

REGULATORY AND OTHER COMMITTEE REPORT

NAME OF COMMITTEE:	Schools Forum
DATE OF MEETING:	12 January 2017
SUBJECT:	School funding arrangements 2017/18
REPORT BY:	Mark Popplewell (Head of Finance – Children's Services)
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IS THE REPORT EXEMPT?	No
IS REPORT CONFIDENTIAL?	No

SUMMARY

The purposes of this report are to:

1. brief the Schools Forum on school funding arrangements for 2017/18; and
2. seek support for the Local Authority's (LA) proposals relating to a number of centrally held budgets.

DISCUSSION

Background

The government is not planning to make any changes to the school funding arrangements for mainstream schools in 2017/18. The government's direction of travel is to introduce a schools national funding formula, which is planned to be introduced in 2018/19 (a year later than expected). It is intended to provide greater consistency and fairness in funding across the country.

On the 7 March 2016, the government announced the stage 1 consultation for a schools national funding formula, which outlined the principles that would underpin the proposed formula and the pupil

characteristics and factors to be included within the formula. The stage 2 of the consultation was delayed until the 14 December 2016 with the proposed implementation being pushed back to 2018/19. The consultation documents can be found from the link below.

<https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula2/>

The consultation closing date is 22 March 2017. An additional Schools Forum meeting date is planned for February 2017 to discuss the consultation document. The LA encourages all schools to respond to the consultation (via the portal) considering the implications to the national funding formula from a school level perspective in particular.

A high needs national funding formula consultation is also out for stakeholder consideration with a closing date of 22 March 2017. The government's objective for high needs funding is to provide a better distribution of funding to LA's, which is much more closely matched to need. The consultation documents can be found from the link below.

<https://consult.education.gov.uk/funding-policy-unit/high-needs-funding-reform-2/>

Since the 5th October 2016 Schools Forum meeting, the LA has:

1. Completed the DfE's draft APT for mainstream schools for 2017/18 (released in October 2016) that uses October 2015 pupil data.
2. Submitted a high needs return to the DfE for places in academies (special and mainstream schools); FE institutions, and non-maintained special schools for the 2017/18 academic year (25 November 2016) following a consultation exercise.
3. Reviewed the DfE's December 2016 announcement on DSG block allocations for 2017/18, and the updated schools funding operational guidance.
4. Reviewed and proposed provisional DSG centrally held budgets for 2017/18, as set out in this report.

A significant amount of further work still remains up to 28 February 2017 before schools budgets can be published.

The government has released a number of important documents in late December 2016 involving schools-related funding for 2017/18. In the short amount of time available since these publications, officers have considered the implications of these changes, which have been included within this report, however officers will continue to review these government publications and update the Schools Forum where necessary.

School funding announcements

The schools revenue funding 2017 to 2018 operational guidance published by the DfE on 1 December 2016 can be found at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/573282/Schools_revenue_funding_guide_Nov_2016_FINAL.pdf

The information confirms that the operation of the DSG will remain largely unchanged:

1. The DSG remains a ring-fenced grant that can only be used in accordance with the DfE's regulations.
2. The DSG will continue to be set out in three blocks: a schools block; an early years block, and; a higher needs block.
3. The DSG blocks have been re-baselined to reflect LA's current spending patterns (within their existing funding envelope).
4. That no LA will see a reduction from their 2016/17 funding (adjusted for the baseline exercise) on the schools block of the DSG (per pupil funding) or the high needs block (cash amount).

5. The Minimum Funding Guarantee (MFG) will continue to apply and will again be set at minus 1.5% per pupil for 2017/18. The MFG excludes sixth-form funding and academies Education Support Grant funding.
6. The schools block will continue to be based primarily on the preceding October census, but an uplift will be made to ensure that no LA loses out as a result of a child's deferred entry to reception.
7. The early years block will again be updated after the start of the financial year. For 2017/18, the block uses data from the January 2016 census, but this will be updated in 2017/18 for the January 2017 census (5/12ths) and for the January 2018 census (7/12ths). The early years block funding will continue to be based on participation.
8. The early years block takes into account the funding changes from the government's early year's national funding formula (EYNFF) that is being implemented in April 2017 following consultation in autumn 2016.
9. The government has announced an additional £130m increase nationally in DSG high needs funding for 2017/18.
10. The LA's Chief Finance Officer will continue to be required to confirm that the DSG has been deployed in support of the Schools Budget. This duty will be discharged via the s.251 outturn statement and by appending a note to the LA's statements of account.

2017/18 DSG allocations

The DSG allocations announced by the DfE on 20 December 2016 are set out below.

Table 1: Lincolnshire's 2017/18 DSG block allocations

Block	Lincs £m	Lincs £ per pupil	England £ per pupil
Schools Block	403.446 ¹	4,305.40	4,618.63
Early Years block	36.772 ²	n/a	n/a
High Needs block	75.731 ³	n/a	n/a
Total	515.950	n/a	n/a

It is clear from Table 1 that in 2017/18 there still remains a significant differential between Lincolnshire's per pupil funding rate for mainstream schools and the national average. The schools national funding formula government consultation (stage 2) that is planned for 2018/19 is intended to provide fairer funding right across the country.

The early years block takes into account the allocations of the government's EYNFF that is being implemented in April 2017 following consultation in the autumn 2016. The LA is working with the sector to determine a new early year's formula in light of the government funding changes. An additional Schools Forum meeting date is planned for February 2017 to discuss this report also. Lincolnshire EYNFF universal entitlement rate established by the government has been set at the minimum funding rate of £4.30 per hour per pupil – this is in comparison to national average rate of £4.78. Differential rates across LA's have been created through the application of an area cost adjustment across the formula factors, and the estimated pupil numbers meeting the proxy indicators of free school meals and English as an additional language, and data for disability access funding.

¹ This incorporates the 2016/17 baseline exercise across the three notional DSG blocks undertaken by LA's and the Education Services Grant retained duties rate transfer into the DSG Schools block for 2017/18 (£1.530m).

² This includes indicative allocations of £25.060m for 3 & 4 year old funding (up to 15 hours); £4.582m for addition 3 & 4 year old entitlement for working families; transition funding of £0.592 for maintained nursery schools; £0.498m for early years pupil premium funding; £0.135m of disability access funding, and £5.905m for disadvantaged 2 year old funding.

³ This incorporates the 2016/17 baseline exercise across the three notional DSG blocks undertaken by LA's. In addition to the £1.496m share of the c.£130m additional funding provided nationally by government for the higher needs block, a £1.342m transfer from the post-16 budget for places in FE colleges and post-16 CCP has also taken place in 2017/18.

Lincolnshire's indicative allocation for addition 3 & 4 year old entitlement for working families is £4.582m, which represents the period September 2017 to March 2018. Funding from government is at the same rate as the early year's entitlement up to 15 hours.

Funding for the most disadvantaged 2 year olds is being uplifted in 2017/18 by central government. Lincolnshire's hourly rate per pupil is £5.20 compared to the national average of £5.39. Further details on early years funding from government and funding to providers will be disclosed within the additional Schools Forum date in February 2017.

The high needs block is also under review and the consultation for a high needs national funding formula is running in parallel with the mainstream schools national funding formula, including the planned implementation in 2018/19. For 2017/18, the government is to provide c.£130m of additional funding to LA's to respond to the growing challenges facing the high needs block – Lincolnshire's allocation is £1.496m.

Pupil premium announcement

The funding for the pupil premium in 2017/18 will be protected at the 2016/17 current rates, which are:

1. £1,320 per primary pupil who is currently eligible for free school meals (FSM) or has been eligible for FSM in the past 6 years.
2. £935 for secondary FSM 'Ever 6' pupils.
3. £1,900 for looked-after children. Eligibility criteria includes those pupils who is in the care of, or provided with accommodation by, an English local authority defined in Children Act 1989, or; have left care under a special guardianship order, a residence order, a child arrangement order, or because of adoption.
4. £300 per pupil for service premium.
5. £0.53 per hour early years pupil premium for each eligible three and four year old up to the full 570 hours of free education entitlement.

Pupil premium allocations for financial year 2017/18 will be published in June 2017 following the receipt of pupil number data from the spring 2017.

Further details are available at:

<https://www.gov.uk/government/publications/pupil-premium-conditions-of-grant-2017-to-2018>

UIFSM

The grant for universal infant free school meals (UIFSM) continues at a meal rate of £2.30 for the 2017 to 2018 academic year. Further details will be made available shortly by government.

DSG School Budgets 2017/18

Work is underway in calculating the budget allocations for individual schools through the LA proforma tool, which requires submitting to the DfE by the 20th January 2017 for approval.

The LA needs to consider affordability issues when calculating schools budgets, particularly in light of the government's formula factors criteria changes for 2017/18:

1. Prior Attainment (Secondary): the 2016 KS2 assessments are the first year that assesses the new more challenging national curriculum. A national weighting of 48.02% has been established to ensure that this cohort does not have a disproportionate influence within the overall total.
2. Deprivation (IDACI): the IDACI datasets were updated nationally in 2015, but the DfE has redesigned the IDACI bands for 2017/18 to return them to a similar size cohort nationally to previous years.

Both of the criteria changes may have an impact on individual LA's. The LA's objective is to continue providing stability in funding for schools whilst maintaining the affordability of the current levels of DSG.

The LA has no plans to change the local school funding formulae for 2017/18 subject to affordability.

DSG Central budgets 2017/18

As stated in previous years, it is important that the LA takes a prudent approach to the setting of central budgets within the DSG. This is necessary because:

1. Since the 2013/14 school funding reforms, the LA has been able to retain far fewer budgets centrally and so there will inevitably be lower levels of underspendings in future years (as reported in the October 2016 Schools Forum meeting), and therefore less capacity to respond to any significant emerging issues.
2. There are a number of budgets that are difficult to estimate and control (e.g. SEN related budgets, including out of county placements and for post-16 students with higher needs).
3. There are planned funding changes for schools, early years and high needs taking place in the coming years, therefore the LA's ability to adapt / transition to them is important.
4. Under current DfE's regulations, for an overspending on the DSG to be written off in the following year, approval from the Schools Forum would be required. The LA would be unable to fund the DSG overspend from its non-DSG budgets which have and will continue to be subject to significant cuts in future years, in stark contrast to the 'cash flat' protection given by the government to the DSG.

The LA has conducted its annual review of the DSG central budgets.

The DfE regulations contain a number of provisions in relation to the setting of central budgets within the DSG:

1. The high needs block and central licences negotiated by the Secretary of State can be retained by the LA before allocating the DSG to school budgets. Schools Forum approval is not required.
2. Funding for significant pre-16 growth to meet basic need, and places in independent schools for non-SEN pupils can be retained centrally with the agreement of the Schools Forum.
3. Budgets for admissions and servicing of the Schools Forum can be retained, and for 2017/18 a financial limit no longer applies. The Schools Forum is required to confirm the amount for each budget line.
4. Capital Expenditure from the Revenue Account (CERA) and termination of employment costs can be retained centrally. No new commitments or increase in expenditure above 2012/13 levels are permitted. The Schools Forum is required to confirm the amount for each budget line.

In light of these regulations, Table 2 below sets out the budgets requiring Schools Forum approval.

Table 2: Budgets requiring Schools Forum decisions

Budget	Key points	Proposed budget 2017/18 £
	<i>Under DfE regulations, the following budgets can be set at any monetary value.</i>	
Funding for significant pre-16 growth	<ul style="list-style-type: none"> • This budget is essential for the LA to fulfil its statutory duty to provide sufficient of school places for pupils. • There has been major pressure on reception places for the last five years and this has 	£2.000m

	<p>resulted in a significant number of school reorganisation in Lincolnshire.</p> <ul style="list-style-type: none"> • Funding is allocated in accordance with the LA's policy. This is when, as part of its strategic planning of places, the LA needs to ask a school to take in additional pupils above its planned admission number (PAN) temporarily or permanently. • It will continue to be the case that funding could be allocated to maintained schools or academies. • DSG funding for increases to pupil numbers is lagged for LA's until the following financial year, therefore earmarked funding is required to meet this obligation. • The budget proposed for next year is the same as that set for 2016/17. 	
Places in independent schools for non-SEN pupils (Stamford Endowed schools)	<ul style="list-style-type: none"> • The LA has a contractual agreement to purchase these places in Stamford. • The contract provides for a phased reduction over time in the number of places purchased. • The budget requirement is therefore due to decline by £0.183m next year and will continue to decline until the contract officially ends in August 2018. • Without this budget, the LA would be unable to meet its contractual liabilities and it would remain the LA's responsibility to make education provision for these young people. 	£0.240m
Broadband	<ul style="list-style-type: none"> • The budget continues to fund an aggregated broadband provision to all schools (including academies). • The budget proposed for next year is the same as that set for 2016/17. 	£1.6m
Admissions	<ul style="list-style-type: none"> • The LA has a statutory duty to operate the admissions arrangements in county schools. • Without this budget, the LA would be unable to fulfil its statutory duties. • The LA has the ability to propose an increase to the admissions budget, however the LA's budget proposed for next year is the same as that set for 2016/17. 	£0.449m
Servicing of the Schools Forum	<ul style="list-style-type: none"> • Historically, the cost has been very modest. • Without this budget, the Schools Forum would find it difficult to operate effectively. • It is proposed that the same budget for 2016/17 is set for 2017/18. 	£0.020m
Central expenditure from revenue (CERA)	<ul style="list-style-type: none"> • This funds the PFI contractual commitments for the seven schools built under PFI a decade ago. • Without this budget, the LA would be unable to finance the on-going costs of these historic, contractual commitments. 	£1.180m

The budgets proposed above are prudent and have been determined following a detailed review.

Some minor refinements to these budgets may be necessary in light of officers' on-going work, but material changes are not expected. In accordance with established practice, the LA will report to Schools Forum in April 2017 the final budgets for 2017/18, as set out in the s.251 budget statement which has to be published by 31 March 2017. Any material changes from the figures reported here will be communicated to the Schools Forum at that time.

Members from the relevant sections of the Schools Forum agreed the de-delegation of a number of budgets at its meeting on 5 October 2016. Those decisions will be reflected in the LA APT that will be submitted to the DfE on the 20 January 2017.

Proposed New Service

The LA is to commission a new Emotional Wellbeing Service in Lincolnshire for school-aged children and young people that will provide direct intervention support for those experiencing emotional wellbeing concerns that do not currently meet the thresholds for other services, for example Child and Adolescent Mental Health Services (CAMHS). The LA is to fund from Council budgets £1m p.a. to commission this service for 3 years initially plus an option for a further 2 years. Children's Services is unable to commit further funding due to the financial restraints facing the Council following the sustained government reductions in funding since the 2010 Comprehensive Spending Review.

Appendix 1 outlines a proposal that the DSG match funds the Council's investment of £1m p.a. This additional investment would increase the volume of support available to schools and would provide additional resources to introduce and support schools to implement early intervention school based programmes. The service objectives are to provide support and stability to pupils and families, which will likely provide greater opportunities for pupils to achieve their full potential. Stability in pupil placements will also provide an invest to save solution.

Lincolnshire will receive £1.496m of high needs funding from the £130m government funding nationally distributed in 2017/18 to support growth and complexity in the sector. Following a review of centrally held budgets in the DSG, the LA proposes to use £1m of this high needs increase to support the proposed Emotional Wellbeing Service, therefore creating a £2m p.a. service. Other DSG funding options have been explored (for example, use of the DSG underspend; contributions from schools delegated budgets; buyback arrangement), but the high needs budget is the most sustainable option and has the least funding implications on schools. It is the LA's decision to fund central spend on high needs block provision, but it is good practice to consult with the Schools Forum where the LA proposes to enter into a contract funded in full or in part by the DSG. The LA therefore asks the Schools Forum to support the proposal of £1m p.a. to be funded from the high needs block.

The proposal outlined above is affordable based on the LA's current funding levels, but it must be noted that the government's planned changes in schools and high needs funding which is currently being consulted on creates uncertainties for all. The consultation does however suggest suitable transition for funding changes over the current parliament. If affordability of the £1m p.a. high need budget contribution becomes an issue, the LA will bring this back to the Schools Forum for consideration.

Education Services Grant announcement

The Chancellor announced in the autumn 2015 spending review that £600m savings will be made from the Education Services Grant (ESG). It has now been confirmed by government that the savings will be achieved by removing the general duties rate funding from 2017/18. The government has provided further information to the funding arrangements for these school support functions for 2017/18. This can be found within the schools revenue funding 2017 to 2018 operational guidance.

General Duties Rate

The general duties rate relates to the responsibilities LA's hold for maintained schools only.

The 2016/17 rate of £77⁴ per maintained school pupil provided by the government will end. The financial implication to Lincolnshire of this government decision is a reduction in funding of £3.088m. The government will however provide transitional funding to the LA's for the period April - August 2017 at a rate of £66 per pupil, however from September 2017 this funding source will end. The general duties rate functions include:

1. Statutory and Regulatory Duties: monitoring compliance with requirements in relation to the scheme for financing schools; consistent financial reporting; investigations of employees or potential employees; HR corporate duties; compliance with duties under health and safety; investigations and resolution of complaints relating to maintained schools.
2. Asset Management: general landlord duties for all maintained schools to ensure the buildings have appropriate facilities; reasonable weather resistance; safe escape routes; adequate water supplies and drainage; playing fields to the appropriate standard; general health & safety duty as an employer for employees etc.
3. Monitoring national curriculum assessments.

The government will amend the regulations to allow LA's to retain some of their schools block funding to cover the statutory duties that they carry out for maintained schools only, which were previously funded through the ESG. The amount to be retained by the LA for the period September 2017 to March 2018 will need to be agreed by the relevant maintained schools members of the Schools Forum. A single rate would be set, and for maintained schools a deducted from a schools basic entitlement funding would be required.

No funding will be retained in the schools block for statutory duties relating to maintained schools only for the period September 2017 to March 2018. The LA will be undertaking a review of all its statutory duties and associated budgets for maintained schools only during 2017/18 with the intention of bringing a paper to the Schools Forum for consideration for 2018/19 funding level requirements.

Retained Duties Rate

The retained duties rate relates to the responsibilities LA's hold for all schools.

Funding previously allocated through the ESG retained duties rate (£15 per pupil⁵) will be transferred into the schools block of the DSG in 2017/18 – these are additional monies being added to the DSG. This amounts to £1.530m for Lincolnshire. The government will allow LA's to fund those central services previously funded within the ESG retained duties rate funding source (for all schools), with the agreement of Schools Forum.

The government notification in December 2016 for these ESG funding changes has not allowed LA's time to undertake thorough reviews in response to these changes. The £15 per pupil rate was established nationally with limited involvement of LA's following the change from the previously termed Local Authority Central Spend Equivalent Grant (LACSEG) funding. This rate per pupil could therefore be much greater in reality for individual LA's.

In light of the current time constraints and the requirement for Schools Forum approval to take place before March 2017, the LA proposes that the existing funding level of £1.530m is retained in the schools block for 2017/18 (which has no funding implications on schools existing delegated funding) to fund the following responsibilities that support all schools in Lincolnshire:

1. Statutory & Regulatory Duties: revenue budget preparation, preparation of income & expenditure relating to education; administration of grants to schools; authorisation and

⁴ ESG general duties rate is calculated using maintained pupil numbers, since it funds activities for maintained schools only.

⁵ ESG retained duties rate is calculated using maintained and academy pupil numbers. The services relate to responsibilities the LA holds for all schools.

monitoring of expenditure not met by the schools budget shares; formulation and review of LA schools funding formula; director of children's services duties relating to schools, planning for the education services as a whole, to name the key duties.

2. Education Welfare: functions in relation to the exclusion of pupils from schools, and school attendance.
3. Asset Management: management of the LA's capital programme; review of an asset management plan, including private finance transactions, and, general landlord duties for all buildings owned by the LA, including those leased to academies.

The LA will remain committed to undertaking a comprehensive review of the responsibilities and associated budgets that support all schools during 2017/18 with the intention of bringing a paper to the Schools Forum for consideration relating to 2018/19 budgets.

The government has not included the school improvement function responsibilities within the newly defined ESG duties for maintained schools only and all schools, but will create a separate grant instead covering those statutory intervention functions and services, such as monitoring and commissioning of school improvement support. The LA is waiting for further information including grant allocations from the government however it is likely to create financial challenges to the LA based on the current sector-led school arrangements.

The financial outlook for the Council and Children's Services

The Executive are currently consulting on a one year financial plan for revenue and capital budgets. For the third year running the Council is only able to set a one year budget. This is due to the continued significant reductions in government funding, growing cost pressures from demand led services such as adult and children's social care, waste disposal and the Council's responsibility to pay staff and contractors the National Living Wage. These pressures mean the Council does not consider it practicable, at present, to develop sustainable long term financial plans beyond the next twelve months.

In developing its financial plan the Council has considered all areas of current spending, levels of income and council tax and use of one off funding (including use of reserves and capital receipts) to set a balanced budget. The budget proposals take a mixed approach to meeting the current challenges of reduced levels of local government funding. Savings identified from service and corporate budgets, plus a proposed increase in Council Tax, the use of reserves and the use capital receipts to fund the cost of transformation will be used to set a balanced budget for 2017/18.

The Council's total income is £426.704m in 2017/18 with planned expenditure including cost pressures of £491.935m. This creates a significant budget shortfall of £65.231m. The total value of planned savings for 2017/18 is £39.172m leaving £26.059m to be met from the use of one-off reserves.

During the next twelve months the Council will need to explore further opportunities to bridge the gap between the funding available and levels of expenditure taking into account further income reductions in government funding.

The situation for the Council obviously has a major bearing on Children's Services budget of £105.113m (2016/17). The challenge of contributing towards the Council's savings target is much more difficult for Children's Services in Lincolnshire, given that the home to school / college transport budget is significant (c.£25m p.a.) and much greater than almost all other LAs, and a significant proportion (c.45%) is children's social care. Nevertheless, plans are being developed to contribute towards the Council's savings targets.

In summary, the Council faces very significant financial challenges beyond 2016/17 and this is likely to have an impact upon Children's Services budgets in future years.

Next steps

Officers will continue to review the government's publications that implicate 2017/18 funding including amendments to the DfE's School and Early Years Finance Regulations, to ensure full compliance is achieved in 2017/18.

The revised proforma for mainstream school budgets is due to be sent to the DfE by 20 January 2017. It will reflect the proposals reported to and supported by the Schools Forum on 5 October 2016.

Under the DfE regulations, the LA is required to publish mainstream (excluding sixth form funding) and special schools budgets by the 28 February 2017. The LA will however endeavour to publish all budgets as early as possible.

RECOMMENDATIONS

The Schools Forum is asked to:

- a. Note the content of the report.
- b. Support the LA's proposals for the setting of the central budgets shown in Table 2 above.
- c. Support the LA's proposals to contribute £1m annually from the high needs block for the Emotional Wellbeing Service.
- d. Support the LA's proposals for holding centrally the retained duties rate funding transfer (former ESG funding) into the DSG to fund the service responsibilities LA's hold for supporting all schools in Lincolnshire.

BACKGROUND PAPERS

The following reports were relied upon in the writing of this report.

PAPER TYPE	TITLE	DATE	ACCESSIBILITY
Report	De-delegation of Maintained Primary School Budget 2017/18 and 2018/19	5 th October 2016	County Offices, Newland, Lincoln
Report	Revised Schools Budget 2016/17	5 th October 2016	County Offices, Newland, Lincoln
Report	Schools Revenue Funding 2017/18	5 th October 2016	County Offices, Newland, Lincoln

APPENDICES

Appendix 1: New Emotional Wellbeing Service for Children and Young People