

Report to the Cabinet

Meeting to be held on Thursday, 18 January 2018

Report of the Head of Financial Management (Development and Schools)

Part I

Electoral Divisions affected:
All

Schools Budget 2018/19

(Appendices 'A', 'B' and 'C' refer)

(Appendix 'C' will be circulated after the Schools Forum meeting on 16 January 2018)

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Executive Summary

In accordance with the Government's school funding Regulations and Guidance, the Authority is required to submit a final Schools Block budget proforma for 2018/19 to the Education and Skills Funding Agency (ESFA) by 19 January 2018. This report seeks the authorisation of the Cabinet to submit the Schools Block budget proforma and requests approval for the Early Years, High Needs and Central Schools Services Block budgets for 2018/19.

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

Recommendation

The Cabinet is recommended to:

- (i) Note the report, including the 2018/19 Dedicated Schools Grant (DSG) allocations, 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 2018/19 to the Education and Skills Funding Agency (ESFA) by 19 January 2018, on the basis set out in this report.

- (iii) Approve the 2018/19 budgets for the Early Years, High Needs and Central Schools Services Blocks.
- (iv) Agree that the Dedicated Schools Grant Reserve underwrite the uncertainties around the Early Years and High Needs Blocks;
- (v) Support the in year review of High Needs Block expenditure to reduce the level of overspend and minimise the risk exposure of future deficits.

This decision should be implemented immediately for the purposes of Standing Order 35 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 ESFA by the required deadline of 19 January 2018.

Background and Advice

Over recent years, the Government has been consulting on the future arrangements for school and high needs funding nationally. In July 2017, the Secretary of State for Education made announcements about the school funding arrangements for 2018/19 and 2019/20, which took account of the Governments' response to the consultations.

Key decisions about the school funding arrangements for 2018/19 are set out below:

- A Schools National Funding Formula (SNFF) will be introduced from April 2018, for primary and secondary schools and academies. Government proposals envisage a 'soft' formula approach in 2018/19 and 2019/20. This is where the allocations for each Local Authority (LA) are calculated on the aggregated individual school SNFF amounts, but the LA's local formula still applies in making actual allocations to schools;
- A national High Needs Funding formula will be introduced from April 2018, which will use a national formula to allocate high needs funding to each local authority. The LA's local funding formulae will still apply to distribute high needs funding in Lancashire;
- An additional £1.3 billion will be made available for schools core funding over the next two financial years (£416m in 2018/19 and £884m in 2019/20) from elsewhere in the DfE budget. The additional funding will assist in the transition to the SNFF and help provide stability for schools and will:
 - Provide at least a 0.5% a year per pupil cash increase for every school in the Schools Block in 2018/19 and 2019/20;
 - Provide an uplift of 0.5% per head in 2018-19 and 1.0% per head by 2019/20 over the relevant 2017/18 high needs spending baseline.

- A central school services block (CSSB) has been created. This will comprise funding for ongoing LA responsibilities on a formulaic basis and a cash sum for historic commitments;
- The Dedicated Schools Grant (DSG) allocations comprise four blocks, each determined by a separate national funding formula:
 - Schools Block;
 - High Needs Block;
 - Early Years Block, (funding for early years has been allocated through a national funding formula since April 2017);
 - New Central School Services Block.

Further details on each of the funding blocks are provided below, together with the preparatory consultations and modelling work undertaken in Lancashire.

Schools Block

The Schools Block funds mainstream primary and secondary schools and academies.

Lancashire's Schools Block funding for 2018/19 will be derived on the basis of illustrative individual Schools National Funding Formula (SNFF) allocations calculated by the Government. However, under the 'soft' formula arrangements, the actual allocations to each Lancashire school and academy from April 2018 will be allocated via a locally agreed funding formula.

In order to shape the local formula proposals for 2018/19, a consultation was issued to Lancashire schools and academies in November 2017. This consultation sought views on three possible formula options for 2018/19 and provided individual modelling data for each school and academy, to illustrate the local impact of each option. An initial consultation, earlier in the autumn term 2017 had sought views on the principles to be used in the Lancashire funding formula, before modelling data was released by the Government. Responses from this first consultation were evenly split across the available options and so individual school modelling was progressed for all 3 options.

The options modelled were:

1. Passport Schools National Funding Formula (SNFF) allocations calculated by the ESFA using the national formula factors and rates;
2. Continue to use the current Lancashire formula, uplifting funding rates if headroom is available;
3. Use the Lancashire formula, but with factors/rates revised to move part way to the proposed national formula (a hybrid model).

Model Comparison

All schools and academies gain funding in 2018/19 whichever option is agreed, due to the targeting of the additional £1.3billion nationally into core school budgets. This

is in contrast to the original NFF proposals, without the additional funding, when circa 67% of Lancashire schools lost funding in 2018/19.

The table below provides a comparison of the 3 options modelled across Lancashire for 2018/19:

Model Comparison	
Option	No of schools gaining most
Option 1 Passporting	237
Option 2 LCC Formula	126
Option 3 Hybrid	175
Equal	28

Equal refers to schools and academies where the best outcome is equal in Option 2 and Option 3.

School Consultation Responses

The closing date for the consultation was 5 December 2017. An analysis of the school/academy responses to the consultation and accompanying comments, is provided at Appendix A (i).

One consultation question sought views on matching a Government decision to transfer funding for Looked After Children (LAC) from the Dedicated Schools Grant (DSG) to Pupil Premium Grant (PPG) funding. This proposal received support from 74% of respondents.

In terms of the funding formula to be operated in 2018/19, Option 1 to passport Schools National Funding Formula (SNFF) allocations received the greatest support and was favoured by 47% of respondents, compared to 27% and 26% for options 2 and 3 respectively.

The Schools Forum also supported the consultation outcomes and these recommendations.

High Needs Block

The High Needs Block funds:

- Special Schools budgets;
- Alternative Provision budgets (mainly Pupil Referral Units (PRUs));
- Special Education Resource Provision (SERF) Units in mainstream schools;
- Individually Assigned Resources for High Needs pupils across all educational establishments;
- Certain Special Education Needs Central Schools Services.

For the first time from April 2018, the High Needs Block funding will be allocated from the Government to local authorities on the basis of a national funding formula.

The key elements of the national funding formula for high needs are:

- To recognise historic spending patterns through a lump sum equal to 50% of each local authority's current spending on high needs
- To provide a flat rate of £4,000 per annum for each pupil in special schools or student in special post-16 institutions, ensuring local authorities receive a broadly equivalent basic level of funding for pupils with high needs in both mainstream schools and outside the mainstream sector.
- To channel the remainder of the funding through a number of proxy factors according to the following weightings :
 - 2-18 population 50%;
 - deprivation 20%;
 - low attainment 15%,
 - health and disability 15%.

The Local Authority's funding formulae still apply to distribute High Needs funding to Lancashire providers, although some national changes to the funding of SERF units are being prescribed from April 2018.

From April 2018, there will no longer be a deduction to schools block pupil numbers for SERF units as happened previously. Instead, the school's budget share (or the equivalent academy funding) will be determined on the basis of the total number of pupils on the roll of the school, including those in the SERF unit. The balance of funding for this kind of special provision will come from the place funding decided in accordance with the local authority's commissioning decisions, and the top-up funding for individual pupils. The place funding will be £6,000 per place where the place is occupied by pupils in years reception to 11 on the roll of the school at the time of the October school census return. Places not filled by such pupils will still be funded at £10,000.

One local formula review in the High Needs Block related to allocations for Pupil Referral Units (PRUs). Following concerns raised by the PRU sector that top up rates did not provide sufficient funding to meet the costs of provision, a review of the Lancashire formula for funding PRUs has been undertaken, in conjunction with the PRU headteachers and the Schools Forum.

2018/19 proposals for PRU funding in Lancashire are shown below:

	Proposed Funding Rate	Primary Permanent Exclusion	Primary Medical & Other	Secondary Permanent Exclusion	Secondary Medical & Other
Place Funding / Additional Place Funding ■	£10,000	✓	✓	✓	✓
Primary Excluded Top-Up Funding	£2,747	✓			
Secondary Excluded Top-Up Funding	£4,072			✓	
Medical & Other Top-Up Funding	£4,072		✓		✓
Pupil Referral Unit Specific Top-Up Funding •	£1,928	✓	✓	✓	✓
Total Funding		£14,675	£16,000	£16,000	£16,000
High Support Pupil Top-Up Funding ♦	£2,000	✓	✓	✓	✓
Total Funding for High Support Pupils		£16,675	£18,000	£18,000	£18,000

No further changes to the local High Needs Block funding formulae have yet been proposed for 2018/19, but it should be noted that there are considerable demand led cost pressures facing this funding block.

A commitment has also been provided to special school headteachers that a review of certain elements of the special school funding formula will be conducted going forward.

Early Years Block

Early Years Block funding is utilised for:

- funding for the universal 15 hours entitlement for three and four year olds;
- funding for the additional 15 hours entitlement for three and four year old children of eligible working parents;
- funding for the 15 hours entitlement for disadvantaged two year olds;
- funding for the Early Years Pupil Premium (EYPP);
- funding for the Disability Access Fund (DAF);
- supplementary funding for Maintained Nursery Schools (MNS).

The government brought in new Early Years funding from April 2017, with an Early Years National Funding Formula (EYNFF). This arrangement introduced a formulaic mechanism for distributing early years funding from National Government to each local authority and set a framework that must be used to distribute funding to all types of early education provider, including nursery schools; nursery classes in maintained primary schools; Private, Voluntary and Independent (PVI) providers and

Childminders. The EYNFF introduced a requirement to have a Universal Base Rate for all providers and set out the type and level of supplements that are available. Full implementation of the new EYNFF arrangements must be achieved by 2019/20.

The main changes for 2018/19 are:

- the pass-through rate increases from 93% in 2017 to 2018 to 95% in 2018 to 2019
- clarification that local authorities' formulas should not distinguish between the two entitlements for three and four year olds
- clarification that funding supplements are intended to be in addition to the base rate and not used to reduce it; that is, they should not be 'negative'.

Following discussions with the Schools Forum, a consultation was issued with all Early Years providers to seek views on proposals for 2018/19, in the transition to full EYNFF implementation from April 2019.

Early Years Consultation Responses

After the consultation closing date in June 2017, an analysis of the provider responses to the consultation and accompanying comments was undertaken. A copy is provided at Appendix A (ii).

These responses were reported to Schools Forum in July 2017, and the following recommendations emerged to steer the 2018/19 Early Years funding arrangements:

- Transitional funding will be available in 2018/19 for childminders and nursery classes at primary schools and academies as we move towards a Universal Base Rate from 2019/20. Illustrative rates, subject to final DSG allocations for 2018/19 are shown below:

Provider Type	Funding Rate	Transitional Protection	Base Rate
PVI Providers	£4.08 per hour	-	£4.08 per hour
Nursery classes	£4.08 per hour	£0.18	£4.26 per hour
Child minders	£4.08 per hour	£0.41	£4.49 per hour
Maintained Nursery Schools	£4.08 per hour	supplementary ring-fenced maintained nursery schools grant	£4.08 per hour

- The existing funding level and methodology for the mandatory deprivation supplement will continue in 2018/19;
- The existing Rurality Supplement will be discontinued, hence transitional funding will only be given to existing settings already in receipt of this funding. Settings currently receiving the Rurality Supplement will receive transitional funding for one year at half the existing rates, which will be included in the formula for 2018/19;

- None of the other allowable supplements will be included in the Lancashire EYNFF in 2018/19, to maximise the funding that is available to support Base Rates;
- SEN Inclusion Funding (known as Additional Inclusion Support in Lancashire) will remain at current levels in 2018/19;
- Two year old funding statements will combine the two existing elements (base rate and targeted support) into a single rate from 2018/19. This will not reduce the level of overall funding.

Additional funding for Maintained Nursery Schools

In addition, Lancashire will continue to receive supplementary funding in 2018/19 for maintained nursery schools (MNS). This funding is provided in order to enable local authorities to protect their 2016/17 funding rates for MNS. Separate discussions with nursery schools headteachers have taken place to determine the local methodology for distributing this funding in 2018/19. This outcome of these discussions was to allocate the additional maintained nursery school funding via a MNS supplementary hourly rate for the universal 15 hours entitlement for three and four year olds.

New Central School Services Block (CSSB)

This Block is being introduced for the first time in 2018/19 and is to fund central functions that LA's carry out on behalf of pupils in state-funded maintained schools and academies in England.

The CSSB is split into funding for historic commitments and funding for ongoing responsibilities.

The historic commitments element of the Block funds certain ongoing obligations funded from the DSG. The level of historic commitments funding for 2018/19 will be allocated on 2017/18 baseline information based on the actual cost of the commitment. The ESFA have indicated that they expect that historic commitments will reduce overtime and it is unlikely that this element of funding will be available when a 'hard' national funding formula is introduced.

The ongoing responsibilities element of funding is calculated by the ESFA on a formulaic methodology based on pupil numbers and deprivation, plus an area cost adjustment. This funding effectively replaces the previous Education Services Grant (ESG) allocations, but the levels of funding have reduced considerably over recent years.

Final DSG Allocation 2018/19

Final Schools Block pupil data was issued by the Education and Skills Funding Agency (ESFA) on 15 December 2017.

Final Dedicated Schools Grant (DSG) allocations for 2018/19 were published by the ESFA on 19 December 2017.

Lancashire's 2018/19 allocation is £909.399m. Appendix B sets out a detailed analysis of the Lancashire allocation.

Decisions and recommendations arising from the Schools Forum's consideration of the 2018/19 Schools Budget proposals will be circulated as Appendix C after the Schools Forum meeting on 16 January 2018.

Consultations

Discussions have been held with the Schools Forum throughout the budget setting process and any decision and recommendations arising from the Forum's budget meeting on 16 January 2018 will be shared with Cabinet.

Detailed consultations have been held with the following:

- Lancashire Early Years Providers in connection with Early Years National Funding Formula (EYNFF) proposals for 2018/19;
- Lancashire primary and secondary schools and academies in connection with the Schools Block funding arrangements for 2018/19.

Specific discussions with representative headteacher groups have taken place as follows:

- Primary and secondary PRU headteachers in connection with review of the Lancashire PRU funding formula within the 2018/19 High Needs Block;
- Nursery school headteachers in connection with the allocation of supplementary nursery schools funding from the 2018/19 Early Years Block.

Implications:

This item has the following implications, as indicated:

Risk management

Financial

There are no financial implications for the County Council budget arising from this report.

Despite Dedicated Schools Grant (DSG) funding for 2018/19 increasing by circa £27.5m, the higher demand on the budget, particularly in the High Needs Block, means that there is circa £8.5m shortfall in the Schools Budget. It is proposed that this shortfall is bridged by the use of DSG reserves, but clearly this position is not sustainable in the longer term.

The Schools Budget funding gap will be contained within the available ring-fenced DSG resources. In order to avoid utilising School Forum reserves in 2018/19, a comprehensive review of HNB will be undertaken by the LA with the support of School Forum to ensure that expenditure is contained within the gross HNB allocation of circa. £110m. This will minimise the call upon DSG reserves.

Legal

This report reflects arrangements required by the ESFA Schools Revenue Funding 2018 to 2019 Operational Guidance, December 2017 update and the High Needs Funding 2018 to 2019 Operational Guide.

However, the annual update of the Statutory Instrument relating to school funding in 2018/19 has not yet been received.

A small risk exists that the School and Early Years Finance (England) Regulations 2018 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
ESFA Schools Revenue Funding 2018 to 2019 Operational Guidance	December 2017 update	https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/648147/Updated_schools_operational_guidance.odt
ESFA High Needs Funding 2018 to 2019 Operational Guide	September 2017	https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/652327/High_needs_funding_operational_guide_2018_to_2019.odt
Consultation on the Lancashire 2018/19 Early Years National Funding Formula (EYNFF) Proposals	May 2017	Paul Bonser, Financial Management (Development and Schools), 01772 531815
Schools Block Funding Formula 2018/19 Second Consultation	November 2017	Paul Bonser, Financial Management (Development and Schools), 01772 531815
Schools Block Funding Formula 2018/19 Principles Consultation	September 2017	Paul Bonser, Financial Management (Development and Schools), 01772 531815
Reason for inclusion in Part II, if appropriate		
N/A		