

Report to the Cabinet Member for Children, Young People and Schools
Report submitted by: Head of Service Financial Management (Development and Schools)

Date: 18 January 2017

Part I

Electoral Divisions affected:

All

Schools Budget 2017/18

(Appendices 'A' and 'B' refer)

(Appendix B will be tabled at the Decision Making Session)

Contact for further information:

Kevin Smith, (01772) 535130, Financial Management: Development & Schools,
kevin.smith@lancashire.gov.uk

Executive Summary

In accordance with the Government's school funding framework, the Authority is required to submit a final Schools Block budget proforma for 2017/18 to the Education Funding Agency (EFA) by 20 January 2017. This report seeks the authorisation of the Cabinet Member to submit the Schools Block budget proforma and requests approval of the Lancashire Early Years and High Needs Block Budgets for 2017/18.

This is deemed to be a Key Decision and the provisions of Standing Order No 25 have been complied with.

Recommendation

The Cabinet Member for Children, Young People and Schools is recommended to:

- (i) note the report, including the 2017/18 Dedicated Schools Grant (DSG) allocation, the final budget proposals for each funding block and any comments made by the Lancashire Schools Forum;
- (ii) authorise the Head of Service Financial Management Development and Schools to submit the final Schools Block budget proforma for 2017/18 to the EFA by 20 January 2017, on the basis set out in this report;
- (iii) approve the 2017/18 budgets for the Early Years and High Needs Blocks;
- (iv) agree that the Dedicated Schools Grant Reserve underwrite the uncertainties around the Early Years and High Needs Blocks.

This decision should be implemented immediately for the purposes of Standing Order 34(3) as any delay could adversely affect the execution of the County Council's responsibilities. The reason for this is to ensure that the necessary proforma can be submitted to the Education Funding Agency ahead of the required deadline.

Background and Advice

In the current school funding framework, the Government allocates amounts to each local authority through the Dedicated Schools Grant (DSG), based on three notional blocks:

- Schools Block;
- High Needs Block;
- Early Years Block.

This report sets out the budget proposals for 2017/18 across the three funding blocks and for the centrally retained budget.

Originally, the Government had intended to introduce revised national funding arrangements for all three funding blocks from April 2017. However, announcements made by the Secretary of State for Education in summer 2016 delayed the introduction of a Schools National Funding Formula (SNFF) and High Needs Funding Reform until April 2018.

Schools Block and High Needs Block

Subsequently, the Education Funding Agency issued Schools Revenue Funding 2017/18 Operational Guidance. This Guidance indicated that in order to provide stability for school funding, whilst consultations take place, the funding arrangements would be "broadly similar" to 2016/17. Some key differences are set out below:

- the Dedicated Schools Grant (DSG) blocks have been rebaselined to reflect current spending patterns
Local Authorities (LAs) receive school funding in 3 blocks, namely the Schools Block, High Needs Block and Early Years Block. In the summer term 2016, the EFA carried out an exercise to determine how funding was spent in each LA, rather than how it was allocated from the EFA to LAs. The results of this baselining exercise will be used to shape allocations in 2017/18, although Lancashire had largely distributed funding locally in accordance with the national allocations;
- funding for Education Services Grant(ESG) retained duties (£15 per pupil) will be transferred into the schools block for 2017 to 2018
ESG funding was split into two parts. The retained duties element was provided directly to LAs for duties that they must undertake across maintained schools and academies, whilst the general duties element went to the LA for certain responsibilities at maintained schools, and academies received this funding directly for duties relating to their pupils. For 2017/18, the retained duties element will transfer into DSG and the general duties funding will cease, subject to some transitional protection for LAs;
- that local authorities will be able to retain DSG funding from maintained schools, including special schools and pupil referral units (PRUs), for statutory duties previously covered by the ESG

The LA will be able to use DSG funding for central services previously funded within the retained duties rate (for all schools), with the agreement of Schools Forum, and to fund services previously funded within the general duties rate (for maintained schools only) from maintained school budgets shares with the agreement of maintained school members of the Schools Forum. School improvement is not included in these arrangements and for 2017/18 the LA will receive a separate grant covering statutory intervention functions and services such as monitoring and commissioning of school improvement support. This will allow local authorities to play a transitional role, as the school-led system of school improvement continues to mature and capacity in the system increases. Schools Forum can agree to de-delegate further funding for additional school improvement provision, as a de-delegated services

- the removal of the post 16 funding factor, but with protection through the minimum funding guarantee (MFG)
In 2016/17, secondary schools with post 16 pupils received some funding from the Schools Block of DSG through a post 16 factor. DfE view this as a legacy factor, as post 16 funding now comes directly from the EFA. The regulations for 2017/18 will remove the post 16 factor from the allowable formula factors, but the government intend to minimise the impact on individual schools by allowing Minimum Funding Guarantee (MFG) protection, at -1.5%, to apply to any funding losses. As this is a change to the Schools Block funding formula a consultation was held with schools earlier in the autumn term. No comments were received to this proposed formula amendment, probably because this is a change enforced by the EFA.
- using a national weighting for secondary low attainment figures;
The 2016 KS2 assessments are the first which assess the new, more challenging national curriculum. At a national level, a higher number of the year 7 cohort in financial year 2017/18 will be identified as having low prior attainment. The DfE will use a national weighting to ensure that this cohort does not have disproportionate influence within the overall funding total.
- using new bandings for the index of deprivation affecting children (IDACI)
The Income Deprivation Affecting Children Index (IDACI) dataset is used as a basis for deprivation funding in the Schools Block formula. It is updated every five years by the Department for Communities and Local Government. The most recent update to the dataset, which took effect in 2016/17, caused significant funding turbulence from the previous 2010 dataset. DfE recognise that the 2015 data update created unexpected and unhelpful turbulence in budgets, towards the latter stages of the local formula-setting process. For 2017/18, the DfE will update the IDACI banding methodology so that the IDACI bands return to a roughly similar size (in terms of the proportion of pupils in each band) as in 2015/16. The Schools Forum have asked that the implementation of this factor seeks to minimise 2017/18 turbulence for Lancashire schools and academies;
- transfer of funding from post-16 budget to High Needs Block

Nationally, EFA have transferred £125m from the DfE's post-16 budget to the high needs block baseline. This is a transfer of place funding for high needs places in further education (FE) colleges for place previously met by the EFA. From 2017/18, all of these places will be funded from the initial high needs block allocations to LAs. Deductions will then be made to fund institutions directly, as a result of information collected from LAs, before the high needs block allocations are finalised in March 2017. The EFA will continue to pay this place funding directly to institutions. There is a risk to the Lancashire High Needs Block that the number of places to be commissioned at relevant institutions from August/September 2017 may be higher than the number of places used to calculate the DSG transfer. Any increase would need to be met from overall DSG resources.

Early Years Block

Although national funding reforms relating to the Schools Block and High Needs Block have been delayed until 2018/19, the Government proceeded with changes to the Early Years Block.

Following consultations earlier in the autumn term 2016, the DfE issued Operational Guidance for the introduction of an Early Years National Funding Formula (EYNFF) on 1 December 2016.

Key requirements for the EYNFF include:

- New national formula for allocating early years funding to local authorities;
- Introduction of a Universal Base Rate, by 2019/20;
- A supplementary grant for maintained nursery schools to keep their funding stable, until at least 2019/20;
- Restrictions on the available supplements and on the level of funding to be distributed;
- A new Disability Access Fund (DAF) for 3 & 4 year olds and confirmation of SEN inclusion funds;
- Continuation of the current Early Years Pupil Premium (EYPP) arrangements.

Lancashire's EYNFF grant allocation for 2017/18 will be based on the newly introduced minimum funding rate of £4.30 per hour to local authorities. This generates an indicative 2017/18 allocation for Lancashire that is below our 2016/17 allocation. The EYNFF allocation will however be accompanied by the supplementary grant for maintained nursery schools, although this grant is available for the lifetime of the current parliament.

Following discussions with the Schools Forum's Early Years Block Working Group, proposals have been developed for 2017/18.

The date of these Government announcements, combined with the need to consult all early years providers in advance of the Schools Forum/Cabinet Member budget setting meetings in January 2017 provides a very challenging timescale in which to consider and model the proposals, especially given the Christmas and New Year holidays. This fact is acknowledged in the EFA's Operational Guidance.

The proposals look to meet the EFA Guidance, commence the transition to the universal base rate, utilise appropriately the supplementary maintained nursery school funding, yet are manageable and achievable in the timescale and provide a degree of stability for all providers.

In accordance with the School and Early Years Finance (England) Regulations, a consultation with all Lancashire early years providers was launched on 13 December 2016.

Responses to the consultation will be reported to the Schools Forum on 12 January 2017 and will inform recommendations to the Cabinet Member.

Final DSG Allocation 2017/18

Final Dedicated Schools Grant (DSG) allocations for 2017/18, together with pupil data, were issued by the Education Funding Agency (EFA) on 20 December 2016. Lancashire's 2017/18 allocation is £881.82m. Appendix 'A' sets out a detailed analysis of the Lancashire allocation.

Decisions and recommendations arising from the Schools Forum's consideration of the 2017/18 Schools Budget proposals will be tabled, as Appendix 'B', at the Decision Making Session for the Cabinet Member's consideration.

Consultations

The views of schools and other educational partners and of the Schools Forum were sought in the Autumn Term, about the changes to the Schools Block formula for 2017/18.

A consultation is taking place with early years providers, including schools, about the implementation of the EYNFF. Consultation responses will be presented to the Schools Forum on 12 January 2017 to help shape the Forum's recommendations to the Cabinet Member.

A dialogue with the Schools Forum has also continued around the finalisation of the Schools Block and High Needs Block budgets and again any comments from the Forum arising from the budget considerations on 12 January 2017 will be reported to the Decision Making Session.

Implications:

This item has the following implications, as indicated:

Risk management

- **Financial**

Lancashire faces a £3.49m shortfall in the core Dedicated Schools Grant (DSG) funding for 2017/18. It is proposed that this shortfall is bridged by the use of reserves, but clearly this position is not sustainable in the longer term.

Any Schools Budget funding gap will be contained within the ring-fenced DSG resources.

- **Legal**

This report reflects arrangements required by EFA Schools Revenue Funding 2017/18 Operational Guidance. This guidance makes reference to changes that will be made to the School and Early Years Finance (England) Regulations. However, at the time of writing, no 2016 update of the Regulations has been issued.

A small risk exists that the School and Early Years Finance (England) Regulations 2016 will introduce additional requirements or will vary from the published guidance, which could impact on the budget process.

List of Background Papers

Paper	Date	Contact/Tel
EFA Schools Revenue Funding 2017/18 Operational Guidance	Updated November 2016	https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/573282/Schools_revenue_funding_guide_Nov_2016_FINAL.pdf
Early Years National Funding Formula (EYNFF) Lancashire implementation 2017/18 consultation	December 2016	Paul Bonser, Financial Management Development and Schools, 01772 531815
Reason for inclusion in Part II, if appropriate		
N/A		