

## Report to the Cabinet

Meeting to be held on Thursday, 17 January 2019

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

**Part I**

Electoral Division affected:  
(All Divisions);

#### Schools Budget 2019/20

(Appendices 'A' and 'B' refer)

(Appendix 'B' will be circulated after the Schools Forum meeting on 15 January 2019)

Contact for further information:

Kevin Smith, Tel: (01772) 535130, Financial Adviser - Schools Forum

[kevin.smith@lancashire.gov.uk](mailto:kevin.smith@lancashire.gov.uk)

#### 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 2019/20 to the Education and Skills Funding Agency by 21 January 2019. This report seeks the approval 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 2019/20.

This is deemed to be a Key Decision and the provisions of Standing Order C19 have been complied with.

#### Recommendation

Cabinet is asked to:

- (i) Note the report, including the 2019/20 Dedicated Schools Grant 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 2019/20 to the Education and Skills Funding Agency by 21 January 2019, on the basis set out in this report.
- (iii) Approve the 2019/20 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.

This decision should be implemented immediately for the purposes of Standing Order C29 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 and Skills Funding Agency by the required deadline of 21 January 2019.

## **Background and Advice**

The Dedicated Schools Grant is a ring-fenced specific grant and it must be used in support of the schools budget as defined in the School and Early Years Finance (England) (No 2) Regulations 2018. The Dedicated Schools Grant is allocated to every Local Authority in four funding blocks, each calculated using national funding formulae. The four blocks are:

- Schools Block;
- High Needs Block;
- Early Years Block;
- Central School Services Block.

Further information on each of the blocks is provided below:

### **Schools Block**

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

2019/20 is the second year of the 'soft' National School Funding arrangements in the Schools Block. This is where the allocations for each Local Authority are calculated on the aggregated individual school National Funding Formula amounts, but the Local Authority's local formula still applies in making actual allocations to schools. The Education and Skills Funding Agency will also apply the Local Authority's local formula in determining academy allocations in each area.

Following consultation with schools and the Schools Forum, the Cabinet agreed to implement the National Funding Formula methodology from 2018/19 as the local Lancashire funding model. For 2019/20, the National Funding Formula arrangements are largely the same as those that applied in 2018/19, but the Department for Education have confirmed that there are some planned updates and other minor changes for 2019/20, which include:

- **The minimum per pupil funding levels** - the minimum per pupil funding level for secondary schools will increase to £4,800 and the minimum per pupil funding level for primary schools will increase to £3,500 (from the 2018/19 transitional levels of £4,600 and £3,300 respectively);
- **Growth Funding** - The Department for Education will be allocating growth to local authorities on a formulaic basis from April 2019. Funding will be based on the actual growth in pupil numbers experienced the previous year;

- **Primary Low Prior Attainment** - The Department for Education has slightly reduced the Low Prior Attainment factor value in the primary sector from £1,050 in 2018/19, to £1,022 in 2019/20 to balance the increase in the cohort;
- **Minimum Funding Guarantee** - In 2019/20, the Minimum Funding Guarantee can again be set between minus 1.5% and positive 0.5% per pupil.

## High Needs Block

The High Needs Block funds:

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

The allocation to Lancashire is calculated using a national High Needs Block formula, but the Local Authority's local funding formulae still apply to distribute High Needs funding to Lancashire providers. The national formula is largely unchanged for 2019/20.

There is considerable financial strain facing this block, as cost and demand led pressures continue to rise. The High Needs Block faces a circa £8.5m shortfall in 2018/19, which was forecast to be £10m+ in 2019/20, without any mitigating actions.

The 2019/20 Department for Education Operational Guide indicates that the Schools Block is ring-fenced in 2019/20, but local authorities are able to transfer up to 0.5% of their Schools Block funding out with the agreement of the Schools Forum, following a consultation with schools.

Lancashire has consulted with schools and the Forum about options to transfer various amounts from the Schools Block to High Needs Block to help mitigate the impact of the High Needs Block overspends. At their meeting on 17 October 2018, the Forum agreed a transfer of circa £3.7m (0.5%) from the Schools Block.

In addition, the local authority has been in discussions with schools, colleges and other High Needs providers about ways to reduce the forecast High Needs Block overspend. Brief information on some developments for 2019/20 budgets are provided below:

- **Special Schools** - Discussions have been ongoing with the special school headteachers association, and a revised place commissioning methodology and school specific funding calculations are being introduced from 2019/20. A dialogue is continuing around possible Needs Based pupil top up options;
- **Pupil Referral Units** - Following meetings and consultations with Pupil Referral Units, revisions to the Pupil Referral Unit formula are proposed for 2019/20, which reviewed how high needs specific funding would be provided whilst keeping core budgets stable and minimising administrative bureaucracy. This revised methodology will be kept under review;

- **Further Education Colleges** - Agreement has been reached with Further Education Colleges to reduce Additional Place Top-Up Funding by 50%, to £3,000 per annum, pro-rata for the number of terms the place is needed and to reduce 'full time' payments hours from 25 hours to 21 hours. Discussions continue about changes to the Weighted Pupil Number or banding structures;
- **Review of intervention provision** - The local authority has projects currently underway to review and propose recommendations for Alternative Provision. One of these relates to the development of Inclusion Hubs, which it is hoped will reduce permanent exclusions in Lancashire. Proposals are being developed in consultation with schools and the Forum.
- **Weighted Pupil Number rates** - Pressure on the High Needs Block requires a reduced Weighted Pupil Number rate to be paid across all types of High Needs provider, to save circa £1m from the £109m High Needs budget in 2019/20 across providers. The reduced funding would take effect from September 2019.

As part of the final Dedicated Schools Grant, announcements for 2019/20, the Education Secretary has announced an additional £250m of funding for high needs nationally, across the two financial years 2018/19, and 2019/20. Further information is provided in the section below on the 'Final Dedicated Schools Grant Allocation 2019/20' and in Appendix 'A'.

The commentary accompanying this announcement indicated that with the additional funding now confirmed for the high needs block, the Department for Education expect local authorities will want to review any proposals to transfer funding from Schools Blocks to High Needs Block. Options are due to be discussed with the Schools Forum on 15 January 2019, and any recommendations will be included in the Forum's letter to the Cabinet, which will be tabled as Appendix 'B' to this report.

## **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;
- funding for the Disability Access Fund;
- supplementary funding for Maintained Nursery Schools.

The government introduced an Early Years National Funding Formula from April 2017. 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 providers and Childminders. The Early Years National Funding Formula 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 Early Years National Funding Formula arrangements must be achieved by 2019/20.

The Department for Education Early Years Operational Guide for 2019/20 identifies that the main changes from 2018/19 are:

- authorities must use a universal base rate for all types of provider, including Maintained Nursery Schools, in their local three and four year old formula (but will continue to be able to fund Maintained Nursery Schools through additional lump sums).
- clarification of the rules on the use of the quality – system leadership – supplement.

Lancashire has already consulted with providers on introducing a Universal Base Rate in 2019/20, after some transitional protections operated in 2018/19, and does not use the optional quality supplement.

### **Central School Services Block**

This Block is to fund central functions that local authorities carry out on behalf of pupils in state-funded maintained schools and academies in England. This block was first introduced in 2018/19 and effectively replaced the previous Education Services Grant allocations, but the levels of funding have reduced considerably over recent years.

The Central School Services Block 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 Dedicated Schools Grant. Funding for these historic commitments will be allocated at the same level as in 2018/19, although the Department for Education guidance specifies that the expectation remains that expenditure from Dedicated Schools Grant will reduce over time as contracts and other commitments reach their end points. The historic commitments expenditure will be monitored and Department for Education will seek explanations of expenditure recorded on section 251 returns where this is not reducing as expected.

The ongoing responsibilities element of funding is calculated by the Department for Education on a formulaic methodology based on pupil numbers and deprivation, plus an area cost adjustment.

### **Final Dedicated Schools Grant Allocation 2019/20**

Final Dedicated Schools Grant allocations for 2019/20 were published by the Department for Education on 17 December 2018.

Lancashire's total 2019/20 Dedicated Schools Grant allocation is £947.933m, which includes Lancashire's share of the additional High Needs Block allocation announced by the Education Secretary. This additional allocation equates to circa £2.6m in both

2018/19 and 2019/20. Appendix 'A' sets out a detailed analysis of the Lancashire allocation.

Decisions and recommendations arising from the Schools Forum's consideration of the 2019/20 Schools Budget proposals will be circulated as Appendix 'B' after the Forum meeting on 15 January 2019.

### **Dedicated Schools Grant Cost Pressures 2019/20**

In aggregate terms, the 2019/20 Dedicated Schools Grant allocation is some £28m higher than that received in 2018/19. However, a significant element of this increase is attributable to increased numbers of pupils, which, in financial terms, will also bring with them an additional cost burden.

There is some additional money in the system, relating to the £1.3bn of additional core funding nationally, announced by the Department for Education in 2018, for financial years 2018/19 and 2019/20 and the £250m nationally for the same period for high needs.

However, these increases will not necessarily be sufficient to meet the extra cost pressures facing the sector at individual school or provider level, meaning that in real terms, the sector will continue to face a challenging financial environment.

Some of the key cost pressures are set out below.

#### *Teachers Pay*

Government announcements for teachers pay from September 2018 provide for a:

- 3.5% increase for classroom teachers on the main pay range,
- 2% increases for those on the upper pay range;
- 1.5% increases for those in leadership positions.

In July 2018, the Education Secretary confirmed that an investment of £508 million will be made available towards the teachers' pay rises. A new teachers' pay grant will be introduced on top of core funding from the National Funding Formula. Nationally, this will be worth £187 million in 2018/19 and £321 million in 2019/20. Announcements indicate that the grant will cover, in full, the difference between the teachers' pay award and the cost of the 1% award that schools would have anticipated under the previous public sector pay cap.

#### *Support staff*

As part of the National Joint Council pay agreement there is a new National Pay Spine being implemented with effect from 1 April 2019.

The new pay arrangements for 2019/20 provide for a general pay increase of 2%, but 'bottom loads' the lower spinal column points up to SCP 19 and also merges some of the existing spinal column points and creates some additional spinal column points.

Percentage increases at these lower spinal column points range from 3.7% to 9.2%.

There is no additional funding to support this pay increase.

#### *Free School Meals Universal Credit*

As a result of changes to the benefit system, the number of pupils eligible for free school meals will increase. Part of this increase will be because of the transitional protections, which mean that pupils who were eligible for free school meals on 1 April 2018, and those who become eligible during the Universal Credit rollout, will retain eligibility until the end of the rollout period.

The Government recognised that for some schools this increase in free school meal numbers may be difficult to manage in the short term, because school funding operates on a lagged basis. The Department for Education is therefore introducing a Free School Meals supplementary grant. This grant will provide schools with additional funding to help them meet the higher costs of providing extra meals before the lagged funding system catches up.

#### *High Needs Block Expenditure*

Additional high needs allocations for 2018/19 and 2019/20 are welcomed but cost and demand led pressures continue to rise.

The County Council has participated in a Local Government Association sponsored research project to help better understand the high need block pressures. The research report has recently been published and 'seeks to shed light on the reasons behind the increasing expenditure on high needs and to propose some actions that might be taken by both local and national government to alleviate this pressure'. The report will now be considered within a Lancashire context.

#### *Living Wage Increases*

Announcements were made by the Chancellor in the Autumn budget 2018 concerning the National Living Wage. From April 2019, the National Living Wage, for workers aged 25 years or older, will rise to £8.21 (4.9% increase) and other National Minimum Wage rates will also be increased.

Whilst increases in these rates are welcomed, they create significant cost pressures for many early years settings in Lancashire, as the higher wage costs created by the increases do not come with any equivalent uplift in the early years funding rates. Recent analysis in Lancashire indicates that many settings have reached a tipping point and are becoming unsustainable.

Early years representatives on the Schools Forum have recently met with the Leader of the County Council and the Cabinet Member for Children, Young People and Schools, and it is intended to provide a more detailed report to a future meeting of the Cabinet around early years funding issues.

#### *Teacher's Pensions Contribution*

Provisional announcements indicate that there could be significant rises in employer's pensions contributions for teaching staff from September 2019, although information suggests that the Department for Education expects to provide additional funding in 2019/20 to cover this increase.

### *Inflation*

As of November 2018, UK inflation, using the Consumer Price Index measure was 2.3%.

### **Dedicated Schools Grant Balances**

The Department for Education's Operational Guidance for 2019/20 indicates that there are an increasing number of local authorities that are now incurring a deficit on their overall Dedicated Schools Grant accounts, largely because of overspends on the High Needs Block.

For 2019/20, the Department for Education has therefore tightened up the rules under which local authorities have to explain their plans for bringing the Dedicated Schools Grant account back into balance.

Lancashire currently retains a positive Dedicated Schools Grant reserve, but the level of reserve reduced by over £6m at 31 March 2018, to £14.4m, and significant High Needs Block overspends are again forecast during 2019/20.

This situation will need to be carefully managed in the coming years.

### **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 15 January 2019 will be reported to Cabinet.

Detailed consultations have been held with the Lancashire schools and academies in connection with the Schools Block funding transfer for 2019/20.

Specific discussions with representative schools headteacher and governor groups and with college representatives have taken place as the Local Authority continues to develop proposals to manage the High Needs Block budget situation.

### **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.

The report forecasts a balanced Dedicated Schools Grant funding position in 2019/20, which will be underwritten by the Dedicated Schools Grant reserves.

The initial overspend on the High Needs Block budget is mitigated by a number of factors, including:

- An additional £2.6m allocation for high needs from government;
- A transfer of £3.7m from the Schools Block to the High Needs Block;
- A transfer of £0.3m from the Historic Costs element of the Central School Services Block;
- A proposed reduction of £1m of High Needs expenditure;
- Various ongoing proposals to reduce High Needs Block expenditure.

If the above factors and proposals are not approved there is a risk that the outcome would be a deficit budget that would need to be funded from reserves.

Proposals and options will be developed further during the coming year to ensure that Dedicated Schools Grant expenditure is brought back into line with available resources, whilst attempting to minimise the impact on individual schools and pupils and providing a manageable transition where reductions are required.

### **List of Background Papers**

Paper	Date	Contact/Tel
None		
Reason for inclusion in Part II, if appropriate		
N/A		