

Children's Services Committee

Report title:	Dedicated Schools Grant (DSG)
Date of meeting:	16th January 2018
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 2018 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 is provided through the Dedicated Schools Grant (DSG) and Pupil Premium, which is allocated to the County Council and passed on to schools in accordance with the agreed formula allocation.

The Department of Education announced on the 14th September 2017 that it would be going ahead with the Schools and High Needs National Funding Formula. Local Authorities will receive their Dedicated Schools Grant allocations for 2018/19 and 2019/20 based on the new national funding formula. Pupil premium will continue as a separate ring-fenced grant.

The DSG is split into four funding blocks: The Schools block, the High Needs block, the Early Years block and the new Central Services School Block. Movement from the schools block to the other blocks has to be agreed upon by Norfolk Schools Forum.

The new national funding formula for schools generates £7.032m of additional funding for the Schools Block for 2018/19, £0.101m for the Central Services School Block and an additional £1.529m for the High Needs Block.

Local Authorities will receive their Dedicated Schools Grant allocations for 2018/19 and 2019/20 based on the unit values of the new national funding formula. Under a soft formula, local authorities will determine individual school budgets according to local formulae, following local consultation.

The proposed changes to the distribution formula covers:

- Allocating the additional schools block funding via the current local formula
- Introduce the new minimum per pupil funding factor for primary and secondary pupils
- A one off movement of 0.5% from the schools block to the high needs block.

The Children's Services Committee is recommended to:

- 1) Agree the Dedicated Schools Grant funding and the changes to the schools funding formula.**

1. Revenue Allocations

Dedicated Schools Grant (DSG)

1.1 The total DSG allocation received for 2018-19 was confirmed in December 2017 and totals £599.457million before academy recoupment. This compares to a DSG allocation of £581.247 million in 2017-18. The Schools block totals £473.043 million, representing £4,114.73 per primary pupil and £4,967.95 per secondary pupil, the Early Years block total for 3 and 4 year olds is £28.960 million representing £4,085 per pupil, and the High Needs Block totals £78.577 million. As the high needs funding is based on a place plus basis, (a set amount of money is allocated for each placement and the additional amount is based on need), it is not possible to give a per pupil amount.

1.2 The overall difference in the DSG allocation from the prior year is set out in the table below:

Funding element	2018/19 (£m)	2017/18 (£m)	Change (£m)	Explanation for change
Early Years Block	44.565	41.352	+3.213	
Early Years 3 & 4 year old funding	28.960	29.594	-0.634	Lower participation rate than 2017/18
Early Years 3 & 4 year olds – increase to 30 hours	8.459	4.756	+3.703	2017/18 allocation was for 7 months only
Early Years 2 year old funding	6.156	5.959	+0.197	Slightly higher participation than 2017/18
Early Years Pupil Premium	0.501	0.451	+0.050	Higher number of eligible pupils
Nursery Schools Grant	0.319	0.420	-0.101	The hourly rate has increased for nursery schools by 30p per hour and lower participation.
Early Years Disability Access Fund	0.170	0.172	-0.002	
Schools Block	473.043	461.473	+11.570	Increase in 1,071 pupil numbers (£4.538m) and the new national funding formula. £7.032m from the National Funding Formula. Movement of central funds to create the new Central Services Block
Central Services School Block	3.272	3.167	+0.105	New block. Central items were previously within the schools block
High Needs block	78.577	75.248	+3.329	Re-baselining of £1.8m expenditure from 2016/17 schools block. Additional £1.529m of funding as a result of the new national funding formula.
Total	599.457	581.240	+18.217	

2. Early Years Block

- 2.1 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 new 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 2018-19, 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.
- 2.2 From September 2017 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 £8.459 million which is an estimated take up of 83% of eligible pupils, this will be adjusted based on take up, at the January 2018 census.
- 2.3 Parents can access 15 hours of funded 2 year old early education, if they meet the eligibility criteria. The Department of Education provides £6.156M of funding based on an estimated take up which will be adjusted based on the January 2018 census. The Local Authority receives £5.20 per hour for Early Education of 2 year olds.
- 2.4 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 2018 take up.
- 2.5 The Early Years New National Funding Formula (EYNFF) places Nursery Schools on the same funding model as all Early Years Settings, an additional £0.319 million 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.
- 2.6 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.

3. Schools Block

- 3.1 From April 2018 the Local Authority will now receive its schools block funding based on unit values set by the new national funding formula. Under a soft formula local authorities determine individual school budgets according to local formulae, following local consultation.
- 3.2 The new national funding formula results in an additional £7.032m to Norfolk in 2018/19 and an estimated additional £5.751m (including growth) in 2019/20. The government has 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 is 3% in 2018/19 and a further 3% in 2019/20.
- 3.3 A consultation was held with Schools on proposals for allocating the additional funding and moving onto the national funding formula at a school level.
- 3.4 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.

- 3.5 A new additional factor has been 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.
- 3.6 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 receive a lump sum of £175,000 under the local formula.
- 3.7 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.
- 3.8 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.
- 3.9 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 number of pupils is 149 for the definition of a small sparse school.
- 3.10 Premises funding consists of rates, PFI, split sites and exceptional circumstances. In 2018/19 the funding for premises is based on 2017/18 allocations with the exception of PFI which 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.
- 3.11 Growth is included in the overall DSG allocation. Local authorities can fund growth in two ways, either by setting up a growth fund by top-slicing DSG or through adjusting pupil numbers to calculate budget allocations for growing schools. In 2018/19 funding is based on what local authorities planned to spend in 2017/18.
- 3.12 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

- 3.13 Under the new National Funding Formula, funding is redistributed in Norfolk from the primary to the secondary sector.
- 3.14 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 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.

- 3.15 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

- 3.16 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 2018/19 'Lump sum'
- Additional lump sums paid in 2017/18 for amalgamated schools (excluded from the baseline only)
- Additional lump sum to be paid under regulations in 2018/19 for amalgamating schools
- The 2018/19 Sparsity Factor
- Rates

- 3.17 This means that in 2018/19 no school can lose more than 1.5% of funding per pupil compared to 2017/18, other than for the items above which are not covered by the guarantee.

- 3.18 The Schools Block has also increased with the number of pupils increasing from 103,385 in 2017/18 to 104,456 in 2018/19.

Summary of proposals

- 3.19 The Local Authority consulted with schools on 4 options for allocating the additional funding and implementing the National Funding Formula at a school level. It is proposed to distribute the additional funding via the current local formula, but use the new minimum per pupil funding levels for primary and secondary.
- 3.20 This will ensure that every school receives additional funding for 2018/19, to alleviate the real cost pressures facing schools, and that no school loses funding in 2018/19. It ensures that every school has the minimum per pupil amount of funding as recommended by the Department of Education.
- 3.21 The tight timescales and late release of detailed school level information has not enabled the Local Authority to take a considered approach to implementing the national funding formula. The basic premise behind this is that a significant amount of time has been spent in recent years in arriving at a local formula using the same funding factors as the national funding formula, a measured considered approach needs to be taken to phase in the unit values of the new national funding formula at a school level.

Future Developments

- 3.22 The Local Authority acknowledges the concern raised during consultation that any delay in implementing the National Funding Formula delays the DFE's intention to redistribute funding from the primary to the secondary sector and towards those pupils with higher levels of deprivation and low prior attainment. There was also concern raised that the further we move away from implementing the national funding formula, that schools losing funding under the NFF will experience a larger drop in their budgets.
- 3.23 We propose to set up a schools forum task and finish group to look at phasing in the national funding formula from 2019/20. We need to ensure that all types of schools are represented on the working group, as the impact of the national funding formula on schools funding levels varies significantly based on the sector and characteristics of the school.

4. Central Services Schools Block

- 4.1 A new block of funding of has been created 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 £29.03 per pupil, plus £240,000 agreed for historic commitments.

5. High Needs Block

- 5.1 The new high needs national funding formula has resulted in an increase of £1.529m. 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. There is also an additional £488,000 available within the high needs block as pupils on the roll of schools that host Specialist Resource Bases are now funded for the first £4000 from the schools block, which reduces the cost within the high needs block, for 2018/19 there are 122 such pupils.
- 5.2 Due to continued pressure within the High Needs Block it is necessary to outline budget proposals to all Norfolk state funded schools. A small working group constituted from the Schools Forum and Local Authority Officers met to look at a range of proposals to address the continued pressure. Proposals were presented to Schools Forum on 24 November 2017.
- 5.3 There is a funding pressure of £8.9million pressure in the current financial year, with a £2.57m loan outstanding from last financial year 2016/17. The overspend is forecast to continue into 2018/19, the budget needs to be balanced in line with the high needs block budget allocation.

- 5.4 Funding pressure on the high needs block is reflected across the majority of Local Authorities in England. The Association of Director of Childrens Services surveyed 85 Local Authorities, 68 were overspent on the high needs block in 2016/17 totalling £139.5 million.
- 5.5 Options used previously, to balance the budget through the use of one-off savings and reserves are no longer available to the county council, demand has continued to grow for high needs specialist placements and the number of exclusions in Norfolk is still higher than the national average. Therefore, our discussions with the Schools Forum have focused on the need to re-balance education priorities and the budget.
- 5.6 These proposed changes included a transfer of funding between the Schools Block and the High Needs Block and, therefore, had implications for school budgets. This element of the proposals was required, in part, due to the shift of pupils (Statements / Education Health & Care Plans) from mainstream schools to the specialist sector over the past 5 years; in addition to Norfolk experiencing a rapid rise in the number of pupils who have been permanently excluded and our ongoing use of high cost independent / non-maintained placements.
- 5.7 The combination of fair funding online survey submissions (60 responses), discussions via finance surgeries, attendance at Headteacher Association meetings and the Schools Forum working group has resulted in a high number of responses and a good range of feedback.
- 5.8 We have heard a number of concerns expressed by schools regarding those elements of the proposals that would result in a reduction in funding to mainstream schools and a corroboration of the risks that reduced funding could have on inclusive practice.
- 5.9 Within the presentation to the School's Forum a number of principles were outlined to assist with the restructuring of the High Needs Block and to ensure that it can be stabilised during the coming financial year(s):
- *Drive down exclusions through targeted intervention, challenge and support*
 - *Charge schools for excluding pupils and ensure the managed move system is rolled out*
 - *Aligning SEND / Inclusion provision with Early Help and SEMH/CAMHS provision*
 - *Budget distribution aligned to school and local authority duties within Children & Families Act 2014*
 - *Developing traded inclusion services and using income to offset central services costs*
 - *Reduce specialist provision/special schools/AP places*
 - *Pay less for alternative and specialist provision*
 - *Schools rewarded for inclusive practice through the development of a Norfolk Inclusion Incentive Fund (NIIF)*
 - *Enabling 'money following the child' where this supports reasonable adjustments / exceptional circumstances*
 - *Increase the accountability for SEN funding in schools*
- 5.10 Proposals to ensure that these principles can be used to effectively lead to a sustainable balanced budget were outlined at the meeting of the Schools Forum.

The following recommendations illustrates the planned budget re-modelling for the next financial year:-

Recommendation 1

- 5.11 A proposal was put forward in the autumn fair funding consultation with schools to move 0.5% from the school block to the high needs block, £2.356m. The Schools Forum voted to agree the one off movement for 2018/19.
- 5.12 Within the 2016/17 fair funding consultation it was proposed to move £3.600m from the schools block to the high needs block. Following feedback from schools this was reduced to £1.8m there continues to be movement out of mainstream and into specialist provision and a further transfer is required.

Recommendation 2

- 5.13 A proposal was put forward to reduce the Special Educational needs Cluster funding from £9.424m to £4.424m and to review the current arrangements of allocating the funding to clusters, with a higher level of accountability for SEN funding in schools.
- 5.14 Within the 2016/17 fair funding consultation it was proposed to reduce the cluster funding by £5m, following feedback from schools this proposal did not go ahead. In the past 12 months far more rigour has been implemented in the allocation of the exceptional circumstances fund and a far greater understanding of the relative performance/impact of cluster funding is now apparent. A revised model of providing schools with additional 'top up' funding can now be proposed alongside a reduction.

Recommendation 3

- 5.15 To establish a Norfolk inclusion Incentive Fund of £1.100m using funding previously allocated to clusters, the existing Exceptional Circumstance pot of £250,000 and a % of the charges made to schools for excluding pupils.
- 5.16 This combined budget will be managed within the new Virtual School for SEN to respond to genuine funding requests to enable inclusion (i.e. without funding mainstream placement is impossible).

Recommendation 4

- 5.17 To further reduce Local Authority hosted and contracted services by £500,000. Responsibility for providing these services will move to schools. Savings of £750,000 have been achieved in 2016/17. Further reductions pending consultation with stakeholders could be made in the following areas:
- Specialist Equipment to schools - £150K – cease Local Authority management of equipment purchase, store, recycle
 - Manual Handling - £46k – cease Local Authority management of manual handling advice
 - SEN Invest to save - £56k – reduce contribution to Local Authority contract management functions
 - Critical Incident support service- £58k - Move to a fully traded model
 - PATHS - £105k - cease Local Authority support for this element of CAHMS provision
 - School 2 School service - £85k – move to a fully funded traded model.

Recommendation 5

5.18 A medium/long term plan to rebalance commitments within the high needs block, with a saving of up to £1.750m, pending consultation with stakeholders.

5.19 There is evidence that Norfolk state funded special schools provided value for money and investment in more state funded provision is required to transfer pupils from high cost independent placements. The following capital projects have commenced on site, with further places planned in the Local Authority's sufficiency strategy:

- Additional SEMH provision commissioned (90+places at Fen Rivers Special Academy, Kings Lynn)
- Additional ASD provision commissioned (90+places at The Wherry School, Norwich)
- Additional complex needs provision commissioned (50+places in Old Buckenham, Chapel Green)

5.20 New education services are being developed to ensure that mainstream schools can meet SEN needs locally. The new Vulnerable Groups Achievement & Access Service will work with schools to prevent pupil exclusion. The evidence base demonstrates that developments between the Local Authority and Headteacher associations can lead to the following savings:

- £0.750m through PEX reduction (£15K per pupil X 50 pupils)
- £1m through the transfer of pupils from independent provision to state funded special schools (£20K per pupil X 50 pupils)

5.21 The table below shows the recovery based on the above recommendations and repayment of the 2017/18 and 2016/16 overspend on the high needs block.

	2018/19 (£m)	2019/2020 (£m)	2020/21 (£m)
Overspend brought forward	£11.466	£11.466	£9.066
In year savings to be achieved to balance budget	£8.887		
High Needs Block Growth	-£1.942	-£0.400	-£1.300
Schools block to high needs block transfer	-£2.340		
Cluster Reduction	-£5,000		
New Inclusion Investment Fund	£0.895		
LA Hosted Services reduction	-£0.500	-£0.250	
Reduction of Independent School Places		-£1.000	
Reduction in excluded pupil placement costs		-£0.750	-£1.000
Move to funding follows the pupil			-£1.000
Balance carried forward	£11.466	£9.066	£5.766

6. Evidence

- 6.1 The proposals for implementing the national funding formula were discussed in consultation with the Norfolk Schools Forum. A survey was then undertaken with schools for 2 weeks, finance surgeries were held for schools in Swaffham, Norwich and Great Yarmouth and Headteacher Association meetings were attended to collect views.
- 6.2 There was overall support for moving 0.5% from the schools block to the high needs block, and schools forum reflected this by voting to move funding between the blocks. A high needs working group consisting of school forum members and local authority officers scrutinised the proposals and the recommendations put forward.

7. Financial Implications

- 7.1 The paper is addressing the allocation of the Dedicated Schools Grant and as such the financial implications are covered within the report
- 7.2 Maintaining the status quo of the schools and high needs block, would mean it is not possible to set a balanced budget for 2018/19 for the high needs block.

8. Issues, risks and innovation

Consultation responses

- 8.1 The timescales for consultation were very short, the national funding formula was announced by the Department of Education on the 14 September 2017, school level detail was not available until 7 October. Consultation with schools and school forum all had to be carried out by 24 November to enable schools forum to vote on the movement from the schools block to the high needs block by the Department of Education deadline of 30 November 2017. A detailed survey was sent to all schools to which 60 responded, in addition Headteacher association meetings were attended and finance surgeries held with schools. A schools forum high needs working group met on a regular basis to work on the high needs block proposals. The changes were formulated in consultation with Norfolk Schools Forum, which is representative of schools in Norfolk.
- 8.2 The majority of school responses supported allocating the additional funding via the existing local funding formula, and the introduction of the minimum per pupil funding amount. Less schools are likely to fall into financial difficulty and the government has given us a steer by meeting the minimum per pupil funding levels.
- 8.3 Some primary schools with high levels of additional need and several secondary schools felt they were underfunded under the current local formula and a move to the unit values of the National Funding Formula would be preferable. These schools felt the formula should redistribute funding to those pupils with additional needs, as the Department of Education intends and reflect the higher costs of funding the specialised curriculum in a secondary school.
- 8.4 The current split between the primary and secondary ratio of funding of 1:1.19 was a School Forum decision which was thought right at the time. It does not reflect the national ratio of 1:1.29 which the national funding formula will

implement. There is concern that some primary schools and small secondary schools will suffer financial difficulty. A phased move is preferable as it will stop school budgets falling off a cliff edge.

- 8.5 Through the consultation responses and discussions there was a majority support to move 0.5% from the schools block to the high needs block, to reflect the movement of pupils from mainstream to specialist placements. Concern was expressed that this would reduce further the ability of schools to be inclusive. It was also noted that this only a one off solution and has to be agreed by schools forum annually.
- 8.6 In the discussions with schools and schools forum there was support for a consistent approach to the allocation of funding by clusters, a countywide approach is needed on the impact and effectiveness of the funding allocated. In the feedback some schools felt there are a range of factors that will impact on the long term future of the cluster model.
- 8.7 Schools raised concerns that the reduction in cluster funding will reduce the schools ability to be inclusive. Clusters that have invested in effective cluster models reflecting need, will perceive that they are being penalised. The Inclusion Incentive Fund will offset elements of the overall mainstream school reduction through targeted funding. It will ensure a fair, equitable and rigorous approach across Norfolk in allocating funding.
- 8.8 Schools raised concern that capacity to be inclusive could be reduced further by having to provide services previously provided centrally by the Local Authority. The Inclusion Incentive Fund will ensure that the additional needs of all pupils are met, in an equitable, rigorous approach.
- 8.9 Additional demand for SEND places will put additional pressure on the High Needs block spend, which would also have an affect the DSG budget recovery plan as described in paragraph 5.21 above. A review will be made in-year of any impact, with a possibility at looking to request from the Secretary of State for Education a transfer of additional funds, (above the 0.5% limit), from the schools block to the high needs block of the dedicated schools grant in 2019-20.

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