

Children and Young People's Services Select Committee

10th January 2019

Outcome of school funding review 2019/20 consultation

Report by Executive Director Children, Adults, Health, Families and Education and Director of Education and Skills

Executive Summary

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 outcome of this consultation will inform the Cabinet Member for Education and Skills' decision about changes to mainstream school funding in 2019/20 in West Sussex and the permanent exclusion school budget deduction rate, due to be published later in January 2019.

Proposals to transfer funding between 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.

The Focus for Scrutiny

The Children and Young People's Services Select Committee is asked to consider the implications of the National Funding Formulae on the local funding formula for mainstream schools in West Sussex. The Committee is also asked to consider the impact of spending pressures for schools and on high needs expenditure and to preview the Cabinet Member decision for changes to school funding in 2019/20.

It is recommended the Children and Young People's Services Select Committee supports the change to the distribution of school funding for 2019/20 as set out in paragraphs 2.5 and 2.9, which is to be approved by the Cabinet Member for Education and Skills in January 2019.

Proposal

1. Background and Context

- 1.1 In 2018/19 a new National Funding Formula (NFF) was introduced 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 of Education 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 during 2018/19 and 2019/20.

- 1.2 The Department of Education 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, in July 2018 they announced that a move to the 'hard' NFF would be delayed by at least a year, with Local Authorities being 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 2019/20 consultation document was published on 31st October 2018 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 2.10 below).
 - A one-off transfer of approximately £2.3m from the Dedicated Schools Grant (DSG) Schools block to the High Needs block (see paragraphs 2.11 to 2.14).
 - A one-off transfer of £0.4m from the Dedicated Schools Grant (DSG) Early Years block to the High Needs block (see paragraphs 2.15 to 2.17).
 - An increase in the permanent exclusion school budget deduction rates to include additional needs pupil-led funding (see paragraphs 2.22 to 2.24).
 - 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 2017 pupil census data to show the indicative impact of the four formula options on individual school budgets before the proposed transfer of £2.3m to the High Needs block and two after.

- 1.5 After taking account of responses from schools to consultation proposals, at its meeting on 6th December 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 5 above). Schools forum also approved the proposed charge in 2019/20 to maintained schools for the former General Duties Education Support Grant (bullet point 6 above). These matters are therefore not covered in this report.
- 1.6 The purpose of this report is to set out a summary outcome of the consultation responses to inform decisions by the Cabinet Member for Education and Skills about changes to school and high needs funding in 2019/20.

2. Proposals

NFF and the Local Funding Formula

a) Options for allocating out DSG funds to mainstream schools

- 2.1 Once fully implemented the new NFF is expected to target an extra £28m (6.5%) to West Sussex mainstream schools. However, since the annual increase in allocation to Local Authorities is capped at 3%, these additional monies will not be fully available until 2020/21, and as a result, many schools within West Sussex will not receive the full indicative notional funding allocated at school level through the NFF until this time. For 2019/20, the Department of Education has provided local authorities with funding for schools calculated by applying the NFF at individual school level on the basis of an increase in:
- The minimum per pupil level of funding to £4,800 (2018/19 £4,600) per secondary pupil and £3,500 (£3,300) per primary pupil,
 - The minimum gain (funding floor) to 1% (0.5%) per pupil against 2017/18, and
 - The cap (ceiling) on any gains to 6.09% (3%) per pupil against 2017/18
- 2.2 Since the redistribution of funding through the NFF does not result in a uniform increase to funding across all schools, particularly as a result of the reduction in the lump sum for fixed costs from £150,000 to £110,000 per school, Schools Forum agreed last year a careful transition through the local funding formula to help schools, particularly primary, to manage the changes. This meant that the lump sum for primary schools was maintained at the local level of £150,000, and small primary schools with less than 150 pupils were given added protection through a temporary 'sparsity' lump sum. This meant that many of these smaller schools received a budget allocation above their full indicative notional funding level. This approach meant that more time could be taken to develop a small school strategy, to review operating models and future viability, to investigate options for changes to school organisation and to undertake required statutory consultation with stakeholders.
- 2.3 It was recognized, however, that the primary lump sum value could not be maintained at its current level and would need to be reduced as we move closer to the 'hard' formula implementation. As a result, the funding models being consulted on this year assumed a phased reduction in the primary lump sum to £130,000, or a complete reduction to the NFF level of £110,000. The consultation document set out four options for the development of the local funding formula for mainstream schools to reflect changes required to move towards the implementation of the new NFF. The four options were:
- Option 1: Phased reduction in primary lump sum
 - Option 2: Full reduction in primary lump sum
 - Option 3: Full reduction in primary lump sum and application of full minimum per pupil funding rates
 - Option 4: Phased reduction in primary lump sum with 0% minimum funding guarantee

2.4 The majority of respondents commented on the four local funding formula proposals. Although individual responses generally expressed preference for the option that benefited their particular school, there was a general acceptance of the continued use of the transitional arrangements agreed last year for primary schools. With over 50% of schools being on the funding floor many of the schools that responded received a similar increase in budget allocation (0.5%) under most of the options proposed [with the exception of option 4 and option D]. Option 1 received the most comments from respondents, with a phased reduction in the primary lump sum still gaining the highest level of support, particularly from within the primary sector. Option 4 was not favoured due to the 'cash frozen' impact this would have on many of our smaller primary schools.

2.5 Following discussions around the four options Schools Forum agreed to progress with Option 1.

b) Impact of proposed transfer to High Needs block

2.6 To understand what the impact of the proposed £2.3m transfer to the High Needs block would have on individual school budgets, two options illustrating the impact after this proposed transfer was also set out:

- Option A: Transfer through reduced minimum per pupil funding level and area cost adjustment
- Option B: Transfer through reduced basic entitlement unit values

2.7 Following some initial feedback during the first week of the consultation, some further modelling was undertaken and shared with the primary and secondary headteacher executives. These two additional options were:

- Option C: Transfer through combination of Options A and B
- Option D: Transfer through combination of Options A and B with 0% minimum funding guarantee

2.8 In terms of modelling options including a transfer to the High Needs block, most responses stated that they would be opposed to such a transfer. If such a transfer were to go ahead, Option A gained the highest level of support, although both Option A and Option B were seen as having a disproportionate impact on a small number of schools (approx 25%). A transfer through a combination of the two options set out in the consultation document was therefore seen as a fairer / 'least worst' option to take.

2.9 Following discussions around the four options involving a 0.5% potential transfer to the High Needs block Schools Forum agreed to progress with Option C.

c) Disapplication Requests

2.10 Local authorities can submit disapplication requests to the Department of Education 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 WSCC local formula:

- Disapply the Minimum Funding Guarantee (MFG) and cap for Bishop Tufnell Primary school by classing it as a 'growing' school – this is the same approach that has been taken in previous years with the schools involved in the Worthing Age of Transfer and STARS locality re-organisations, and the expansion of Steyning Grammar school following the closure of Rydon Community College.
- 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 2018/19, to allocate 50% of the additional monies received to the 16 schools (includes one secondary) that qualify for the sparsity funding under the NFF, 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 of £2,390 to those schools with 100 pupils or more and £2,990 to those schools with under 100 pupils.
- Disapply the London Fringe (Area Cost Adjustment) applied to Crawley schools which has increased from an uplift of 1.56% on pupil led factors to 5.61% increasing this funding element by almost £3m. Currently only the existing rate or the new rate can be used in setting the local formula, and therefore the purpose of this disapplication is to give the LA flexibility to scale the implementation of the increase in line with the approach taken in 2018/19 when the rate was set at 4.26%.

The outcome of these disapplication requests will not be known until January 2019. The Department of Education, however, has confirmed the Schools and High Needs block funding allocations for next year, taking account of October 2018 pupil census data, as part of the 2019/20 DSG settlement announced on 17th December 2018. The new data and the outcome of the disapplication requests will be used to rework options 1 and C for 2019/20, ahead of recommendation to the Cabinet Member for Education and Skills.

Consultation about proposed transfer of £2.3m from the Schools block and £0.4m from the Early Years block to High Needs in 2019/20

- 2.11 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 into 2019/20. 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.
- 2.12 The School Funding Review 2019/20 consultation document set out the case for the proposed one-off transfer of 0.5% (approximately £2.3m) from the Schools block to the High Needs block in 2019/20 showing the increase in EHCPs and expenditure since 2014/15.

- 2.13 The consultation document also set out a summary of the indicative impact of the proposed transfer on schools and academies in 2019/20 under two different approaches; Option A through a reduction in the minimum per pupil funding level and the area cost adjustment and Option B through a reduction in the basic entitlement unit values. The spreadsheet modelling tool published with the consultation document also showed the indicative impact of the transfer on individual school budgets under each option.
- 2.14 25% of schools responded to the transfer from the Schools block proposal. Although responses recognised the reasons for the proposed transfer of £2.3m, in view of the pressures affecting school budgets, the majority (77% of respondents) did not support the proposals. This outcome was also endorsed by the West Sussex Primary and Secondary Headteacher Executive groups.
- 2.15 The consultation document also set out the case for the proposed one-off transfer of £0.4m from the Early Years block to the High Needs block in 2019/20 showing the increase in the number of children below school age with EHCPs since 2014/15.
- 2.16 Even after allowing for this proposed transfer, the LA will still be passing through 96% of the three and four year old funding that it receives to its early year providers. This is above the 95% level that is required in the funding regulations.
- 2.17 22% of schools responded to the transfer from the Early Years block proposal. Although responses recognised the reasons for the proposed transfer of £0.4m, in view of the funding issues across all budgets it was seen as yet another short term measure to help mitigate the High Needs funding pressures. The majority (61% of respondents) did not support the proposal. Respondents also commented that this funding could be directed to early years provision for high needs pupils and supporting other early intervention services within early years settings instead.
- 2.18 At the meeting of the Schools Forum on 8th December 2018 following a long debate, the forum voted against both proposed transfers. The Chair summed up the view of Schools Forum:

'It is with heavy heart that Schools Forum unanimously could not agree the transfer of funds from the Schools Block to the High Needs Block to support our more vulnerable pupils. This decision is as a result of the immense pressure on schools due to insufficient funding in the Schools Block'.

- 2.19 As a result of the Schools Forum decision, the County Council will need to consider the following options:
- Apply to the Secretary of State to have the decision by Schools Forum on the transfers to the High Needs block overturned,
 - Make more controversial savings from within the High Needs DSG block such as reductions to top up funding for new placements, reductions in exceptional needs funding, and freezing vacancies in specialist support teams,

- Make additional savings from within the other DSG blocks by cutting discretionary areas such as the Area Inclusion and Improvement Boards (AIIBs),
 - Make additional savings/cuts to its other services which are funded by the West Sussex council taxpayers such as social care, and highways and transport.
- 2.20 In view of deadlines set in the Schools Revenue Funding 2019 to 2020 operational guide, the County Council submitted an appeal (known as a disapplication) to the Secretary of State for Education on 30th November 2018 stating that it may wish to proceed with a transfer from the Schools block of up to 0.5%, in the event that Schools Forum turned down the proposal. The outcome of this appeal will not be known until January 2019.
- 2.21 Since an increasing number of Local Authorities are now incurring a deficit on their overall DSG account, largely due to overspends on the High Needs block, the Department of Education has announced that it intends to tighten up its rules and in future will require any Local Authority that has a DSG deficit of more than 1% of its total DSG funding after 31st March 2019, to present a report in consultation with its School Forum setting out its plans for bringing the DSG account back into balance.

Increase in the permanent exclusion school budget deduction rate

- 2.22 When a pupil is excluded from school, in accordance with the School and Early Years Finance (England) Regulations 2017 section 27, funding is removed from the school by the LA from the sixth day following the headteacher's decision to permanently exclude the pupil. Currently this deduction to the school's budget is currently calculated on the basic entitlement pupil led funding (i.e. the age weighted pupil unit (AWPU)) that the school receives and also the pupil premium that the excluded pupil attracts.
- 2.23 However, the finance regulations also state that the deduction made must relate to the age and personal circumstances of that pupil, which therefore means that the deduction should cover not just the basic entitlement, but also the relevant amounts for pupil-led factors, such as free school meals or English as an additional language, where the pupil attracted funding through those criteria. As a result, the consultation set out the LA's proposal to increase the deduction made to school budgets in 2019/20 to also include the additional needs funding that the school attracts.
- 2.24 64 schools (95% of schools responding) commented on the proposed increase in the permanent exclusion deduction rate. The responses broadly supported the need for funding to follow the pupil when excluded.

3. Resources

- 3.1 In July 2018 the government published updated tables setting out provisional Dedicated Schools Grant (DSG) allocations for 2019/20 at a Local Authority level for the Schools, Central Services and High Needs blocks, and illustrative school level allocations as if the NFF had been implemented in full without any transition. These budget allocations were based on October 2017 census

data, and the West Sussex indicative funding allocations are set out in the table below.

	Schools Block £m	High Needs Block £m	Central Services Block £m
2018/19 Allocation	445.645	77.498	8.672
2019/20 Allocation Change over 2018/19	455.553 9.908	78.453 0.955	8.584 -0.088

3.2 The indicative funding allocations were then updated for October 2018 census data as part of the 2019/20 DSG settlement that was announced on 17th December 2018. The West Sussex updated funding allocations together with an explanation of the changes to the indicative figures are set out in the table below.

	Schools Block £m	High Needs Block £m	Central Services Block £m
Indicative Allocation	455.553	78.453	8.584
Updated Allocation Change	459.268 3.715	80.528 2.075	8.624 0.040
<u>Explanation</u>			
Rise in pupil numbers	5.724	0.230	0.040
Growth factor changes	-2.009	0	0
Additional funding	0	1.845	0
Total	3.715	2.075	0.040

3.3 The growth factor element of the Schools block formula has been calculated on an historic basis up until the current year, but for 2019/20 it has been calculated on a lagged formula basis, with the DfE using the change in pupil numbers between the October censuses in 2017 and 2018 as a proxy for the level of growth expected in 2019/20. As a result of this change the West Sussex allocation is set to fall by £2.009m from £5.539m to £3.530m. This funding is allocated to those mainstream schools that require one or more additional classes as a result of increased pupil numbers at the start of the new school year, and is also used to meet mandatory provision for diseconomy costs for new basic need academies which are filling incrementally by one additional year group per annum.

- 3.4 In recognition of the cost pressures that LAs are experiencing on the high needs element of the DSG, the Secretary of State for Education announced as part of the DSG settlement an additional £250m of high needs funding to be paid over two years (2018/19 and 2019/20). As a result, West Sussex is set to receive a further £1.845m in both of these years.
- 3.5 Our High Needs expenditure within West Sussex is largely driven by the number of pupils with an Education and Health Care Plan (EHCP). Back in March 2015 we had 3,423 children and young people with EHCPs, and since that time those numbers have risen to 4,912 in March 2018 – an increase of 1,489 (43%) - 515 in 2015/16, 573 in 2016/17 and 401 in 2017/18. In the first six months of 2018/19 these numbers have risen by a further 184.
- 3.6 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 £5.6m in 2019/20. Since the current year's budget also includes one-off funding of £2.2m from the Schools block and £0.760m from DSG reserves, this means that our underlying shortfall next year stands at £8.560m.
- 3.7 Unlike the DSG Schools block the majority of the High Needs block allocation is not driven by pupil led units of funding, which is why the additional high needs funding announced by the Secretary of State in December was welcomed. However, even with these monies, High Needs funding in West Sussex is only set to increase by £3.010m. A further £0.995m of savings have been identified from within the High Needs block next year, but this still leaves a budgeted shortfall of £4.555m.
- 3.8 With the remaining available balance within DSG reserves forecasted to be less than £3m at the end of the current financial year, the County Council does not have sufficient DSG monies to meet the High Needs budget shortfall, and therefore needs to consider other savings options in order to set a balanced budget.
- 3.9 In light of the £250m additional funding announced by the Secretary of State, he has asked LAs to review their proposals for transferring any funds from the Schools block to the High Needs block, and he is to open a further window in the new year, with a closing date of 15th January 2019, for LA's to reduce or remove their disapplication requests.
- 3.10 Given the late nature of the Secretary of State's additional funding announcement the Cabinet Member for Education and Skills is still considering the potential impact of reducing and/or removing the 0.5% Schools block transfer disapplication request on the planning for next year's High Needs budget.

Factors taken into account

4. Issues for consideration by the Select Committee

- 4.1 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 low funding on spending pressures for schools and on high needs expenditure.

5. Consultation

- 5.1 The School Funding Review 2019/20 consultation document was published on 31st October 2018 through Have Your Say. The closing date for responses was 27th November 2018.
- 5.2 In addition to the publication of the consultation document, three briefing sessions for schools were held between 8th and 21st November, and these drew a total of 119 bookings from 70 schools and academies. Officers also attended meetings of the Resources, School Organisation, Capital and Admissions sub group and primary and secondary headteacher executives to provide more detailed explanations to school representatives about the local formula options and their impact.
- 5.3 65 (24%) 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.

6. Risk Management Implications

- 6.1 Although funding for mainstream schools is set to increase by £13.6m next year the fact is that there is insufficient funding to cover unavoidable cost pressures and unfunded cost burdens. In view of the cost pressures in the High Needs block, there is no planned increase to funding for maintained special schools. This means that many schools and academies will need to consider further efficiency measures in 2019/20 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.
- 6.2 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. Subject to the outcome of disapplication requests set out at paragraph 2.10, transitional arrangements through the local funding formula may continue to mitigate the impact until 2020/21.

7. Other Options Considered

- 7.1 Now that the Department of Education has confirmed the level of Schools Block funding for 2019/20 and the updated data set has been provided, further modelling will take place to determine changes to the local formula. These changes will also take account of the outcome of the disapplication requests expected in January 2019.
- 7.2 The outcome of the County Council's budget setting process for 2019/20, together with the appeal to the Secretary of State about the transfer to the High Needs block, will be used to inform further consultation with schools and specialist providers to determine what further changes may be required to reduce high needs expenditure.

8. Equality Duty

- 8.1 After due consideration it is not envisaged that the proposals recommended have any disproportionate impact on those persons with protected characteristics compared with those without such characteristics.

9. Social Value

None.

10. Crime and Disorder Implications

Not applicable.

11. Human Rights Implications

None.

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