a national formula that will have 4 main elements:

- Per pupil cost (AWPU) 3 values based on Primary, Key stage 3 and 4
- Additional needs which will include factors such as FSM, Ever 6, IDACI, LPA and EAL3.
- Schools Costs - Lump Sum, Sparsity
- Geographic Cost - Area Cost Adjustment to all factors to start in 2019/20. (School Forum will recall the Authority's strong preference for the general labour market index rather than hybrid models as they recognise the higher cost in the South East of England)

7.5 Business Rates and Split sites allocations will not be part of the national formula.

7.6 For 2017-18 and 2018-19 financial year, Government will set a shadow national formula for LAs to use as part of the local formula. This will be called "Soft" National Funding formula and the LA with schools forum have two transitional years to evolve the current local formula into the "hard" national funding formula in 19-20.

7.7 In 2019-20 funding information will be sent directly from the Education Funding Agency to schools and not via the Local Authority.

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- 7.8 Minimum Funding guarantee will continue at a rate of 1.5% but Schools forum with the LA can request the MFG to increase to assist the transitional arrangements which would allow schools have greater losses than 1.5%. Also it is proposed that there will be a national cap on increases in funding units.
- 7.9 De-Delegations will cease in 2019-20 and the arrangement for funding these services will be wholly buyback or in the absence of that services will cease.
- 7.10 Education Services Grant will cease from September 2017 and it is expected that these services would be funded from the Central schools block (new block).
- 7.11 The only exception to this is relating to school improvement services that the government is separately reviewing and possible new funding arrangements will be proposed for school improvement.
- 7.12 The Government will be creating a “Invest to Save” Funding allocation to allow schools to invest in ways to save money in the future that will help the transitioning process.
- 7.13 For 2019-20, Government will review the schools forum role due to these changes.

High Needs Block Funding Reform

- 7.14 The DFE states ‘For high needs, the local authority remains the right level at which to distribute funding, as there are important local decisions to be made both about the pattern of provision, and about the special provision required for individual children and young people. While we will move to objective, formula-driven allocations of high needs funding to each local authority - and the consultation sets out our proposals for the design of the high needs formula to do that - to make sure the pace of change in funding is manageable, we also propose that a significant element of the formula for high needs should, at this time, be based on the current pattern of expenditure. This will help to protect provision for children and young people already settled in schools and colleges’
- 7.15 Some further detail is contained in the final section of APPENDIX 2.

Next Steps

- 7.16 As the consultation response is required before the next meeting of Schools Forum, following a technical review of the consultation by officers and consideration by the Lead Member for Education, we will circulate any draft response by email for agreement by Schools Forum, for any comments, prior to submission on 17 April.

Dedicated Schools Grant (DSG) 2015/16, DSG 2016/17 and DFE Funding Consultations

Appendix 1: 2015/16 DSG BUDGET MONITORING (£m)

Description	Total Budget	15-16 Estimated	15-16 Variance	Early Years	High Needs Block	Schools
Schools With Weakness	0.300	0.300	0.000	-	-	-
Behaviour support services	0.135	0.135	0.000	-	-	-
Support to UPEG and bilingual learners	0.085	0.085	0.000	-	-	-
Staff costs supply cover	0.051	0.000	(0.051)	-	-	(0.051)
Top up funding - maintained providers	4.570	5.570	1.000	-	1.000	-
Top up funding - Academies and Colleges	2.691	3.491	0.800	-	0.800	-
Top up and other funding - independent	2.830	3.230	0.400	-	0.400	-
Other AP provision	0.080	0.080	0.000	-	-	-
SEN support services	0.988	0.808	(0.180)	-	(0.180)	-
Hospital education services	0.135	0.135	0.000	-	-	-
Support for inclusion	0.498	0.478	(0.020)	-	(0.020)	-
Central expenditure on children under 5	0.255	0.255	0.000	-	-	-
Contribution to combined budgets	0.630	0.630	0.000	-	-	-
School Admissions	0.101	0.101	0.000	-	-	-
Servicing of schools forums	0.020	0.020	0.000	-	-	-
Termination of employment costs	0.025	0.025	0.000	-	-	-
Capital expenditure from revenue (CERA)	0.197	0.197	0.000	-	-	-
Prudential borrowing costs	0.050	0.050	0.000	-	-	-
Equal pay - back pay	0.550	0.550	0.000	-	-	-
Growth Fund	1.028	1.043	0.015	-	-	0.015
SEN transport	0.100	0.100	0.000	-	-	-
Exceptions agreed by Secretary of State	0.165	0.165	0.000	-	-	-
Total	15.484	17.448	1.964	0.000	2.000	(0.036)
Individual Schools Budget	51.550	51.550	0.000	-	-	-
SEN Placements (First 10k)	2.473	2.473	0.000	-	-	-
Early Years 2-3 year old Funding	5.716	6.034	0.318	0.318	-	-
Central Establishment Charges	0.239	0.239	0.000	-	-	-
14-15 C/FWD (Surplus) - 2YO	0.000	(1.318)	(1.318)	(1.318)	-	-
Total	59.978	58.978	(1.000)	(1.000)	0.000	0.000
Total ALL	75.462	76.426	0.964	(1.000)	2.000	(0.036)

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APPENDIX 2: TECHNICAL SUMMARY OF GOVERNMENT FUNDING CONSULTATIONS ON THE NATIONAL FUNDING FORMULA AND THE HIGH NEEDS BLOCK

SCHOOLS NATIONAL FUNDING FORMULA GOVERNMENT CONSULTATION – STAGE ONE

1.0 Introduction

- 1.1 This is the first of two consultations. This one focusses on the principles that will underlie the new national funding formula and the factors that will be included in the formula.
- 1.2 This consultation does not look at the impact of the proposals on school funding. This will be covered in the second consultation when weights are applied to each element of the formula and illustrations will be presented of how areas and schools will fare under the formula.
- 1.3 It follows therefore that it is not possible to say out this stage how Reading's schools will be affected.
- 1.4 Under the national funding formula, local authorities will no longer determine how much funding individual schools are allocated from 2019/20 onwards. But in 2017/18 and 2018/19, there will be a transition period where a local authority's total schools funding will be determined by the new national formula (this is discussed below) but the authority will allocate out the funding to schools for these two years. In 2017/18 and 2018/19 though, local authorities will be required to pass on the whole school budget to schools. This means that they would no longer be able to transfer funding to early years or high needs etc.
- 1.5 What this means is that from 2019/20 onwards, local authorities will have a much reduced role in the allocation of school funds, although they will still be involved in the distribution of high needs funding for pupils with special educational needs and disabilities.
- 1.6 The Government will allocate some funding to local authorities to distribute where there is a need for local flexibility, will create a central funding block for local authorities' ongoing duties; and will introduce some stability for schools through continuing with the minimum funding guarantee.

2.0 Building Blocks to be included in the National Formula

- 2.1 The consultation proposes that four building blocks will be taken into account in the national formula.

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Basic per pupil funding – the first block is a core funding allocation per pupil. In the current funding system, the biggest factor in local funding formulae is ‘basic entitlement funding’, which accounted for 76% of schools’ budgets in 2015-16

Funding for additional needs – the second block will be based on pupil characteristics that are linked to a likely need for additional educational, pastoral or administrative support. It is proposed to include factors that measure deprivation, low prior attainment and English as an additional language

Funding for School costs – the third block includes non-pupil characteristic costs such as premises costs and extra costs involved in running a split site school. Also in areas of pupil growth, schools can receive extra funding so that they can accommodate extra classes and unexpected resourcing pressures. There will also be a factor relating to schools serving rural communities

Funding for Geographic Area costs – This would involve a multiplier being applied to every factor so that schools’ funding is increased if they are situated in areas of higher cost.

- 2.2 The Consultation also sets out proposals on how each factor will be constructed and confirms that schools will continue to receive the pupil premium grant, which is protected until 2019-20.

3.0 Transitional Arrangements

- 3.1 The Government is proposing to implement a ‘hard’ national funding formula from 2019-20, where each schools funding allocation is determined by the national formula. But for the first 2 years of the formula – 2017-18 and 2018-19 – it will allocate schools block funding at local authority level, according to the national formula (see 3.2) but local authorities would continue to determine the pattern of funding according to local formulae (with funding for academies also determined by reference to the local formula), within the parameters set nationally. This is the ‘soft formula’. The only change Government is proposing to make to the factors that are currently allowable in local formulae in 2017-18 is to remove the post-16 factor.
- 3.2 In 2017/18 and 2018/19, to calculate the funding at a local authority level under the national formula, the Government will work out a ‘shadow’ school level formula and apply the minimum funding guarantee (MFG) and a cap on gains, to determine each school’s notional funding for that year. The notional funding for each school in an authority area (including an area cost adjustment) would then be added together with funding for premises factors (business rates, split sites, PFI, exceptional premises factors) and growth, based on the total of each local authority’s spend in the previous year. This would form each authority’s schools block, which authorities will then allocate out by their local formula
- 3.3 DfE will carry out an exercise in March 2016 to ‘re-baseline’ the 4 blocks of the DSG for each local authority, so that each block aligns with the pattern of each authority’s

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spending in 2016-17, rather than how the government allocated the funding to them. For example, if an authority chooses to put funding from its allocated high needs block into its schools block in 2016-17 to encourage the integration of pupils with SEN in mainstream schools, then DfE will use that spending pattern as the baseline against which it calculates the schools and high needs funding allocations through the formulae for 2017-18. Through the upcoming exercise, DfE will ask local authorities to set out their 2016-17 baselines across the 4 blocks. How to do this will be set out in detail when it begins the exercise.

- 3.4 There are two other significant proposals for change during the transition period. The first already noted above, is to require authorities to pass on all of the funding they are allocated through their schools block to their schools. The second proposed change is to allow authorities greater flexibility in setting an MFG that reflects local circumstances.
- 3.5 The Government recognizes that for some local authorities passing on the whole schools' block removes one way of dealing with pressures on the other blocks, particularly high needs. It does not think though that continuing to move funding from the school's block is necessarily the right way of managing high needs cost pressures in the future.
- 3.6 Local authorities would be able to use previously accumulated reserves across all 4 blocks of the DSG.
- 3.7 Some authorities will receive less funding in 2017-18 than they had in 2016-17 for their schools, meaning that setting a local formula that complies with current regulations and guidance will be more difficult. Authorities would be required to set a formula under which no school could lose more than a certain amount per pupil, with that amount set at a national level. For losing authorities this may leave them very little room for manoeuvre. Government is considering whether to put in place an arrangement that would allow local authorities, in agreement with the school's forum and following consultation with all local schools, to set a local MFG that allows greater losses than the one the government has used to calculate schools' notional funding.
- 3.8 The Schools Forum will have a continuing role in 2017-18 and 2018-19 in carrying out its current role of advising on the school's budget and the local formula, and making decisions about what spending can be held centrally in relation to schools. But the Government is proposing to withdraw current arrangements for de-delegation with the introduction of the hard national funding formula in 2019-20 to give schools greater responsibility for their budgets. Responsibility for services that can currently be de-delegated will rest with individual maintained schools, who will have a choice about whether to buy the service from the local authority or an alternative provider. These services include behavior support services, insurance and licences and subscriptions. If local authorities wish to continue to provide these services they should do so as a traded service, giving individual schools the choice of buying into the service.

4.0 Phasing in Gains and the MFG

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- 4.1 The Government is proposing to phase in changes in funding over several years so that schools have time to adapt, plan and make the best use of their budgets for their pupils. Schools are already subject to year on year changes in their funding, as local authorities distribute the funding in their area according to a local formula which can change each year. Schools are protected against large changes to their funding through the MFG. This currently ensures that schools cannot lose more than 1.5% funding per pupil each year, and this protection can be paid for by capping or scaling the amount that other schools gain from the local formula changes.
- 4.2 The Government is proposing to retain the principle of this system. In 2017-18 and 2018-19, it will fund local authorities rather than schools directly, with the amount that each authority receives being based on a shadow school level formula in which each school's funding would be calculated including any protection against losses or cap on gains, and then aggregated to local authority level. There would therefore be a national MFG and cap on gains from 2017-18 in order to set the shadow formula, with arrangements for local authorities to use a local MFG and variable cap (and/or scale) in 2017-18 and 2018-19.
- 4.3 The Government will consult on proposals for the national MFG in the second stage consultation, alongside the illustrative impacts of the proposed formula.
- 4.4 In setting the national MFG at a level that the schools that are due to lose funding has to be balanced against the need of schools that are due to gain, and the Government has to ensure that the amount that schools gain and lose in a single year is equal, so that the total budget is not overspent. This means that the amount distributed to the gainers is balanced by the amount that schools will lose in a single year. It is considering two ways to distribute funding to the gainer. The first is to put a single percentage cap on the gains of all schools and the second option is to have a lower cap, and then to distribute the remaining funding through a progressive system that gives the most to those that have the most to gain before they reach their formula allocation. The Government's preferred option is the former.

5.0 Funding that will remain with local authorities and ESG

- 5.1 Local authorities are responsible for ensuring that every child has a school place and ensuring fair access through admissions and transport arrangements; ensuring the needs of vulnerable pupils are met; and have a key role in shaping school provision in their area. The Government will continue to provide funding to local authorities for these functions on an ongoing basis.
- 5.2 Local authorities currently receive funding from the government for these responsibilities from two different funding streams – the DSG funding that is held centrally by the local authority, and the retained duties element of the education services grant (ESG). The Government is proposing to bring these two funding streams together into a new central school's block, distributed on a simple per pupil formula adjusted for area costs. The per-pupil rate would be derived from these two existing

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funding streams.

- 5.3 The Government also notes that centrally retained DSG is also currently used to fund a number of historic commitments such as combined budgets contributing to wider children's services (such as early intervention), staff redundancy costs relating to decisions taken before 2013, and the back pay associated with equal pay legislation. Some costs of providing SEN transport are currently also included in the historic commitments within centrally retained DSG. The Government will include this funding in the high needs block rather than the central block.
- 5.4 The Government does not believe that it should be providing funding for these commitments on an ongoing basis where they relate to functions which should be provided from the local authority's core budget, or where costs have unwound, for example because a contract has reached its end point. Spending on such commitments is only currently allowed where they were entered into before April 2013, and the expectation is that these costs would unwind over time. The Government plans to collect evidence from local authorities about their historic commitments, and the ongoing cost of these commitments, during the spring of 2016 and to allocate funding for historic commitments on the basis of this evidence.
- 5.5 Turning to ESG, the Government announced a saving of £600m from the ESG general funding rate by 2019-20. A cut of £72m was made in 2016-17. The Government plans to remove the remaining general funding rate from 2017-18 to achieve the full £600m savings. The Government does recognize that local authorities will need to use other sources of funding to pay for education services once the general funding rate has been removed and it proposes amending regulations to allow local authorities to retain some of their maintained schools' DSG to cover the statutory duties that they carry out for maintained schools. The level of the DSG to be retained by the local authority would need to be agreed by the maintained schools' members of the school's forum, with recourse to the Secretary of State if they are unable to agree.
- 5.6 The Government accepts that managing the proposed changes to the ESG will require reform of local authority services, and it therefore proposes to provide a transitional period to help local authorities to prepare by paying a reduced ESG general funding rate for the first 5 months of the 2017-18 financial year. The general funding rate would then be removed completely for both academies and maintained schools from September.

HIGH NEEDS FORMULA FUNDING

GOVERNMENT CONSULTATION

1. Along with the School Funding Consultation, the Government also published a Consultation Paper on High Needs Funding. As with School Funding, the Consultation will be in two phases. The first phase covers high level principles, key proposals and options. The main proposal is that high needs funding will be allocated on the basis of a formula and a key secondary proposal is how it should be phased in.

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2. The second Consultation phase will set out proposals on factor weightings and the impact on local authorities. So once again, it is not possible to work out at this stage what the implications will be for Reading.
3. The key difference with this proposal compared to school funding, is that local authorities will decide on the pattern of provision in their area.
4. The formula will contain a population factor, health and disability factors, low attainment and deprivation indicators and there would be elements of the formula that reflect that local authorities are not only responsible for funding pupils' resident in their area, but also provide the core funding for special schools in their area.
5. The Government recognizes that current levels of spending will not be easy to change and that authorities will need time to do this. The Government proposes therefore that for at least the first 5 years the formula should contain a significant element of funding based on what each local authority is currently spending on high needs. According to the Government this will allow time for local authorities to make the adjustments that are needed for the future, whilst protecting the special provision for those children and young people already settled in schools and colleges. The Government will also protect authorities against large annual changes in their high needs funding. In addition, it is proposing help, including capital funding, to assist local authorities in making the changes necessary to reshape their provision.