

Cabinet Member for Education and Skills (and Deputy Leader)	Ref No: ES17 (18/19)
February 2019	Key Decision: Yes
School Funding 2019/20	Part I
Report by Director of Education and Skills	Electoral Divisions: All

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 School Funding Review 2019/20 consultation document was published on 31 October 2018. Responses to the consultation and feedback from both the Schools Forum and the Children and Young People's Services Select Committee have been taken into account in the development of the local funding formula for mainstream schools in 2019/20.

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 the Schools Forum, although the County Council can seek to overturn this by applying to the Secretary of State for Education through a disapplication request.

Recommendations

The Cabinet Member for Education and Skills is asked to:-

- (1) Agree the proposals in relation to the local funding formula for mainstream schools as set out in section 2.14, and
- (2) Agree to increasing the permanent exclusion school budget deduction rates so that they include Additional Needs pupil-led funding (section 4.4).

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 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 for Education has 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 31 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 3.1 to 3.4).
 - A one-off transfer of £0.4m from the Dedicated Schools Grant (DSG) Early Years block to the High Needs block (see paragraphs 3.5 to 3.8).
 - An increase in the permanent exclusion school budget deduction rates to include Additional Needs pupil-led funding (see paragraphs 4.1 to 4.4).
 - 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 the 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 the impact of two options after the proposed transfer.

- 1.5 After taking account of responses from schools to consultation proposals, at its meeting on 6 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). The 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 recommend changes to the local funding formula for mainstream schools and academies which take account of responses from schools, the Schools Forum and the Children and Young People's Services Select Committee to consultation proposals. The changes also take account of the outcome of disapplication requests submitted to the Department for Education (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 also includes recommended changes to funding arrangements within the High Needs block and the outcome of an appeal to the Secretary of State for Education. This appeal originally sought approval to transfer £2.3m 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 Schools and Academies

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 for 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, the 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 recognised, however, that the primary lump sum value could not be maintained at its current level and would need to be reduced as progression to the 'hard formula' implementation moves closer. 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 (see 2.8 below)]. 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 the smaller primary schools.

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

Impact of proposed transfer to High Needs block

2.6 In order to alleviate the pressures on the High Needs block resulting from an increase in pupils with Education, Health and Care Plans (EHCPs) the consultation proposed a one-off transfer of approximately £2.3m from the Dedicated Schools Grant (DSG) Schools block to the High Needs block.

2.7 To understand what the impact of the proposed transfer to the High Needs block would have on individual school budgets, two options illustrating the impact after this proposed transfer were 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.

2.8 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.

2.9 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.

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

Disapplication Requests

2.11 Local Authorities can submit disapplication requests to the Department for 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 County Council's local formula:

- Disapply the cap for Bishop Tufnell Primary School by classing it as a 'growing' school, as it has only recently become a primary school, having previously been separate infant and junior schools. 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 the 53 small primary schools in West Sussex attract sparsity funding. It is therefore proposed, as in 2018/19, to allocate 50% of the additional monies received to the 16 schools (including 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 all Crawley schools receive and which takes account of Crawley's proximity to London and the associated additional living costs), 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 Local Authority 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%.

2.12 All three disapplication requests were approved by the Schools Forum and by the Department for Education (DfE) in January 2019.

2.13 Since the closure of the consultation the DfE has also confirmed the Schools block funding allocation for next year, taking account of October 2018 pupil

census data, as part of the 2019/20 DSG settlement announced on 17 December 2018. The new data, consultation responses and the outcome of the disapplication requests have been used to rework the local formula.

2.14 It is recommended that:

- Option 1 is applied in 2019/20. This gives a phased reduction in the primary lump sum to £130,000, whilst also ensuring that all mainstream schools benefit by 0.5% on their pupil-led funding. This ensures that the Government's commitment to increase the minimum gain (funding floor) by 1% per pupil against the 2017/18 base line has been passed on to all schools.
- 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 £3,110 for those primary schools with less than 150 pupils. Since West Sussex will still not be receiving its full allocation of NFF monies in 2019/20 the unit values for Low Prior Attainment (LPA) will continue to be scaled back from NFF unit values. This scaling back will also help fund the continued protection being given to the primary lump sum.

3. High Needs Proposals

3.1 The funding regulations that were put in place in 2018/19 to allow Local Authorities to consult with schools and the 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.

3.2 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.

3.3 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, as set out in 2.7. The spreadsheet modelling tool published with the consultation document also showed the indicative impact of the transfer on individual school budgets under each option.

3.4 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.

- 3.5 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.
- 3.6 Even after allowing for this proposed transfer, the Local Authority would 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.
- 3.7 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.
- 3.8 At the meeting of the Schools Forum on 6 December 2018, following a long debate, the Forum voted against both proposed transfers.
- 3.9 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 30 November 2018 stating that it may wish to proceed with a transfer from the Schools block of up to £2.3m (0.5%) in the event that the Schools Forum turned down the proposal.
- 3.10 In recognition of the cost pressures that Local Authorities are experiencing on the High Needs element of the DSG, as part of the DSG settlement published on 17 December 2018 the Secretary of State for Education announced 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 £1.8m in both of these years.
- 3.11 Following the £250m additional funding announced by the Secretary of State, Local Authorities were asked to review their proposals for transferring any funds from the Schools block to the High Needs block, and a further window was opened in January 2019, thereby giving all Local Authorities an opportunity to reduce or remove their DSG block transfer disapplication requests.
- 3.12 In light of the additional £1.8m High Needs funding being received in 2019/20, the County Council reduced its disapplication request from £2.3m to £0.5m. However, on 28 January 2019 the Council was notified that the Secretary of State had decided not to approve the transfer request as the Council's existing SEND Strategy only covered the period 2016 to 2019 and therefore did not address how the High Needs budget would be managed in

the future. The Schools Forum was notified of this decision at its meeting on 31 January 2019.

- 3.13 As a result of the Secretary of State's decision, there will be no transfer between the Schools block and the High Needs block in 2019/20, and therefore no provision for this needs to be made in next year's local formula.

4. Increase in the permanent exclusion school budget deduction rate

- 4.1 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 Local Authority from the sixth day following the Headteacher's decision to permanently exclude the pupil. Currently this deduction to the school's budget is 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.
- 4.2 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 Local Authority's proposal to increase the deduction made to school budgets in 2019/20 to also include the Additional Needs funding that the school attracts from that excluded pupil.
- 4.3 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.
- 4.4 It is recommended that the permanent exclusion school budget deduction rates are increased in 2019/20 to include the Additional Needs pupil-led funding associated with the pupil being excluded.

5. Resources

- 5.1 The DSG Schools block in 2019/20 is £459.268m, and the changes to the local formula will ensure a more equitable redistribution of this funding between mainstream schools. All schools will receive an increase of 0.5% on their pupil-led funding and some gains will be limited by the funding cap of 3% and any scaling factor.
- 5.2 In 2019/20 the provisional DSG High Needs block is £80.528m which is an increase of £3.030m on the 2018/19 allocation. Despite this increase in High Needs funding there is still an estimated High Needs budget shortfall of £6.0m next year and this is planned to be funded as follows:
- Redistribution of central share costs currently charged to DSG - £1.5m
 - Savings measures within High Needs DSG block - £0.7m
 - Other savings measures - £1.4m
 - One-off transfer from DSG reserves - £2.4m.

Factors taken into account

6. Consultation

- 6.1 The School Funding Review 2019/20 consultation document was published on 31 October 2018 through the "Have Your Say" consultation section on the County Council website. The closing date for responses was 27 November 2018.
- 6.2 In addition to the publication of the consultation document, three briefing sessions for schools were held between 8 and 21 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 of the Schools Forum and Primary and Secondary Headteacher Executives to provide more detailed explanations to school representatives about the local formula options and their impact.
- 6.3 65 (24%) of all maintained schools and academies submitted written responses to the consultation proposals. As agreed with Headteacher Executive groups, the written responses from schools are deemed to be representative of each phase.
- 6.4 The consultation responses were discussed at the Schools Forum meeting held on 6 December 2018.
- 6.5 The Children and Young People's Services Select Committee previewed this Cabinet Member decision at the meeting on 10 January 2019. The Committee recognised that the High Needs block was underfunded, supported the recommendations made by the Schools Forum and endorsed the Cabinet Member's proposed changes to the distribution of school funding for 2019/20.

7. Risk Management Implications

- 7.1 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 likely to be 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.
- 7.2 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. The transitional arrangements included in the local funding formula will continue to help mitigate the impact next year.

7.3 As one-off DSG balances are being used to balance the 2019/20 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, Health and Care Plan (EHCP) continues to increase at the current rate this figure could rise by a further £4m. Any deficit in the High Needs block in future years is likely to be the liability of the County Council unless the Government permits funding to be transferred from the Schools or Early Years blocks. A range of budget savings will need to be considered to reduce expenditure to operate within the total 2020/21 High Needs budget. Savings are likely to be highly controversial and may result in adverse publicity and legal challenge. It will be necessary to consult schools formally about any proposals to reduce funding assigned to individual pupils to meet requirements set out in EHCPs or to reduce other budgets that support the provision of education to vulnerable children and young people.

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 November 2018. Following discussions at both the Schools Forum and the Children and Young People's Services Select Committee, now that the Department for Education has confirmed the level of Schools block funding for 2019/20, the updated data set has been provided, and the outcome of the disapplication requests is known, further modelling using the recommended Options 1 and C will be undertaken to calculate the individual mainstream school budgets in 2019/20.

9. Equality Duty

9.1 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.

10. Social Value

None.

11. Crime and Disorder Implications

Not applicable.

12. Human Rights Implications

None.

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Background Papers - None