

Children's Services Committee

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| Report title: | Dedicated Schools Grant (DSG) |
| Date of meeting: | 22 January 2019 |
| Responsible Chief Officer: | Sara Tough Executive Director of Children's Services |
| Strategic impact | |
| <p>This paper presents the changes to the distribution for the Dedicated Schools Grant from April 2019 in line with the Department of Education's Fairer School Funding arrangements.</p> <p>This includes the funding distribution formula that delegates the funding into maintained schools and academies who are responsible for using this to ensure the educational outcomes for their children.</p> | |

Executive summary

Schools funding, both locally maintained and academies, is provided through the Dedicated Schools Grant (DSG) and Pupil Premium. This ring-fenced funding is allocated to local authorities who then have the responsibility to delegate this funding to schools in accordance with the agreed formula allocation.

Currently, it is each Local Authority's responsibility to determine individual school budgets according to local formulae, following local consultation with schools, within statutorily set timescales to enable schools to plan accordingly for the next financial year. To enable the timescales to be met by the County Council, this committee needs to agree the principles of Norfolk's local formulae.

In summary, the proposed changes to the distribution formula covers:

- Allocate the Schools Block funding via the new national funding formula unit values (for 2018-19 the local funding formula was in place)
- A one-off movement of 0.5% from the Schools Block to the High Needs Block.
- A business case to move £4.580m from the Schools Block to the High Needs Block, due to the scale of demand for high needs specialist places for pupils.

Recommendations: that the Committee agrees:

- (i) the Dedicated Schools Grant funding and the changes to the schools funding formula;**
- (ii) to delegate decision making powers to the Executive Director, in consultation with the Chair of the Committee, to revise the Dedicated Schools Grant funding if the application to the Secretary of State to move £4.580m from the Schools Block to the High Needs Block is not approved in full.**

1. Strategic Context

- 1.1 Schools funding is provided through the Dedicated Schools Grant (DSG) and other grants. The DSG is allocated to local authorities who then delegate the funding to schools in accordance with the agreed formula allocation. Grants are allocated by local authorities to schools as per the Department of Education (DfE) conditions of grants, which vary depending upon the purpose and aims of the funding.
- 1.2 The Local Authority will receive its Dedicated Schools Grant allocation for 2019-20 based on the new national funding formula. Pupil premium will continue as a separate, ring-fenced grant.
- 1.3 The DSG is split into four funding blocks: The Schools Block, the High Needs Block, the Early Years Block and the Central Services School Block. Movements of up to 0.5% from the Schools Block to the other blocks has to be agreed upon by Norfolk Schools Forum. If the Schools Forum do not agree to a transfer of up to 0.5%, or any request above the 0.5%, has to be agreed by the Secretary of State.
- 1.4 For 2019-20 the new national funding formula for schools generates £8.969m of additional funding for the Schools Block, including pupil growth, and £0.086m for the Central Services School Block. The DfE have announced an additional, one-off £1.803m for the High Needs Block for 2019-20 and the new national funding formula generates an additional, recurring £1.36m for the High Needs Block.
- 1.5 Local Authorities will receive their Dedicated Schools Grant allocations for 2019-20 and 2020-21 based on the unit values of the new national funding formula. It is the local authority's decision how the Schools Block is distributed as, at present, there is no requirement upon local authorities to allocate the block as per the national funding formula unit values. However, central government policy indicates a move towards a 'hard' formula in future and, therefore, the implications of this need to be considered by local authorities when determining their local formula. The options for the local formula for Norfolk were co-produced with Norfolk Schools Forum and all schools were consulted on the options available.
- 1.6 The funding formula covers all schools, both maintained and academies. Once the formula has been agreed, the DfE pay the necessary funding direct to academies and the funding for the maintained schools to the local authority.

2. Revenue Allocations

Dedicated Schools Grant (DSG)

- 2.1 The total DSG allocation received for 2019-20 was confirmed in December 2018 and totals £610.792m before academy recoupment. This compares to a DSG allocation of £600.391m in 2018-19.

- 2.2 The Schools Block totals £482.012m, representing £4,126.92 per primary pupil and £5,063.76 per secondary pupil with additional sums of £6.462m for premises and mobility factors and £3.403m for pupil growth funding.
- 2.3 The Early Years Block total for early education of 3 and 4 year olds is £37.154m, representing £4,248.57 per pupil. The total for 2 year old early education funding is £5.581m, representing £5137.81 per pupil, if parents meet the eligibility criteria.
- 2.4 The High Needs Block totals £81.822m. As the high needs funding is based on a place plus basis, i.e. a set amount of money is allocated for each placement and the additional amount is based on a mix of pupil led factors, it is not possible to give a per pupil amount.
- 2.5 The overall difference in the DSG allocation from the prior year is set out in the table below:

| Funding element | 2019-20 (£m) | 2018-19 (£m) | Change (£m) | Explanation for change |
|--|-------------------------|-------------------------|------------------------|---|
| Early Years Block | | | | |
| Early Years 3 & 4 year old funding | 29.785 | 29.785 | 0.000 | No change, will be adjusted in July 2019 based on the January 2019 census. |
| Early Years 3 & 4 year olds – increase to 30 hours | 7.368 | 7.368 | 0.000 | No change, will be adjusted in July 2019 based on the January 2019 census. |
| Early Years 2 year old funding | 5.581 | 5.581 | 0.000 | No change, will be adjusted in July 2019 based on the January 2019 census. |
| Early Years Pupil Premium | 0.438 | 0.438 | 0.000 | No change, will be adjusted in July 2019 based on the January 2019 census |
| Nursery Schools Grant | 0.274 | 0.270 | (0.004) | Protection calculated by DfE based on the rate paid to the 3 and 4 year old EYNFF funding rate vs the hourly Nursery School funding rate. |
| Early Years Disability Access Fund | 0.153 | 0.170 | (0.017) | Reduced headcount of pupils claiming Disability Living Allowance |
| Schools Block | 482.012 | 473.043 | 8.969 | Increase of 676 pupils (£3.453m), new in-year growth allocation (£0.806m) and ongoing increase from the national funding formula (£4.71m) |
| Central Services School Block | 3.358 | 3.272 | 0.086 | Funding per pupil increased from £29.03 per pupil to £29.66 per pupil and additional 676 pupils |
| High Needs Block | 81.822 | 80.462 | 1.360 | Additional £0.461m of funding as a result of the National Funding Formula, and |

| | | | | |
|--------------|----------------|----------------|---------------|--|
| | | | | £0.898m due to basic entitlement increase from special school and alternative provision (AP) headcount |
| Total | 610.792 | 600.391 | 10.401 | |

3. Early Years Block

- 3.1 The Early Years Block funds direct places in a variety of settings including nursery schools, preschools and childminders along with the county wide operational teams and supports Norfolk's Early Years Strategy. The Early Years National Funding Formula sets out that Local Authority central costs should be no greater than 5% of the Early Years National Funding Formula for 3 and 4 year old funding for 2019-20, this percentage adjusts within the financial year as it is based on pupil numbers accessing an Early Education place. The Local Authority receives £4.30 per hour for Early Education of 3 and 4 year olds.
- 3.2 Working parents can access an additional 15 hours of funded 3 and 4 year old early education. Taking the total amount to 30 hours of funded childcare. The Department of Education provides additional funding of £7.368m, this will be adjusted based on take up, at the January 2019 census.
- 3.3 Parents can access 15 hours of funded 2 year old early education, if they meet the eligibility criteria. The Department of Education provides £5.581m of funding based on an estimated take up which will be adjusted based on the January 2019 census. The Local Authority receives £5.20 per hour for Early Education of 2 year olds.
- 3.4 Early years pupil premium is 53p per hour per eligible child claiming 3 and 4 year old funding, up to a maximum of 570 hours per year, this will be adjusted based on January 2019 take up.
- 3.5 The Early Years New National Funding Formula (EYNFF) places Nursery Schools on the same funding model as all Early Years Settings, an additional £0.274m has been provided to protect and fund the fixed sums that the 3 Nursery Schools in Norfolk receive. The fixed sums fund the higher overheads and cost of qualified teaching staff in a Nursery School.
- 3.6 The Disability Access Fund aids access to early years places. The early years setting is eligible for £615 per year for each child in receipt of Disability Living Allowance.

4. Central Services Schools Block

- 4.1 A new block of funding was created in 2018-19 from existing central budgets previously held within the Schools Block. This consists of historic commitments prior to 2013, with a contractual agreement. It also includes a contribution to the admissions service, the servicing of the Schools Forum and covers licences that are paid centrally by the Department of Education on all schools' behalf. It includes the previously retained element of the Education Services Grant, which covers the statutory duties carried out by the Local Authority for all types of school.

- 4.2 The Central Services Schools Block is calculated at £29.66 per pupil, plus £240,000 agreed for historic commitments.

5. Schools Block

- 5.1 The Local Authority receives its Schools Block funding based on unit values set by the new national funding formula which was introduced in 2018-19. The DFE have given no clear date for the full implementation of the national funding formula, however they are clear that this is the direction of travel. The Local Authority for 2019-20 and 2020-21, has discretion under a soft formula to determine individual school budgets using the new national funding formula or a local funding formula following local consultation.
- 5.2 The new national funding formula results in an additional £4.71m to Norfolk in 2019-20 and an estimated additional £4.259m for growth. This is in addition to the £7.037 additional funding generated by the new funding formula in 2018-19. The government made a commitment to increase funding by 0.5% per-pupil for every pupil in 2018-19 and 1% in 2019-20. The maximum level of gains to Local Authorities was 3% in 2018-19 and a further 3% in 2019-20.
- 5.3 A consultation was held with schools on proposals for allocating the additional funding and moving onto the national funding formula at a detailed school level.
- 5.4 The factors within the national funding formula are the same as the current formula, but the unit values are now set by the Department for Education.
- 5.5 A new additional factor was introduced that provides a minimum per-pupil amount. This is to provide for those schools that attract little funding for additional needs through the formula and are therefore the lowest funded. The new national funding formula sets the ratio of funding between the primary and secondary phases at 1:1.29. Funding per pupil is on average 29% higher overall in the secondary phase than in the primary phase, this reflects the national average. In Norfolk our ratio is currently 1:1.19, to take account of the cost of running a high number of small primary schools.
- 5.6 The DfE has set one Lump Sum of £110,000 for all types of schools. This will benefit Norfolk primary schools; however, this negatively impacts on small secondary schools and results in significant reduction of £65,000 in lump sum funding. Secondary schools received a lump sum of £175,000 under the local formula.
- 5.7 The DfE has set the Sparsity factor at £25,000 for a primary school and £65,000 for a secondary school. Funding is tapered so the smallest schools will receive the highest funding. Small secondary schools in Norfolk will see a decrease in funding as the maximum sum of £100,000 will decrease to £65,000.
- 5.8 Funding is based upon “as the crow flies” distances. It is calculated for all the pupils for whom it is the nearest compatible school. It is the average “as the crow flies” from the pupils’ homes to their second nearest compatible school (the sparsity distance). It applies if the distance is more than three

miles for secondary schools and two miles for primary schools, but this will be changed in the future to reflect actual distance travelled.

- 5.9 The number of primary schools receiving sparsity funding in Norfolk will increase as the current number of pupils is based on the local decision of 105 pupils for a small school. Under the new national funding formula the sparsity measure is 21.4 pupils per year group; for a primary with 7 year groups this would equate to 149.8.
- 5.10 Premises funding consists of rates, private finance initiatives (PFI), split sites and exceptional circumstances. In 2019-20 the funding for premises is based on the historic 2017-18 allocations, except for PFI funding that will be uplifted annually by the Retail Price Index (RPI). The DFE are still exploring ways to build the premises costs into a national funding formula, without reliance on local historic information.
- 5.11 There is allocation in the DSG for pupil growth seen in census returns, which is allocated to schools as per the local formula. In addition, there is an allocation for in-year pupil growth, i.e. from the start of the new academic year, and local authorities can distribute this funding in two different ways depending upon the circumstances: (i) in agreement with schools forum setting up a growth fund by top-slicing DSG; and, (ii) through adjusting pupil numbers to calculate budget allocations for growing schools or planned school reorganisation.
- 5.12 As proposed within the consultation the NFF will contain a hybrid area cost adjustment (ACA) which takes account of general labour market trends and particular salary variations in the teaching workforce.

Impact of the National Funding Formula

- 5.13 Under the new National Funding Formula, funding is redistributed in Norfolk from the primary to the secondary sector.
- 5.14 The primary sector gains from an increase on the lump sum paid to all schools (from £98,268 to £110,000) and small primary schools see an increase in sparsity funding as the pupil number increases to 149.8 pupils from the local formula of 105 pupils to trigger the sparsity funding. Funding has been reduced in the basic per-pupil entitlement and increased for additional needs, which means smaller primary schools without high levels of additional needs have seen a reduction. The DfE have introduced the minimum per-pupil level to compensate these lower funded schools.
- 5.15 Secondary schools are the biggest gainers under the new formula and have not seen an overall reduction in the basic per-pupil entitlement, but a very large increase in additional needs. However, Norfolk's smallest secondary schools lose funding overall. The lump sum reduces (from £175,000 to £110,000) and the sparsity amount reduces (from £100,000 to £65,000) as well as becoming tapered based on pupil numbers.

Minimum Funding Guarantee

- 5.16 The Local Authority has discretion on setting a Minimum Funding Guarantee (MFG) to individual school budgets. It is proposed to continue as in previous years at minus 1.5% per pupil, excluding the following items:

- Post-16 funding factor (the amount funded from DSG)
- The 2019-20 'Lump sum'
- Additional lump sums paid in 2018-19 for amalgamated schools (excluded from the baseline only)
- Additional lump sum to be paid under regulations in 2019-20 for amalgamating schools
- The 2019-20 Sparsity Factor
- Rates

5.17 This means that in 2019-20 no school can lose more than 1.5% of funding per pupil compared to 2018-19, other than for the items above which are not covered by the guarantee.

5.18 The Schools Block has also increased with the number of pupils increasing from 104,456 in 2018-19 to 105,132 in 2019-20, as per the October census in each relevant year.

Summary of proposals

5.19 In the consultation with schools the Local Authority sought views on 4 options for allocating schools funding in 2019-20. Two options were based on the existing local formula and two options for implementing the National Funding Formula at a school level.

5.20 We also sought support for an additional transfer of funding of £4.580m from the Schools Block to the High Needs Block in 2019-20 to meet the ongoing cost pressures of high needs pupils. The £4.580m was the estimated additional funding generated in Norfolk by the new national funding formula. This was over and above the 0.5% of the Schools Block already agreed by Schools Forum; a continuation of the existing movement agreed in 2018-19.

5.21 It is proposed to implement the unit values and methodologies of the new national funding formula for 2019-20 and use the new rates for the minimum per pupil funding levels for primary and secondary. Although there is no clear date for full implementation the DFE have been clear that this is the intended direction of travel.

5.22 It is prudent to give schools time to plan towards a new formula, whilst we have the funding to protect school budgets with a Minimum Funding Guarantee (MFG). The MFG protection will ensure that no school budget will reduce by more than 1.5% per pupil on the pupil led factors. To afford this, we need to apply a funding cap for gaining schools.

5.23 The Local Authority have submitted an application to the Secretary of State to move the additional funding, approximately £4.580m, generated by the new national funding formula from the Schools Block to the High Needs Block. This is in addition to the 0.5% already agreed by Schools Forum. The comments of schools from the consultation have been shared with the Secretary of State.

5.24 Following the December 2018 announcement of additional, one-off High Needs funding for 2018-19 and 2019-20, see section 6.2 below, local authorities have been asked whether they wish to withdraw or amend such applications to the Secretary of State. Officers have submitted a letter to the

Secretary of State advising that Norfolk are not reducing their request due to the level of deficit forecast for 2019-20 exceeding the additional funding and the £4.580m.

- 5.25 If the Secretary of State declines this request, or only partially agrees it, i.e. a funding transfer to the High Needs Block is rejected or accepted at a lower amount than the £4.580m requested, then the Schools Block and High Needs Block budgets will be adjusted accordingly, and the budget shares issued to schools would be adjusted via the funding cap on gaining schools.
- 5.26 As Section 151 Officer, the Executive Director of Finance and Commercial Services is required by section 114 of the Local Government Finance Act 1988 to report to Members if it appears that the expenditure the authority proposes to incur in a financial year is likely to exceed the resources available to it to meet that expenditure. It is the view of the Executive Director of Finance and Commercial Services that, if left unresolved, the pressures and level of forecast overspend are such that the HNB position could represent a very real medium-term threat to the overall financial viability of the whole Council. The level of deficit, even if the disapplication request were approved in full, will still be rising, and the position is likely to be a factor considered by the Council's external auditors. The DfE's decision on the Council's disapplication request will therefore have a very significant bearing on the Executive Director of Finance and Commercial Services' judgement about the Council's financial resilience and the robustness of its Budget.

6. High Needs Block

- 6.1 The high needs national funding formula for 2019-20 has resulted in an increase of £1.360m. The new formula is calculated 50% on historic spend and the remaining 50% on high needs places occupied by pupils, population and additional needs factors.
- 6.2 The DFE announced an additional national amount of £125m in December 2018 for both 2018-19 in-year and 2019-20 in recognition of the pressures being faced by the demand on all Local Authorities High Needs Blocks. Norfolk received an additional £1.803m for both 2018-19 and 2019-20. This has brought the total of the High Needs Block to £81.822m for 2019-20.
- 6.3 The Schools Forum voted in September 2018 to continue with the 0.5% movement from the Schools Block to the High Needs Block from previous financial years. This is an additional £2.410m, bring the total available in the High Needs block to £84.232m.
- 6.4 This allocation falls short of the amount that is required to deliver a sustainable High Needs Block position in the short to medium term because of the very severe pressures being encountered within this budget. Details of the pressures and the action being taken to mitigate these pressures, transformation and sufficiency of the market, are provided within the Budget Monitoring paper elsewhere on this Committee's agenda.
- 6.5 There is a funding pressure of £5.514m in the current financial year (taking into account the additional £1.803m announced in-year), with a £8.087m loan outstanding from previous financial years. As a result, the DSG position at the start of 2019-20 is expected to be a £13.601m deficit position. Even if

the request to transfer £4.580m is successful, there remains a forecast deficit of £5.669m for 2019-20 as set out below. Left unmitigated this would mean a total deficit position at the end of 2019-20 of around £19.270m.

| Remaining cost pressures for 2019-20 | £m |
|---|---------------|
| | |
| <i>Cost pressures</i> | |
| Independent Special School places and Alternative Provision | 5.857 |
| Maintained Special School places | 3.318 |
| SEN top up funding to mainstream schools | 2.750 |
| SEN top up funding to FE colleges | 0.825 |
| Local authority hosted services to schools | 0.131 |
| SEN units | 0.316 |
| Personal Budgets | 0.217 |
| Total Cost | 13.414 |
| | |
| <i>Funding sources</i> | |
| Additional £1.8m announced 17 December 2018 | -1.803 |
| Growth and new places funding | -1.362 |
| Disapplication request | -4.580 |
| Total Funding | -7.745 |
| | |
| Forecast Deficit 2019-20 | 5.669 |

- 6.6 Options used previously to balance the budget through the use of one-off savings and reserves are no longer available to the County Council, with demand continuing to grow for high needs specialist placements alongside a high number of exclusions in Norfolk.
- 6.7 Norfolk spends 89% of the High Needs Block on high needs places in state special schools, independent schools and Alternative Provision. To mitigate the forecast deficit position, the Council has also reviewed the remaining 11% of the HNB, reviewed the SEND top-up funding paid to mainstream schools, and reviewed all of the services provided as a local authority direct to schools.
- 6.8 From 2015-16 to 2018-19 there has been a 10% shift of pupils with Statements / Education Health & Care Plans from mainstream schools to the specialist sector; in addition to Norfolk experiencing a rise in the number of pupils who have been permanently excluded. This 10% shift has resulted in an increase of 1,102 places in high needs provision from 2015-16 to date, at a cost of £22.277m. In the same period, the High Needs Block has only increased by £12.039m.
- 6.9 The combination of fair funding online survey submissions (77 responses), discussions via finance presentations, attendance at Headteacher Conference and the Schools Forum working group has resulted in a high number of responses and a good range of feedback.
- 6.10 Recognising the scale of the challenge, Norfolk County Council has identified £3.000m of local authority resources within its budget planning for next year

to contribute towards supporting the HNB position, which includes £1.000m of funding in 2019-20 to enable the delivery of service transformation.

- 6.11 On the 28 October 2018 the Council's Policy and Resources Committee (Item 8) received a report further developing the strategy, the council agreed to support £120m of capital borrowing as part of a wide-ranging SEND Transformation Programme. The strategy will see both landscape and culture transformation across Norfolk's SEND system; parents will have 'first refusal' for children to move from high cost independent provision to Good & Outstanding special school placements, future need will be met and reductions in travel time will enable both HNB pressure and SEN transport pressures to be alleviated. The council have agreed to the capital borrowing based on detailed modelling which forecasts the HNB returning to a balanced budget after 5 years.

7. Evidence

- 7.1 The proposals for implementing the national funding formula were discussed in consultation with the Norfolk Schools Forum, the proposals were drafted with a working group comprising of schools forum members, with additional members carefully selected to reflect the diverse nature of all schools within Norfolk. A survey was then undertaken with schools, finance presentations were held for schools in Kings Lynn, Norwich, Dereham and Great Yarmouth and a workshop was held at the Headteachers conference to collect views.
- 7.2 There was overall support from schools and Schools Forum to move to the full implementation of the national funding formula at a school level. This option was the preference of the Schools Forum working group and was the favoured option in the consultation survey.
- 7.3 A brief summary of the consultation responses from Schools is included in Appendix A. A more detailed summary, including quotes of responses, is available within Item 4 on the agenda of 17 October 2018 Norfolk Schools Forum.
- 7.4 There was overall support from Schools Forum to move £4.58m from the Schools Block to the High Needs Block.

8. Issues, risks and innovation

- 8.1 There are risks that will need to be carefully monitored and managed as the financial year progresses:
- Pressure continues within the High Needs Block that exceeds the funding available resulting increased levels of deficit on the High Needs Block of the Dedicated Schools Grant;
 - Future underspends are not seen on the Early Years Block and the Schools Block that can partially offset the High Needs Block resulting in higher levels of Dedicated Schools Grant deficit;
 - Pressures experienced by schools due to real term increases in costs outside of their direct control exceeding funding available, for example teacher pension costs, support staff costs as a result of national living

wage implementation, condition of premises salaries, impacting on their ability to provide consistent education and to meet the basic needs of pupils in their school.

9. Background Papers

Transforming the system for Special Educational Needs and Disability (SEND) in Norfolk (Item 8, 29 October 2018 Policy and Resources Committee)

<http://norfolkcc.cmis.uk.com/norfolkcc/Meetings/tabid/128/ctl/ViewMeetingPublic/mid/496/Meeting/1421/Committee/21/Default.aspx>

De-delegation, growth fund and central services budget (Item 4, 17 October 2018 Norfolk Schools Forum)

<http://www.schools.norfolk.gov.uk/School-administration/Finance/Norfolk-schools-forum/Agendas-and-Papers/NCC182085>

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