

Children's and Adults' Care and Education Committee

7 February 2019

Schools' Budget Estimates and Schools' Funding Formula

Report by the Director of Children's Services

Call-in deadline 5pm on Thursday 21 February 2019 (ten working days after the meeting)

Purpose

To recommend the Schools Budget for 2019/20.

Recommendations of the Portfolio Holder for Children's Services and Portfolio Holder for Finance

To **Recommend Finance and Contracts Committee to recommend to Council** that -

1. the Schools Budget for 2019-20 be approved in line with paragraph 17 and **Annex 1** of this report;
2. the proposals outlined for the Central School Services Block be approved including the transfer of £27k to the High Needs Block (ref. paras 26-28);
3. the proposals outlined for the Early Years Block be approved, including the increase of the SEN Inclusion Fund to allow for high needs support for early years children (ref. paras. 29 - 35);
4. the proposals outlined for the High Needs Block be approved (ref paras. 36-39)
5. the proposals outlined for the Schools Block (ref. paras 20-25) and the Schools Funding Formula outlined in **Annex 2** and the Schools Allocations in **Annex 3** be approved, including a Minimum Funding Guarantee of -1.5% per pupil (ref. paras 22-23).

Benefits to the Community:

The aim of the proposals is to recommend a DSG funded education budget for 2019/20.

Key Points

- A. The Borough has been allocated £139.371m in Dedicated Schools Grant for 2019/20. This provides an overall increase in funding for 2019/20 of £663k (+0.5%).
- B. The Borough is facing a significant amount of financial pressure on services for high needs education. A cumulative overspend of up to £12m is anticipated at 31st March 2019. A draft three year transformation plan has been developed to bring annual spending back in line with Government funding through the DSG by 2021/22 whilst ensuring that the needs of pupils continue to be met.
- D. The Schools Forum have agreed a Targeted High Needs Fund of £300k for 2019/20 which constitutes a transfer from the Schools Block to the High Needs Block. No further transfers from the Schools Block are proposed.
- E. A 'minimum funding guarantee' of -1.5% is proposed for individual schools' budgets. This will ensure that no school loses more than 1.5% on their per pupil funding within their general schools budget and will ensure that schools who are protected by the 'minimum funding guarantee' continue to transition to an allocation based on the standard local formula.

- F. No change to hourly nursery rates is proposed. The rates would remain at £5.92 for two year olds and £5.21 for three and four year olds.
- G. A high needs budget of £23m is proposed with the recognition that there remains a significant budget gap for high needs services and this gap will be addressed through the SEND Transformation Plan and a further increase in the DSG deficit carried forward at the end of the financial year.

Context

1. Education services are principally funded via the ring-fenced Dedicated Schools Grant (DSG). The DSG is the main source of income for the schools budget and can only be used in the provision of education services. The Schools Budget is a ring-fenced account within the authority's overall funds and this report sets out the draft budget and funding formulae for 2019/20. The Schools Budget has been prepared in accordance with the national funding arrangements effective for 2019/20.
2. The Schools Budget funds individual schools' delegated budgets and certain defined activities for the direct benefit of pupils or schools, including special educational needs and compliance with free child care entitlements for children under the age of five.
3. The Schools Forum, as the body representing the interests of schools and academies, is consulted regarding formula changes and has the power to agree to proposals made by the authority regarding certain issues. The Schools Forum met in September and November and noted the changes regarding schools funding 2019/20 and approved central and de-delegated budgets.
4. The Kingston DSG fund has had an in year overspend for the past four years and is now in a cumulative deficit position. An anticipated deficit of up to £12m is expected at the end of the 2018/19 financial year.
5. The current level of spending on services funded by the high needs education element of the DSG is running at an unaffordable level and a draft Transformation Plan is discussed in detail on this agenda. The draft Transformation Plan aims to bring spending into line with the grant allocation by 2021 and a draft of the plan has been submitted to the Department for Education to provide assurance that the Council is developing plans to prevent this deficit escalating to unaffordable levels. The Council has undertaken a detailed consultation with all stakeholders on the proposals in the plan and the results of the consultation are discussed elsewhere on this agenda.

- Overview of Education Funding

6. On 1 April 2018 Government began the transition towards a new national funding formula for education funding. The national funding formula will be fully implemented from 1 April 2021 and 2019/20 will be a transitional year where local authorities and schools will transition towards the new formula. It will still be for the Council in consultation with Schools Forum to set a local formula to distribute this funding between schools in 2019/20 and 2020/21.
7. DSG funding is split into four blocks; the Schools Block, the High Needs Block; Early Years Block and the Central School Services Block (explained in paragraphs 8-13 overleaf). Although the overall DSG is ring fenced, the blocks themselves are not, although the amount that can be transferred is limited under the funding scheme.

8. **The Schools Block** can be broken down into two areas:

- **Schools Block (delegated)** – This funding is delegated to schools. At least 80% of the funding must be allocated through pupil led factors. These must include a basic entitlement funded through the age weighted pupil unit (AWPU) and a factor for deprivation. It can also include optional factors. In Kingston this includes a prior attainment factor to provide additional funding for schools with a high incidence of low level special educational needs, a lump sum for each school, funding for English as an additional language, a mobility rate for pupils that join after the October census date, additional funding where schools deliver services on multiple sites and funding for business rates.

There is a mandatory mechanism within the funding formula to limit variations in the amount of funding received by schools from this block. The Minimum Funding Guarantee (MFG) limits the maximum reduction to minus 1.5% on per pupil funding and is funded by applying a cap to schools that may have received more funding. The schools block operational guidance clearly outlines that the cap may only be applied to offset the MFG and must be applied consistently for all schools. The MFG can be set at a level between plus 0.5% and minus 1.5%.

- **Schools Block (growth fund)** – This funding is top sliced from the DSG to support growth in pre-16 pupil numbers to meet basic need and to support additional classes needed to meet the infant class size regulations.

9. **The High Needs Block** supports provision for pupils with special educational needs or disabilities (early years to 25) and provision for children who receive an alternative provision because they are unable to attend school.

10. At a very summary level, maintained schools, academies and free schools receive £10k per place (£4k from Schools Block and £6k from High Needs Block) where the place is within a SEN Unit, Specialist Resourced Provision or Pupil Referral Unit (core funding). The Local Authority agrees a separate per pupil funding for children under the age of five. Where the cost of making the special educational provision required by a pupil cannot be met from the place funding, the local authority provides additional 'top up' funding.

11. The High Needs block also pays for placement in independent schools and colleges and non maintained special schools where these placements have been named in a pupils' EHCP, usually because the pupil cannot be supported in a maintained school or academy or mainstream college.

12. **The Early Years Block** supports pupils under the age of five in maintained schools, academies, relevant pupils in private, voluntary and independent providers and under fives in alternative provision.

13. **The Central Schools Services Block** provides funding for central functions and for services that schools wish to procure centrally from the Council. Examples include the Admissions Service and a contribution towards the Emotional Health Service.

- Government Education Funding Settlement 2019/20

14. The draft 2019/20 Dedicated Schools Grant (DSG) allocation for Kingston is £139.371m compared to £138.707m in 2018/19. The 2018/19 allocation included a £3m one off advance from Government in response to the high needs education pressures being faced by the Council. In total this provides increased funding of £664k (+0.5%) including the one off amount and £3,664k (+2.7%) when excluding the one off amount. The grant amounts include funding for both maintained schools, academies and high needs funding paid out directly by the Education Skills Funding Agency (ESFA). A proportion of the Schools Block and High Needs Block relating to academies and non-maintained special schools will be recouped by the ESFA for payment directly to these organisations. The following table breaks down the grant allocation by block:

Block	2018/19 Allocation (£m)	2019/20 Allocation (£m)	% change
Schools Block	99.864	102.924	3.06%
Central School Services Block	1.090	1.107	1.56%
High Needs Block	25.266	22.849	-9.57%
Early Years Block	12.487	12.490	0.02%
Total DSG	138.707	139.370	0.48%

15. The key changes in the Government allocation result from:
- increased pupil numbers and increased rate of funding for mainstream schools
 - one-off high needs advance received in 2018/19
 - increased high needs funding in Government Grant allocation.

- Pupil Premium

16. The pupil premium is additional funding for publicly funded schools to raise the attainment of disadvantaged pupils of all abilities and to close the gaps between them and their peers. Pupil Premium for maintained schools remains a separate grant from the DSG. The allocations for 2019/20 will be calculated using the Spring 2018 schools and alternative provision censuses. The rates are as follows:

	2018/19 £ per pupil	2019/20 £ per pupil
Pupil Premium Rates	1,320	1,320
Primary pupils based on free schools meals ever 6	935	935
Service children	300	300
Children looked after / adopted from care	1,900	2,300

PROPOSALS

- Application of the DSG in 2019/20

17. The proposed application of the 2019/20 DSG is summarised in the following table. As DSG allocations to each block are not ring-fenced, the totals for each block do not need to match the DSG block provisions set out above.

Block	2019/20 Allocation (£m)	Movement (£m)	2019/20 Application (£m)
Schools Block	102.924	-0.300	102.624
Central School Services Block	1.107	-0.027	1.080
High Needs Block	22.849	0.327	23.176
Early Years Block	12.490	0.000	12.490
Total DSG	139.370	0.000	139.370

18. The DSG Operational Guidance allows certain amounts to be transferred between blocks to fund specific pressures and allow for local circumstances. Transfers from the Schools Block and Early Years Block must be approved by Schools Forum. Transfers from the High Needs Block and Central Schools Services Block must be done in consultation with Schools Forum but are ultimately a Council decision. If the Local Authority wishes to overrule a Schools Forum decision or disregard a funding formula rule then an application can be submitted to the Secretary of State.
19. At its meeting in November 2018, the Schools Forum agreed to allocate £300k from the Schools Block to create a 'targeted high needs fund'. This money will be used to provide additional funding to schools who support a disproportionate number of pupils requiring SEN support.

- Schools Block

20. The funding formula for the Schools Block has been discussed by the Schools Forum and this formula has now been rerun with the actual data from the October 2018 census. The Schools block budget is proposed at £102.624m as follows:

	2019/20 Budget (£m)
Schools budgets	101.886
Schools budgets de-delegated for centrally delivered services	0.471
Growth fund paid to schools requiring additional classes	0.267
	102.624

21. Details of the proposed 2019/20 formula are shown in **Annex 2** and details of the allocations to individual schools are shown in **Annex 3**.
22. A Minimum Funding Guarantee (MFG) of between 0.5% and -1.5% can be applied in 2019/20 under the funding formula rules. Where a school's funding under the local funding formula reduces from 2018/19 to 2019/20, the MFG limits the loss in per pupil funding. This protection is funded by capping the amount other schools can gain. The MFG is intended to be a time limited mechanism to move a school towards being funded in line with the formula allocation. Six schools qualify for MFG funding in 2019/20.

23. The Committee is recommended to approve a Minimum Funding Guarantee of -1.5%. This will ensure that no school's per pupil funding element reduces by more than 1.5% and that schools accessing this transition funding continue to move towards being funded on the same basis as those schools who are not accessing this transition funding. Schools funding the MFG at this level will have their increases per pupil capped at 4.16% per pupil.
24. The Schools Block allocation must fund the Growth Fund which supports the funding of new classes which are necessary from September 2019. These additional classes are not funded through the DSG allocation from Government until the following April. The Growth Fund also provides protection for schools who support the borough in providing bulge classes where there is a shortfall of pupil places. The Growth Fund is estimated at a value of £268k.
25. Schools Forum have also agreed to fund a number of items centrally. This money forms part of schools' budgets and is de-delegated to the Council for the provision of the agreed services. The budgets were agreed by Schools Forum in September and November 2018 as follows:

De-delegation Budget	Phase	Budget (£m)	Per Pupil Rate £
Business Rates contingency	Primary and Secondary	0.072	6.19
Behaviour Support	Primary	0.268	23.95
Support to underperforming ethnic groups and bilingual learners	Primary	0.131	11.67
Total		0.471	

- Central School Services Block

26. In September and November 2018 the Schools Forum were consulted on and agreed a number of items to be funded from the Central School Services Block. These items are detailed in the table below and it is recommended that any unallocated funds are transferred to the High Needs Block to be spent on high needs early intervention services.

Service	Budget (£m)
St Phillips capital build	0.141
Emotional Health Service	0.11
Family Support Team	0.054
Historical Commitments	0.305
Copyright Licences	0.116
Servicing School Forum	0.001
School Admissions	0.245
14-16 Commissioning	0.099
Education Services Management	0.102
Individual Pupil Support	0.042
Governor Services	0.055
Virtual School	0.115
Ongoing Functions	0.775
Transfer to HNB for SEND Transformation Plan	0.027
Total Central Schools Service Block	1.107

27. Following discussions with Schools Forum, regarding the funding of historic borrowing that enabled capital expenditure on St Philip's School between 2005 and 2011 it has been proposed that the Council will match fund this amount by allowing £141k investment from the general fund to provide pump priming for high needs priorities.
28. The Committee are asked to approve the application of the Central Schools Services Block.

- Early Years Block

29. The Early Years Block comprises funding for the free early education entitlements for three and four year-olds and disadvantaged two year olds, supplementary funding for maintained nursery schools; the early years Pupil Premium, the Disability Access Fund, the SEN Inclusion Fund and centrally provided early years services.
30. The Government allocation is £12.49m for 2019/20. Government are providing the same hourly rate of funding as in 2018/19 with rates frozen at £5.92 per hour for two year olds and £5.77 per hour for three and four year olds. The Local Authority must set local hourly rates that provide for central services that are needed in the local area. At least 95% of the Government funding for three and four year olds must be passported directly to providers.
31. The following table breaks down the proposed budget for 2019/20 by the various elements:

	2018/19	2019/20
	£	£
Central early years services	339,200	321,200
SEND Inclusion Fund	278,000	545,965
Three and Four year old funding	11,535,617	10,433,250
Two year old funding	1,108,378	1,082,957
Disability Access Funding	34,440	32,595
Early Years Pupil Premium	21,348	21,348
Maintained Nursery School supplementary funding	48,017	52685
TOTAL	13,365,000	12,490,000

32. The proposed hourly rates for the 2019/20 financial year are detailed in the table below. The rates passport 100% of Government funding for two year olds to providers and over 97% of funding for three and four year olds to providers. These rates have been discussed with and are also recommended by Schools Forum.

Early Years Funding Factor	2 year olds 2018/19 £	3 & 4 year olds 2018/19 £	2 year olds 2019/20 £	3 & 4 year olds 2019/20 £
PVI Hourly Rate	5.92	5.21	5.92	5.21
Nursery School Hourly Rate	5.92	5.21	5.92	5.21
Nursery Class Hourly Rate	5.92	6.11	5.92	6.11
Social Deprivation	n/a	2.16	n/a	2.16
Social Deprivation IDACI	n/a	0.282	n/a	0.282

33. The recommended rates provide for an increase in the SEN Inclusion Fund from £278,000 to £545,965 in 2019/20. From 2017/18 all boroughs were required to set a budget aside to provide for a SEN Inclusion Fund. The DfE believe such a structure will support local authorities to work with individual providers to resource support for the needs of individual children with SEN. It will also enable local authorities to carry out an effective strategic role in their local area to increase the capacity of their childcare market so that it appropriately supports and develops children with SEN in the early years. The DfE believe that an aspect of the local funding system dedicated to supporting children with SEN will help local authorities in developing their plans for strategically commissioning services as required under the Children and Families Act 2014.
34. This year an additional SEN budget is recommended to pay for high needs places and support packages for nought to five year olds that were previously funded from the high needs block. This forms part of the SEND Transformation Plan and will ensure that these services for young children can continue next year. The impact of using early years funding for these services will be that less funding is available to be passported through the standard hourly rate to providers. The money will instead be given to providers, who support children with SEND under the age of five, in the form of specialist nursery places and support packages. The rate will essentially need to be maintained at £5.21 , 2018/19 levels, rather than increased to £5.35 per hour. The level of SEN inclusion fund has been discussed with Schools Forum and is recommended as follows:

SEND Inclusion Fund	2018/19	2019/20
	Budget	Budget
	£	£
Termly Inclusion Fund	136,000	136,000
Discretionary Fund	17,000	17,000
High Needs Access Fund	17,000	17,000
Early Years Advisory Teacher	29,000	29,000
Early Years Enhanced Support provider Funding	79,000	79,000
Units/Top ups for children without EHCP	-	267,965
SEND Inclusion Fund	278,000	545,965

35. The rates allow for the following central services to be funded from the Early Years Block. These items were discussed and agreed by Schools Forum in January 2019:

Central Items	2018/19	2019/20
	Budget	Budget
	£	£
Early years advisory service	242,700	242,700
Home visits services for children with SEND	96,500	78,500
TOTAL	339,200	321,200

- High Needs Block

36. Financial pressure has continued on the demand-led SEN budgets within the High Needs Block. Last year, the budget report and associated documents outlined a number of actions that would be implemented to control the position in 2018/19. These actions have been partially successful in that the in-year overspend would be worse if they were not implemented but the actions have not gone far enough in bringing the fund back to an in year balanced position.

37. The proposals outlined in this report allow for a DSG funded high needs budget of £23m. If no further action is taken there is an estimated gap of between £5m and £7m next year. This level of overspend is not affordable for the Council and therefore a draft three year Transformation Plan has been developed to ensure that the Council can continue to meet the needs of children and young people whilst working towards a position where the cost of supporting children and young people who need additional support with their education is brought more into line with the amount of money that is provided by Government for these services.
38. The draft Transformation Plan aims to ensure that education services are brought in line with Government funding levels by 2021/22. It is anticipated that the Council will need to spend more than £23m next year to ensure that whilst transformation plans are introduced the Council continues to provide appropriate support to pupils and their families. The draft Transformation Plan was presented to this Committee in December 2018 and is also discussed in detail elsewhere on this agenda. The detail of the plan is being discussed on an ongoing basis and will be reviewed periodically to ensure that it reflects the latest information in terms of what is achievable and also the desired approach of partners and stakeholders. The plan will be considered again by all relevant partners at the Health and Wellbeing Board in February 2019.
39. A high needs budget of £23m is proposed with the recognition that there remains a significant budget gap for high needs services and this gap will be addressed through the SEND Transformation Plan and a further increase in the DSG deficit carried forward at the end of the financial year. The demand-led SEN budgets will continue to be closely monitored throughout 2019/20 and regular updates provided to both Schools Forum and the Council in terms of progress against the Transformation Plan and associated expenditure levels.

Consultations

40. All primary and secondary schools (academies and maintained) were consulted on the local formula. The Schools Forum considered these proposals at their meetings in September and November 2018.
41. A series of meetings have been held with schools to explore the options that are available to bring spending more in line with the grant allocation. Attendees have included head teachers, Councillors, Council officers and AfC officers.
42. The Council has undertaken a detailed consultation on the Transformation Plan with all relevant stakeholders. The results of this consultation are discussed elsewhere on this agenda.

Timescale

43. The Council are required to set a DSG budget as part of its annual budget setting process and in advance of the Council Tax being set in March 2019.

Resource Implications

44. The full Dedicated Schools Grant allocation will be used for Schools related services in line with the guidance.
45. It is untenable to continue the current level of expenditure within the High Needs Block compared to the resources available from the Dedicated Schools Grant. This situation is unsustainable for both complying with DfE requirements for the DSG and for the wider Council's financial health.

Legal Implications

46. The Council is required by the School Standards and Framework Act 1998 to set a non-schools education budget and a schools budget each year and to provide delegated funding to schools from the schools budget in accordance with the Schools and Early Years Finance Regulations and DfE Guidance. The Dedicated Schools Grant is a specific grant under the Education Act 2002 provided to support the schools budget. The DSG is the main source of income for the schools budget. The Council is required to comply with the published conditions of grant for the DSG. Relevant conditions and Operational Guidance are referenced in the report above.
47. Education funded by the High Needs Block of the DSG is provided to meet the Council's statutory duties under section 19 of the Education Act 1996 to provide education for pupils needing alternative education and the Council's statutory duties under the Children and Families Act 2014 to meet the needs of pupils and young people up to the age of 25 with special educational needs.
48. The Council has duties under the Children and Families Act to make special educational provision for children and young people whose needs cannot reasonably met from the resources normally available to schools and post-16 institutions. If provision from the Council may be necessary, the Council is required to carry out an assessment of a child or young person's education health and care needs. Following assessment, the Council must make and maintain an education health and care plan for the child or young person if it is necessary for the local authority to make special educational provision for them.
49. Where the Council maintains an EHCP for a child or young person, it must arrange and fund the special educational provision set out in the Plan and must name an appropriate school or college placement. Placement decisions must be made with regard to parental preference and the efficient use of resources as well as avoiding unreasonable public expenditure. Where an independent or non-maintained school or college is named in an EHCP, the local authority is under a duty to pay any fees for the placement. Parents and young persons have the right of appeal to an independent tribunal if a request for an EHC assessment is refused and about the content of an EHCP, including the placement named. Decisions about provision to meet special educational needs under the High Needs Block are therefore based on need and are subject to independent scrutiny. Any reduction in provision which would mean that the Council was not able to make a decision based on individual needs or fully provide for special educational needs as set out in EHCPs is likely to lead to legal challenge.
50. The overspend on the High Needs Block will need to be addressed in the context of ensuring that the Council continues to be able meet its statutory duties under the Children and Families Act 2014. The Council will also need to have regard to its duty under the Equality Act to have due regard to the need to eliminate discrimination, harassment and victimisation and other conduct prohibited by the Act and to advance equality of opportunity and foster good relations between those who share a 'protected characteristic' under the Act and those who do not share a protected characteristic. A 'protected characteristic' is defined in the Act as age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation. The Council must also ensure that its functions are discharged having regard to the need to safeguard and promote the welfare of children under section 11 of the Children Act 2004.

Risk Assessment

51. The demand led nature of the high needs spend means that expenditure levels can be volatile. A single high cost placement can cost in excess of £250k per year. The DSG budgets are monitored at a detailed placement level to ensure that information for decision making is accurate and up to date.
52. The 2019/20 budget setting process for education in Kingston has been complicated by the significant difference in funding and expenditure levels for Kingston pupils requiring additional support with their education (high needs). The decisions about how to prioritise the funding that is available, must be considered alongside the associated risks of those decisions and impacts on pupils who access all categories of DSG funding.

Equalities Impact Assessment

53. An equality assessment is being completed to assess the impact of the proposals in the Kingston SEND Transformation Plan. This includes the recommendations set out in this report relating to the schools budget.

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- None other than those referred to in this report