

Mr Jupp, Cabinet Member for Education and Skills	Ref No:ES11 (19/20)
February 2020	Key Decision: Y
School Funding 2020/21	Part I
Report by Director of Education and Skills	Electoral Divisions: All
<p>Summary</p> <p>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 School Funding Review 2020/21 consultation document was published on 23rd October 2019. Responses to the consultation and feedback from both Schools Forum and the Children and Young People’s Services Scrutiny Committee have been taken into account in the development of the local funding formula for mainstream schools in 2020/21.</p> <p>To alleviate pressures on certain budgets proposals to transfer funding between Dedicated Schools Grant (DSG) funding blocks were also included as part of the schools funding consultation. Under the funding regulations, any transfer between blocks is a decision that is taken by Schools Forum, although the County Council can seek to overturn this by applying to the Secretary of State for Education through a disapplication request.</p>	
<p>West Sussex Plan: Policy Impact and Context</p> <p>Best Start in Life: Approval of the local funding formula for mainstream schools will ensure a more equitable redistribution of funding between schools than the National Funding Formula (NFF), whilst continuing to provide additional financial support to our small rural primary schools.</p>	
<p>Financial Impact</p> <p>This decision has no direct impact on the funding of the County Council, but will determine how the funding provided by government through the Dedicated Schools Grant (DSG) is allocated out to all mainstream maintained schools and academies in the county in 2020/21.</p>	
<p>Recommendations</p> <p>The Cabinet Member for Education and Skills is asked to agree the proposals in relation to the local funding formula for mainstream schools as set out in section 2.28.</p>	

Proposal

1. Background and Context

- 1.1 In 2018/19 the government introduced a new National Funding Formula (NFF) for the Dedicated Schools Grant (DSG) Schools block. In order to avoid significant fluctuations in funding and maintain stability during

implementation, although the NFF was introduced from 2018/19 it was done using 'soft formula' arrangements where the Department for Education (DfE) allocated funding to Local Authorities for the total of the schools in their area, and then each Local Authority was asked to distribute their allocation by means of a local funding formula.

- 1.2 The DfE have re-affirmed that it is their long-term intention that schools' budgets should be set on the basis of a single, national 'hard' formula where all schools will be funded directly via the NFF. However, no date for this change has yet been set. In the meantime, Local Authorities have been asked to continue to determine local school allocations under the 'soft formula' arrangements in 2020/21.
- 1.3 Whilst the 'soft formula' arrangements remain in place, 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.
- 1.4 The [School Funding Review 2020/21 consultation document](#) was published on 23rd October 2019 and set out proposals for changes as follows:
 - Changes to the local funding formula for mainstream schools towards the implementation of the national funding formula (see paragraphs 2.1 to 2.27 below).
 - A one-off transfer of approximately £2.4m from the Dedicated Schools Grant (DSG) Schools block to the High Needs block (see paragraphs 3.1 to 3.6).
 - De-delegation of funding from maintained primary and secondary schools to create pooled budgets (see paragraph 1.5).
 - The charge to maintained primary, secondary and special schools and Alternative Provision College for the General Duties Education Services Grant (see paragraph 1.5).

The consultation document included spreadsheets illustrating the local funding formula options for mainstream schools and a modelling tool was provided based on October 2018 pupil census data to show the indicative impact of the proposed formula options on individual school budgets both before and after the proposed transfer of £2.4m to the High Needs block.

- 1.5 After taking account of responses from schools to consultation proposals, at its meeting on 28th November the Schools Forum made decisions, as required in its constitution, to approve the de-delegation of funding for specified services from the budgets of maintained schools (bullet point 3 above). Schools forum also approved the proposed charge in 2020/21 to maintained schools for the former General Duties Education Support Grant (bullet point 4 above). These matters are therefore not covered in this report.
- 1.6 The purpose of this report is to recommend changes to the local funding formula for mainstream schools and academies which take account of responses from schools, Schools Forum and the Children and Young People's Services Scrutiny Committee to consultation proposals. The changes also take account of the outcome of disapplication requests submitted to the DfE by the

County Council to vary the local formula to avoid disproportionate advantage or disadvantage to individual schools or groups of schools.

- 1.7 This report provides an update on the County Council’s appeal to the Secretary of State for Education in regards to a block transfer request between the Schools block and the High Needs block. This appeal sought approval to transfer £2.4m from the Schools block (the core funding for all pupils in mainstream schools) to the High Needs block to assist in easing cost pressures arising from increased demand for top up funding for pupils with Education Health and Care Plans (EHCPs) and places in specialist settings.

2. National Funding Formula and the Local Funding Formula for Mainstream Maintained Schools and Academies

Options for allocating out DSG funds to mainstream schools

2.1 The key aspects of the Schools block NFF formula for 2020/21 announced by the Minister of State for School Standards in September were:

- 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 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.

2.2 The Schools block comprises the individual schools budget that is delegated to mainstream maintained primary and secondary schools and academies and in 2020/21 is set to rise by £29.673m to £488.941m:

	2019/20 Final Allocations			2020/21 Final Allocations		
	<u>Funding</u>	<u>Pupil</u>	<u>Total</u>	<u>Funding</u>	<u>Pupil</u>	<u>Total</u>
	<u>Rate</u>	<u>Numbers</u>	<u>Funding</u>	<u>Rate</u>	<u>Numbers</u>	<u>Funding</u>
	£		£	£		£
Primary Schools	3,740.97	65,163	243,770,958	3,958.13	65,052	257,484,273
Secondary Schools	4,888.67	41,330	202,046,287	5,129.83	42,387	217,438,104
		<u>106,492</u>	<u>445,817,244</u>		<u>107,439</u>	<u>474,922,377</u>
Premises Factors			9,921,332			10,373,020
Growth Factors			3,529,687			3,646,029
			<u>459,268,263</u>			<u>488,941,426</u>

2.3 2020/21 is the third year of the National Funding Formula (NFF) for schools. This new formula is significantly different to our historic local formula, with the main changes being a reduction in the lump sum for fixed costs from £150,000 to £114,400 (£110,000 plus 4% inflation) per school, and a change in the way deprivation funding is allocated, with a basket of measures including IDACI

(Income Deprivation Affecting Children Index), Free School Meals and Free Schools Meals Ever 6 being used.

- 2.4 The only change in the way the pupil funding elements of the NFF have been calculated in 2020/21 as compared to 2019/20 is in relation to the Mobility factor of the additional needs funding. This factor allocates funding to schools with a high proportion of pupils who first join on a non-standard date. Previously this funding has been allocated on an historic basis, but a new formula approach is to be used in 2020/21. West Sussex does not currently use the Mobility factor in its local funding formula, but since this funding is now being allocated on a new formula basis through the NFF next year, rather than on an historic basis as in the past, all the modelling options in the consultation have included this additional funding. In total this equates to £0.438m.
- 2.5 The increase in the MpPFLs to £3,750 for primary schools and £5,000 for secondary schools next year is welcome. However this funding factor generally benefits larger schools and those with the lowest levels of additional needs funding. As a result, there is not a uniform increase in funding across all schools.
- 2.6 Last year, following consultation, Schools Forum agreed to set the lump sum for secondary schools at the NFF level of £110,000 whilst protecting the lump sum for primary schools at a higher level of £130,000. However, it was recognized that the primary lump sum value could not be maintained at that level indefinitely and would need to be reduced as we move closer to the 'hard' formula implementation.
- 2.7 The proposed financial impact of further reducing the primary lump sum down to the inflated NFF level of £114,400 ($£110,000 * 104\%$) next year was summarized in Option 1 of the consultation.
- 2.8 The reason for keeping the primary lump sum above the national level last year was largely to help support the small rural schools. Given that the majority of these schools will again be on the 'floor' and not benefit from the increase in the MpPFL rates next year, consideration was also given to keeping the primary lump sum at its current rate of £130,000. The financial impact of this was set out under Option 2.
- 2.9 Since most of the small primary schools will continue to be on the funding 'floor' next year they are largely unaffected by the decision to go with Option 1 or Option 2. Generally, it is the medium sized primary schools that would benefit from the decision to protect the lump sum under Option 2, and this would mostly be at the expense of the larger primary schools.
- 2.10 With the MpPFL set to rise further to £4,000 per pupil in 2021/22, a further 50 primary schools are likely to benefit from this funding stream next year, and a good number of these will be the medium sized primary schools. Therefore, if we were to maintain the lump sum protection for another year in 2020/21 and go with option 2, many of those schools benefitting from this protection will no longer require it in 2021/22.
- 2.11 As part of its local formula, the Local Authority is required to set a Minimum Funding Guarantee (MFG). This is known as the 'floor' and for next year, the

DfE has stipulated that this needs to be set between 0.5% and 1.84%. Since the Government's expectation is that the higher rate will be elected in order to mirror the real terms protection in the NFF, 1.84% was used in the first two options of the consultation. However, in order to help understand the impact of a reduced MFG, the rate of 0.5% was used in Option 3 (a variant of Option 1) and Option 4 (a variant of Option 2).

- 2.12 A higher MFG means more protection to those schools which otherwise lose under the NFF, but this also slows the progress of other schools moving to the full NFF rates, as they will have to help pay for the protection of the former.
- 2.13 The majority of respondents commented on the four local funding formula proposals.
- 16 (30%) schools responded that the local formula should mirror the NFF, whilst 37 (70%) thought that the primary lump sum should be protected, and the transitional small schools lump sum maintained for another year.
 - 48 (90%) schools stated that the MFG should be set at the government's expected rate of 1.84%, whilst 3 (6%) thought the rate should be lower. The remaining 2 (4%) schools did not respond or their answer was unclear.
- 2.14 Following discussions around the four options Schools Forum agreed to progress with Option 2.

Formula Options – Growth Factor

- 2.15 Last year, the growth factor element of the Schools block funding formula was changed from being calculated on an historic basis to a formula basis, and as a result the West Sussex Schools block DSG allocation fell by £2m. This meant that only £2.7m could be set aside in 2019/20 for Growth Fund commitments, and as a result a £0.6m overspending is being forecast in 2019/20.
- 2.16 At the time of the consultation it was not known what level of Growth Funding the county would receive as part of its DSG allocation for next year, and therefore whether a similar overspending was likely in 2020/21. Therefore, in order to help discussions at Schools Forum on 23rd January 2020 when the Growth Fund for 2020/21 was to be agreed, the impact of transferring £0.6m from individual school allocations to the growth fund was set out in Option 5 of the consultation.
- 2.17 As an alternative to topslicing individual school budgets to pay for any growth payments in excess of the growth fund budget allocation, schools were also given the option of scaling back the units of funding allocated out for growth to a level which ensured that the value of these payments does not exceed the budget.
- 2.18 40 (76%) schools responded that the amounts paid to schools for growth should be scaled back in order to remain in the total funding available, whereas 6 (11%) stated that individual school budgets should be top-sliced instead. One (2%) school thought that a mixed approach should be adopted next year, whilst the remaining 6 (11%) schools did not respond or said that they were not directly impacted by the decision.

- 2.19 As a result of the consultation proposals, and the £0.116m increases in the 2020/21 growth factor allocation, Schools Forum agreed that their preferred approach was to scale back the payments made to schools in order to remain within the growth funding that is available, rather than do any topslice.

Formula Options – Minimum per Pupil Funding Level Disapplication

- 2.20 As a first step towards hardening the formula, the government has announced that from 2020/21 they will make the use of the national minimum per pupil funding levels (MpPFLs), at the values in the school NFF, compulsory for LAs to use in their own funding formulae. However, LAs will still be able to apply to the Secretary of State to disapply the use of these mandatory levels.
- 2.21 Due to the mandatory nature of the MpPFL, any school that receives this funding in 2020/21 will not have to contribute to funding any Minimum Funding Guarantee included within the local formula, any movement of funds to the Growth Fund or any transfer to the High Needs block. As a result, the cost of funding these options is borne by a smaller number of schools.
- 2.22 A successful request to disapply the mandatory nature of the MpPFLs would therefore enable the LA to spread the cost of these options across a larger number of schools. An example of the impact that such a decision would have on the local funding formula for the Growth Fund topslice example in paragraph 2.15 above was set out in Option 6 in the consultation.
- 2.23 24 (45%) schools thought that the LA should seek to disapply the mandatory nature of the MpPFLs, whereas the remaining 29 (55%) said no. However, from the comments made (e.g. no money should be transferred, any reduction will reduce the support we can give to our most vulnerable children, etc) a number of the 'no' comments were in relation to the need to transfer monies out of individual school budgets rather than the equity or not of including MpPFL schools in such a mechanism.
- 2.24 Following discussion, Schools Forum agreed to support the general principle that the MpPFL should be reduced where either a significant topslice within the schools block is required (e.g. for the Growth Fund) or where a transfer out of the block is approved (e.g. to the High Needs block).

Disapplication Requests

- 2.25 Local authorities can submit disapplication requests to the Department for Education (DfE) to make variations to the local formula to avoid disproportionate advantage or disadvantage to individual schools or groups of schools. With the approval of the Schools Forum, the County Council has submitted the following disapplication requests in order to have additional flexibility with the County Council's local formula:
- Disapply the sparsity factor criteria and use 50% of the £0.282m allocated funding to provide an additional lump sum to the small primary schools (outside of the MFG calculation). Under the NFF formula only 15 of our 53 small primary schools attracts sparsity funding. It is therefore proposed, as in the last two years, to allocate 50% of the additional monies received to the 16 schools (includes one secondary) that qualify for the sparsity funding under the National Funding Formula, and to allocate the remaining 50% in

a more targeted way that will benefit all of the small primary schools in the county, by paying these monies as an additional lump sum. In 2020/21 the proposed rates will be £2,775 for those schools with 100 pupils or more and £3,375 for those schools with under 100 pupils.

- Disapply the Minimum per Pupil Funding Level criteria. Based on the proposal in the consultation, it is assumed that affordability will be the only acceptable circumstance in which a disapplication will be approved. 80 schools will benefit from this funding stream in 2020/21, and if this criteria remains mandatory this will mean that they will not be required to contribute to any movement of funds to the growth fund or out of the school block next year.

2.26 Both disapplication requests were approved by Schools Forum at its meeting on 28th November 2019. The DfE subsequently approved the former request on 10th December 2019, but in light of their decision in relation to the proposed transfer between the Schools block and High Needs block (see paragraph 3.6), did not approve the latter.

2.27 Since the closure of the consultation the DfE has also confirmed the Schools block funding allocation for next year, taking account of October 2019 pupil census data, as part of the 2020/21 DSG settlement announced on 19th December 2019. The new data, consultation responses and the outcome of the disapplication requests have been used to rework the local formula.

2.28 It is recommended that:

- Option 2 is applied in 2020/21. This continues to protect the primary lump sum at a higher rate of £130,000, whilst also ensuring that all mainstream schools benefit by an increase of 1.84% on their pupil-led funding. This meets the government's expectation that all schools will be protected at the higher rate, therefore mirroring the real terms protection in the NFF.
- The funding required to protect the primary lump sum at £130,000 will be generated by continuing to scale back the primary unit values for Low Prior Attainment (LPA) from the NFF primary unit value.
- The local formula will also continue to ensure that 50% of the Sparsity funding that the County Council receives will be allocated to the 16 schools that meet the national sparsity criteria, and the remaining 50% will be used to fund the payment of an additional transitional sparsity lump sum of up to £3,375 for those primary schools with less than 150 pupils.

3. High Needs Proposals

3.1 The funding regulations that were put in place in 2018/19 to allow LAs to consult with schools and Schools Forum about transferring up to 0.5% of the Schools block towards High Needs cost pressures have been extended by a further year into 2020/21. The purpose of consulting schools is to:

- Present a range of evidence to support a proposal to transfer funding from the Schools block to the High Needs block and

- Seek views about that proposal.
- 3.2 The School Funding Review 2020/21 consultation document set out the case for the proposed one-off transfer of 0.5% (approximately £2.4m) from the Schools block to the High Needs block in 2020/21 showing the increase in EHCPs and expenditure since 2014/15.
- 3.3 The consultation document also set out a summary of the indicative impact of the proposed transfer on schools and academies in 2020/21, through a reduced increase in the basic entitlement unit value of 3.25% and a reduction in the minimum per pupil funding level of £30 (Option 7). The spreadsheet modelling tool published with the consultation document also showed the indicative impact of the transfer on individual school budgets.
- 3.4 21% of schools responded to the transfer from the Schools block proposal. Although responses recognised the reasons for the proposed transfer of £2.4m, in view of the pressures affecting school budgets, the majority (74% of respondents) did not support the proposals. The various comments included the following.....

'I can understand why it's needed but I still think it's unfair on school budgets as we are having to deal with more and more SEND pupils within the mainstream school setting with less support'.

'While we recognise the High Needs Block needs significant funding, as a school, top slicing our budget would be a serious detriment to the mainstream needs of our children'.

'As in previous years, the shortfalls within the High Needs Block require a fundamental change to the High Needs Strategy - it cannot be funded by 'one off' contributions from the Schools Block each year'.

'Do not agree. This will effectively mask a fundamental underlying national issue and at the very least, WSCC (and other local authorities) should have to seek permission from the DFE to disapply these regulations, so that the true picture becomes clear to central government'.

'Not supported. The High Needs block should be adequately funded by central government'.

- 3.5 At the meeting of the Schools Forum on 28th November 2019, the forum voted against the proposed transfer, and as a result the County Council submitted an appeal (known as a disapplication) to the Secretary of State for Education stating that it still wished to proceed with a transfer from the Schools block of up to £2.4m (0.5%), despite Schools Forum turning down the proposal.
- 3.6 After consideration of the application and supporting evidence, along with the increased High Needs funding for 2020/21, which for West Sussex is £8.312m (10.3%), the Secretary of State decided not to approve the disapplication request. The impact of the Secretary of State's decision is set out in paragraph 5.2 and in the risk implications and mitigation section of the report.

Factors taken into account

4. Consultation

- 4.1 The School Funding Review 2020/21 consultation document was published on 23rd October 2019 through the Have Your Say consultation section on the County Council website. The closing date for responses was 13th November 2019.
- 4.2 In addition to the publication of the consultation document, three briefing sessions for schools were held between 24th October and 7th November, and these drew a total of 132 bookings from 74 schools and academies. Officers also attended meetings of the Resources, School Organisation, Capital and Admissions sub group and secondary headteacher executive to provide more detailed explanations to school representatives about the local formula options and their impact.
- 4.3 53 (20%) of all maintained schools and academies submitted written responses to the consultation proposals. As agreed with headteachers' executive groups, the written responses from schools are deemed to be representative of each phase.
- 4.4 The consultation responses were discussed at the Schools Forum meeting held on 28th November 2019.
- 4.5 The Children and Young People's Services Scrutiny Committee previewed this Cabinet Member decision at the meeting on 9 January 2020. The Scrutiny Committee:-
- Endorsed the Cabinet Member's proposed changes to the distribution of school funding for 2020/21 and
 - Endorsed the Cabinet Member's proposal to fund any transfer to the High Needs block, if approved by the Secretary of State for Education, by not increasing the basic entitlement unit value and the Minimum per Pupil Funding Level rates to the full National Funding Formula rates

5. Financial and Resource Implications

- 5.1 The DSG Schools block in 2020/21 is £488.941m, and the changes to the local formula will ensure a more equitable redistribution of this funding between mainstream schools. All mainstream schools will receive an increase of 1.84% on their pupil-led funding and some gains will be limited by the funding cap of 4% and any scaling factor.
- 5.2 In 2020/21 the provisional DSG High Needs block is £88.912m which is an increase of £8.312m on the 2019/20 final allocation. Despite this increase in high needs funding, with no approved transfer between the DSG blocks next year, there is still an estimated High Needs budget shortfall in 2020/21. This will be partly funded through any remaining funds in the General DSG reserve as at the end of 2019/20.

6. Legal Implications

- 6.1 None.

7. Risk Implications and Mitigation

Risk	Mitigating Action (in place or planned)
<p>Although funding for both mainstream and special schools is set to increase next year, in some schools this funding will not be sufficient to cover unavoidable cost pressures and unfunded cost burdens.</p>	<p>This means that these schools and academies will 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.</p>
<p>The NFF funding changes may affect the viability of some small schools which will 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.</p>	<p>The transitional arrangements included in the local funding formula will continue to help mitigate the impact next year.</p>
<p>As one-off DSG balances are being used to balance the 2020/21 high needs budget, this means that savings in the order of at least £2.4m will be required in 2020/21, and if the growth in the numbers of pupils with an Education and Health Care Plan (EHCP) continue to increase at the current rate this figure could rise by a further £5m.</p>	<p>These cost pressures will need to be met from increased DSG provision or planned savings through increasing the number of classrooms in maintained special schools and through the creation of additional Special Support Centres (SSCs) in maintained mainstream schools. If not then the DSG reserves will go onto deficit.</p>
<p>The Secretary of State did not approve the County Council's disapplication request to overturn the Schools Forum decision on 28th November 2019 not to transfer the proposed £2.4m from the DSG Schools block to the DSG High Needs block.</p>	<p>The County Council will need to:</p> <ul style="list-style-type: none"> • make additional savings from within the High Needs DSG e.g. reduce top up allocations to mainstream schools for pupils with EHCPs, and/or • allow DSG reserves to go into a deficit position to be repaid from future years DSG allocations. If a deficit exceeds 1% of total DSG

Risk	Mitigating Action (in place or planned)
	(circa £6.3m) the County Council will need to report to the DfE on how the DSG account will be brought back into balance.

8. Other Options Considered

- 8.1 A number of different options for the local formula were modelled as part of the consultation with schools in October/November 2019. Following discussions at both Schools Forum and the Children and Young People's Services Scrutiny Committee, now that the Department of Education has confirmed the level of Schools Block funding for 2020/21 the updated data set has been provided, and the outcome of the disapplication requests is known, further modelling using the recommended Option 2 will be undertaken to calculate the individual mainstream school budgets in 2020/21.

9. Equality and Human Rights Assessment

- 9.1 The additional £8.312m that West Sussex is set to receive from its DSG High Needs Funding allocation in 2020/21, is only really sufficient to cover the existing on-going pressures as at the end of the current financial year (2019/20). It is currently assumed for budgeting purposes that the number of pupils identified as needing additional support through an EHCP will continue to rise by at least at the current rate of 350/400 per year, and therefore no funds will be available to pay for these in 2020/21. By contrast the Schools block in West Sussex is set to increase by £29.673m (after growth) in 2020/21 - this equates to an increase in funding to the Schools block of 6.5%. This therefore sees much needed additional funding going to the schools in West Sussex, but very little to the special schools and SEND pupils in the county.

10. Social Value and Sustainability Assessment

None.

11. Crime and Disorder Reduction Assessment

Not applicable.

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Background Papers - None