

## **Children and Young People's Services Select Committee**

**23 October 2019**

### **Dedicated Schools Grant (DSG) Budget Planning 2020/21**

#### **Report by Executive Director People Services and Director of Education and Skills**

#### **Summary**

This report provides initial information and sets the scene for the Dedicated Schools Grant (DSG) budget in 2020/21.

Although the government has set out the key aspects of the DSG funding arrangements for 2020/21, they have yet to publish any National Funding Formula allocations at a Local Authority or individual school level. Indicative figures, based on October 2018 census data are set to be published later this month.

The fall in real terms spending over the last ten years has meant that many of the schools in West Sussex have had to make increasingly difficult decisions when setting their budgets. The results of a school funding survey looking into the financial challenges faced by schools across West Sussex, which was carried out earlier this year, are also included within this report.

As part of its overall budget strategy, West Sussex County Council (WSCC) is currently looking at the estimated cost pressures arising from growth in demand for specialist places for pupils with complex special needs.

This report is based on early forecasts and further work is taking place to refine details. The local government financial settlement for 2020/21, including DSG, is expected to be published in December.

#### **The focus for scrutiny**

The Committee is asked to consider the information as set out in the report and consider the implications of the National Funding Formulae on the local funding formula for mainstream schools as well as the impact of funding on spending pressures for schools and on high needs expenditure and make comment to the Cabinet Member for Education and Skills.

The Chairman will summarise the output of the debate for consideration by the Committee.

## **Proposal**

### **1. Background and Context**

- 1.1 The Dedicated Schools Grant (DSG) is the source of funding for the provision of education in:
  - mainstream primary, secondary schools, academies and free schools,
  - maintained, independent and non-maintained special schools, post-16 providers for pupils with complex special educational needs and disability (SEND) and alternative provision,
  - provision of free entitlement to nursery education for eligible 2, 3 and 4-year-olds.
- 1.2 Post-16 education in mainstream schools and academies is funded directly by the Education and Skills Funding Agency through a separate grant stream, which is also based on a national formula.
- 1.3 The DSG currently comprises 4 separate funding blocks – Schools, Central School Services, High Needs and Early Years.
- 1.4 Under the new National Funding Formula (NFF) the Schools block is calculated on the basis of notional allocations at individual school level using 14 factors and national unit values, whereas the NFF for the Central School Services and High Needs blocks is calculated at Local Authority (LA) level using population and proxy data relating to need.
- 1.5 The Minister of State for School Standards made a statement to the House of Commons on 9 September which set out the key aspects of next year's funding arrangements. This followed a statement by the Secretary of State for Education the previous week which confirmed that schools funding is set to rise by £2.6b in 2020/21, £4.8b in 2021/22 and £7.1b in 2022/23, when compared to 2019/20.
- 1.6 The Institute of Fiscal Studies, in its 2019 Annual Report on Education Funding in England, stated that this additional funding represented a 7.4% real terms growth in spending per pupil between 2019/20 and 2022/23. Although this increase in schools funding is welcomed, it should be seen in the context that school spending per pupil in real terms has fallen by 8% in real terms over the last ten years. This means that nationally the school spending per pupil in 2022/23 will be at about the same level as 2009/10.
- 1.7 The fall in real terms spending over the last ten years has meant that many West Sussex schools have had to make increasingly difficult decisions when setting school budgets. In order to better understand the context of these budget pressures and the general picture of the challenges faced by schools across West Sussex, the County Council undertook a school funding survey in May of this year. The results of the survey were shared with the county's Schools Forum in June 2019, and a copy of this report is attached in Appendix A.

- 1.8 Although the key aspects of the funding arrangements for 2020/21 have been announced and are set out in this paper, the government has yet to publish any NFF allocations at a LA and individual school level. Provisional figures, based on October 2018 census data, are set to be released during October, and final DSG allocations for next year, updated for October 2019 pupil data, will be included as part of Local Government finance settlement in December 2019.

## **2. Schools block**

- 2.1 In 2018/19, two new units of funding were introduced for allocating out the Schools block at a Local Authority level; a Primary Unit of Funding (PUF) and a Secondary Unit of Funding (SUF). The PUF and SUF are average funding units for each phase calculated by taking the indicative total NFF (excluding growth, premises and mobility funding) for each phase and dividing it by total primary or secondary pupil numbers.
- 2.2 Currently in West Sussex the PUF is £3,741 and the SUF is £4,889. These rates for next year are set to be published alongside the indicative NFF allocations later this month.
- 2.3 The key aspects of the Schools block NFF formula for 2020/21 announced by the Minister of State for School Standards are:
- The minimum per pupil funding levels (MpPFLs) will be set at £3,750 for primary schools and £5,000 for secondary schools. The following year, in 2021/22, the primary minimum level will rise to £4,000.
  - The funding floor will be set at 1.84% per pupil, in line with the forecast Gross Domestic Product (GDP) deflator, to protect per pupil allocations for all schools in real terms. This minimum increase in 2020-21 allocations will be based on the individual school's NFF allocation in 2019-20.
  - The funding floor will be set at 1.84% per pupil, in line with the forecast GDP deflator, to protect per pupil allocations for all schools in real terms. This minimum increase in 2020-21 allocations will be based on the individual school's NFF allocation in 2019-20.
  - Schools that are attracting their core NFF allocations will benefit from an increase of 4% to the formula's core factors, with the exception of the Free Schools Meal factor which will only increase by inflation.
  - There will be no gains cap in the NFF, unlike the previous two years, so that all schools will attract their full core allocations under the formula.
  - A technical change will be made to the mobility factor so that this funding is allocated using a formulaic approach, rather than on the basis of historic spend.
  - Growth funding will be based on the same methodology as this year, with the same transitional protection ensuring that no authority whose growth funding is unwinding will lose more than 0.5% of its 2019-20 schools block allocation.
- 2.4 The Secretary of State also confirmed on 3 September the government's intention to move to a 'hard' NFF for schools, where budgets will be set on the

basis of a single, national formula. In the meantime, LAs will continue to have discretion over their schools funding formula and, in consultation with schools, will ultimately determine allocations in their area. However, as a first step towards hardening the formula, from 2020/21 the government will make the use of the national MpPFLs, at the values in the school NFF, compulsory for local authorities to use in their own funding formulae.

- 2.5 The DfE wants to seek views from LAs and other stakeholders on how best to implement this change and have therefore launched a short consultation which closed on 22 October 2019. This consultation focused on whether all LAs should follow the NFF methodology for calculating the MpPFLs, and on what grounds LAs would be able to apply to the Secretary of State to disapply the use of these mandatory levels.
- 2.6 With the LA allocations not being capped next year, the NFF rates should be able to be paid to all schools in full in 2020/21. This means that the only aspect of the local formula that will need to be consulted on this autumn will be the Minimum Funding Guarantee (MFG). LAs will continue to be required to set an MFG in their local formula, although no additional funding will be provided in their allocations for this protection mechanism. For next year, this will need to be set between 0.5% and 1.84%, with the Government's expectation that the higher rate will be elected in order to mirror the real terms protection in the NFF.
- 2.7 As with previous years, the majority of the Schools block allocation remains ring-fenced in 2020/21. The DfE have extended their requirement that at least 99.5% of the block's funding must be distributed through the local formula for schools. Again, the LA is allowed to transfer up to 0.5% of the funding into other DSG blocks with the agreement of Schools Forum. Where this is not given, or where the LA is wishing to transfer more than 0.5%, it can apply to the Secretary of State under the disapplication process. The deadline for such an application remains the end of November.

### **3. Central School Services block**

- 3.1 The Central School Services block is designed to reflect the ongoing Local Authority (LA) role in Education and brings together:
  - Residual funding for historic commitments, previously funded from the Schools block
  - Funding for ongoing central functions, such as admissions, previously funded from the Schools block, and
  - Funding previously allocated through the retained duties element of the Education Services Grant (ESG)
- 3.2 This block is made up of two separate funding streams; one for historic commitments and the second for the ongoing responsibilities of the LA.

- To date, the former, which totals £5.190m, has been allocated on a cash frozen historic basis, however, the DfE has previously announced that from 2020/21 onwards, it expects to start reducing this funding by a set percentage, where LAs do not reduce the expenditure of their own accord. No information as to what this percentage reduction might be has yet been given.
- The latter is allocated on a per pupil basis, which for West Sussex was at a rate of £32.25 last year. Again, to date, no indication as to what the funding rate will be next year has been given.

#### **4. Early Years block**

- 4.1 The Early Years block funds the free entitlement to 15 hours per week nursery education for three and four-year-olds and eligible two year olds. The free entitlement is mostly provided in private, voluntary and independent settings but there are also four maintained nursery schools and eleven maintained nursery classes attached to mainstream schools and academies. Since September 2017, the Early Years block has also included funding for the implementation of the 30 hours free entitlement for eligible parents of three and four year olds.
- 4.2 The Early Years block is allocated based on a national formula based on take up of the free entitlement by two, three and four-year-olds in the previous year with an in-year adjustment for actual January take up.
- 4.3 The Early Years National Funding Formula (EYNFF) hourly rates for 2020/21 have yet to be published. However, given that the recent Schools Funding announcement included an additional £66m for Early Years next year it is expected that the current rates per hour, which remained frozen at the 2018/19 levels of £4.78 for 3 and 4-year-olds and £5.30 for 2 year olds last year, will be increased for inflation. As an example, an increase of 1.84% (the funding floor increase announced for the Schools block) would see these rates increase to £4.87 and £5.40, which would result in an increased DSG allocation of £0.9m.

#### **5. High Needs block**

- 5.1 The High Needs block funds special schools, special support centres in mainstream schools and academies, placements in independent special schools, alternative provision, the Virtual School for Children Looked After, specialist teacher teams working with pupils with complex SEN, post 16 support for students with complex needs in colleges of FE and specialist college placements, collaborative working with locality groups of schools, and other targeted SEN expenditure to improve education outcomes for children and young people with SEN.
- 5.2 The main funding pressures affecting the High Needs block continue to be increased numbers of pre and post 16 pupils with complex needs requiring

specialist placements and top up funding, increased fees in independent special schools, the demand for personal budgets and increased exceptional needs expenditure arising from the Children and Families Act 2014.

- 5.3 High Needs expenditure within West Sussex is largely driven by the number of pupils with an Education and Health Care Plan (EHCP). In March 2015 there were 3,423 children and young people with EHCPs since that time those numbers had risen to 5,267 by the end of March 2019 – an increase of 1,844 (54%). So far this year numbers have continued to rise, and as at 31 August 2019 the total stood at 5,555. This is an increase of 288 since the beginning of the year, which is higher than at the same stage of the year since 2016/17.
- 5.4 Based on an assumption that the number of pupils identified as needing additional support through an EHCP will continue to rise at the current rate it is projected that expenditure in High Needs is set to increase by a further £4.0m in 2020/21. Since the current year's budget also includes one-off funding of £2.4m from DSG reserves and an LA contribution of £1m, this means that the underlying shortfall next year stands at £7.4m, even before the on-going impact of any overspending this year is allowed for.
- 5.5 Unlike the other DSG blocks the majority of the High Needs block allocation is not driven by pupil driven units of funding. 50% of the funding nationally is based on an historic spend factor which is being maintained at a cash-flat level, and within West Sussex 25% of the allocation is based on overall school age 2-18 population numbers which is rising at about 1.5% per year.
- 5.6 The recent Schools Funding announcement included £700m for High Needs next year which represents an 11% increase in High Needs funding nationally, based on 2019/20 allocations (including the additional £125m announced by the Secretary of State last December). Although indicative allocations for next year are still to be announced at an LA level, it is understood that every LA will receive an increase of at least 8% per head of 2-18 population through the funding floor. Since this mechanism applies to 90% of current funding, the LA can therefore expect to receive at least an additional £6m next year.
- 5.7 Although the DfE has stated that they expect there to be less need for any LA to make any transfers from their Schools block next year, 'in light of the considerable additional high needs funding that each LA will receive', without knowing the actual DSG allocation for next year it is difficult to rule out completely any such request to the Secretary of State.

## **6. Teachers' Pension Scheme**

- 6.1 The employer contribution rate of the teachers' pension scheme has increased from 16.4% to 23.68% from September 2019. The DfE has announced that these costs will be covered by a new government grant. As with the Teachers Pay Grant last year, this will be allocated on a per pupil basis. Although actual

school allocations have yet to be published for the current year, the DfE has set out what the 'per pupil' rates will be:

	Crawley	Rest of County
Primary	£79.85	£77.50
Secondary	£117.53	£114.08
Special	£291.44	£282.89

- 6.2 Maintained nursery schools and nursery classes in mainstream primary schools are to be funded at the primary school rates, and the secondary school rates will apply for all 11 to 19-year olds. All mainstream schools with less than 100 pupils will be funded as if they had 100 pupils, whilst all High Needs institutions will be funded for at least 40 places.
- 6.3 In addition to the 'per pupil' funding a Supplementary Fund has also been created, which will help to ensure that there is support in place for schools facing unusually high pension costs. Where a school faces a shortfall between their grant allocation and their actual increase in pension costs, of more than 0.05% of their overall budget, they will be able to apply for some additional monies from this Supplementary Fund. Applications for this additional funding will be based on schools' actual pension costs for November 2019.
- 6.4 The 2019/20 grant payments are due to be paid later in the autumn. For maintained schools these will be paid to the LA, whereas academies and free schools will receive their funding directly from the Education and Skills Funding Agency (ESFA). In 2020/21, this grant, together with the existing Teachers Pay Grant, will continue to be paid separately from the NFF DSG allocations.

## **7. Resources**

- 7.1 Provisional NFF figures, based on October 2018 census data, are set to be released during October, and final DSG allocations for next year, updated for October 2019 pupil data, will be included as part of Local Government finance settlement in December.

## **Factors taken into account**

### **8. Issues for consideration by the Select Committee**

- 8.1 The Committee is requested to consider the implications of the National Funding Formulae on the local funding formula for mainstream schools as well as the impact of funding on spending pressures for schools and on high needs expenditure and make comment to the Cabinet Member for Education and Skills.

## **9. Consultation**

- 9.1 West Sussex County Council is required, under national funding regulations, to consult schools and the Schools Forum on proposed changes to funding arrangements affecting school budgets. The consultation for the 2020/21 funding formula will be published later this month, and discussed by Schools Forum at its meeting at the end of November.
- 9.2 The exact timing of the consultation is still to be determined, and will be dependent on when the government publishes the provisional NFF allocations at a LA and individual school level. The DfE has stated in its operational guidance note for schools revenue funding in 2020/21 that the consultation exercise may be shorter or involve fewer meetings than usual due to the later than usual funding announcement this year.

## **10. Risk Implications and Mitigations**

- 10.1 Until the provisional NFF allocations for next year have been published it is difficult to determine whether there will be sufficient funding to cover unavoidable cost pressures and unfunded cost burdens, particularly within the High Needs block.
- 10.2 Although it is likely that the increased funding announced by government will be good news for a number of schools within the county, it may not help the future viability of some small schools, and therefore may require consideration of future school organisation in some areas of West Sussex. This may cause concerns in local communities, affect parental choice of school, create additional capital and revenue costs and affect the reputation of West Sussex County Council.
- 10.3 Some schools and academies may need to consider further efficiency measures in 2020/21 to reduce expenditure, including staff reductions. This will impact on the provision of education. Some staff reductions may be achieved through natural turnover. Others will be achieved through redundancies. The County Council is the compensatory body for maintained schools and will be responsible for meeting redundancy costs.

## **11. Equality Duty**

Should the County Council need to make a disapplication request to the Secretary of State for a transfer of funds from the Schools block to the High Needs block as part of 2020/21 budget setting process, this request will need to include an assessment of the equalities implication.

## **12. Social Value**

None.

**13. Crime and Disorder Implications**

Not applicable.

**14. Human Rights Implications**

None.

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Appendix A – Results from School Funding Survey