

# Southend-on-Sea Borough Council

Report of Deputy Chief Executive - People  
and Director of Finance and Resources

to  
**Education Board**

on  
**5 December 2017**

**Agenda  
Item No.**

Report prepared by:  
Ian Ambrose, Group Manager, Financial Management  
Paul Grout, Senior Finance Business Partner

---

## **Forecast Outturn for Dedicated Schools Grant 2017/18 and Schools Budget 2018/19**

---

### **1 Purpose of Report**

To update the Schools Forum on the anticipated outturn for the 2017/18 schools budget, to present a draft 2018/19 schools budget and outline some expected future financial pressures

### **2 Recommendations**

Education Board are asked to

#### **In relation to 2017/18**

- 2.1 Note the anticipated outturn for the 2017/18 schools budget, and the consequential forecast impact on resources for 2018/19;

#### **In relation to 2018/19**

##### **Schools Block**

- 2.2 Note that at the October 2017 meeting, Education Board agreed it was minded that the 2018/19 schools budget be distributed on the basis of the National Funding Formula (NFF), using the NFF 2018/19 transitional arrangements, and that this report continues to recommend that approach;
- 2.3 Mindful of 2.2 above, agree the basis of distribution for the 2018/19 schools budget from the three options presented;
- 2.4 [Maintained Schools Only] Agree the de-delegation of funding back to the Local Authority for the continuance of the following services;

- Licences and Subscriptions
- Staff costs (trade union duties)

- 2.5 Agree the proposed £690,000 to be held centrally for the growth fund to support schools that are required to provide extra places to meet basic need within the authority;
- 2.6 Note that final budgets for schools will be set in January 2018, based on decisions made on this report and suitably adjusted for the results of the October 2017 census;

### **Early Years Block**

- 2.7 Note that the Early Years Service will present a report to the March meeting setting out options to make the early years block sustainable within its own resources by 2019/20;

### **High Needs Block**

- 2.8 Note the necessity to top slice the 2018/19 high needs block to assist in the recovery of the deficit of high needs DSG reserves;
- 2.9 Agree that the Vulnerable Learners Sub Group present a report to the March meeting setting out options to make the high needs block sustainable within its own resources by 2019/20; and

### **Central Block**

- 2.10 Agree the areas of spend for the Central Schools Services Block.

## **3 Background**

- 3.1 This report sets out the anticipated outturn for the 2017/18 schools budget, which is the starting point for setting the 2018/19 draft budget. It also presents a draft Schools Budget for 2018/19, ahead of a budget being formally recommended by Education Board at the next meeting and set by the Council in January 2018. At the time of writing the block funding allocations have not been confirmed as the results of the October census are not yet known.
- 3.2 In line with previous decisions taken by Education Board, the budgets for each block of the schools budget will be set within those blocks DSG resources. Out of necessity that will include taking into account the impact of any over and underspends brought forward from 2017/18.

## **4 2017/18 Schools Budget**

- 4.1 Appendix 1 provides the DSG Budget, forecast and variance for 2017/18. It represents the latest forecast position as we near the end of the Autumn Term.

- 4.2 The budget and outturn are presented as gross figures which include allocations which are recouped by the Department for Education (DfE) in order to pass funding onto academies, High Need – free schools, further education colleges, charitable and commercial providers. The recoupment figures are reported in separate columns. This report explains the forecast variances.

#### **Schools Block – £20,000 underspend**

- 4.3 The Schools block contains the £113.37M budgeted for mainstream schools in Southend including Academies. The Budget and Forecast outturn columns show the amount allocated directly to maintained primary and secondary schools and the amount recouped for Academies by the DfE. There is a small variance of £20,000 underspend, which reflects reduced in year business rate reductions for Schools that have converted to an Academy from April-17 that the DSG is able to retain.

#### **Early Years Block – on target**

- 4.4 Early Years forecast spend has been held to budget, and reflects the updated funding allocations as reported in the October 2017 Education Board report. 2017/18 year to date provider payments is indicating a run rate close to the DSG Early Years funding allocation. Education Board needs to be mindful of any funding adjustments for 2017/18 in this block that will be announced in July 2018. Therefore Early Year spend forecasts will continue to be closely monitored.

#### **High Needs Block - £613,000 overspend**

- 4.5 The forecast overspend on the high needs block is £0.613M, which is mainly in line with the recognition of the high risk 2017/18 remaining saving delivery targets declared in the exceptional July-2017 High Needs 2017/18 Budget paper. The Special Educational Needs (SEN) team continue to work towards mitigating the funding pressures for Educational Health and Care Plan (EHCP) top ups applicable to both Schools, Colleges, Independent Providers and forecast overspends will reduce if they are successful.
- 4.6 The £0.613M overspend represents a slight forecast reduction of £17,000 from the high need forecast position presented in the previous DSG forecast report, although of course this still highlights that considerable funding pressures remain within this block.

4.7 The following table summarises the current forecast overspend pressures.

	<b>2017/18 <sup>i</sup> Budget</b>	<b>2017/18 <sup>ii</sup> Forecast</b>	<b>2017/18 Variance (under) / over</b>
Place funding	£7.572m	£7.572m	-
Special and PRU provision top up funding	£4.925m	£4.939m	£0.014m
EHCP top up provision	£2.924m	£3.084m	£0.160m
Independent Providers	£0.900m	£1.200m	£0.300m
Other Provision include SLA's	£1.463m	£1.602m	£0.139m
<b>Total</b>	<b>£17.784m</b>	<b>£18.397m</b>	<b>£0.613m</b>

- i. As set at the July 2017 Education Board.
- ii. These High Need financial forecasts are of course subject to risk of further demand for special schools places, EHCP top ups and Independent Provider placements, but the advice remains constant that the SEN team continue to mitigate these funding pressures where possible

### **Centrally Retained - £83,000 underspend**

4.8 The forecast underspend on centrally retained is £0.083M. This underspend is a result of growth funding expenditure applied to Schools for the financial year 2017/18.

### **Income**

4.9 The Latest DfE advised allocation for 2017/18 is now £143.70m. There is a small change from the October 2017 paper, and is in relation to a revised DfE - Early Years Disability Access Fund allocation of £43,050, reduced from £49,200. The DfE in November 2017, have also updated the DSG allocation reflecting further recoupment where schools have converted to Academies from April 2017.

4.10 As explained in full at the previous Education Board in October 2017, the DfE announced the final early years funding settlement for 2016/17 in July 2017. As a result of this final allocation the available balance in the DSG 2016/17 reserve was overstated by £0.42M. The 2017/18 £0.42M adjustment therefore accounts appropriately for Early Years income and expenditure in relation to 2016/17 as a one off adjustment.

## Overall Position for 2017/18 Budget

4.11 The table below summarises the current forecast outturn position for 2017/18.

Block	Schools £000	High Needs £000	Early Years £000	Central £000	Total £000
<b>Expenditure</b>					
Budgeted	113,370	17,784	10,035	2,508	143,696
Forecast	113,350	18,397	10,035	2,425	144,206
<b>Variance</b>	<b>(20)</b>	<b>613</b>	<b>0</b>	<b>(83)</b>	<b>510</b>
<b>Income</b>					
Budgeted	(113,370)	(17,784)	(10,035)	(2,508)	(143,696)
Forecast	(113,370)	(17,784)	(9,613)	(2,508)	(143,274)
<b>Variance</b>	<b>0</b>	<b>0</b>	<b>422</b>	<b>0</b>	<b>422</b>
<b>Reserves</b>					
1 April 2017	0	(97)	422	0	325
Used in year	(20)	613	422	(83)	932
Transferred in year	20	(103)	0	83	0
<b>31 March 2018</b>	<b>0</b>	<b>(607)</b>	<b>0</b>	<b>0</b>	<b>(607)</b>

4.12 The bottom line indicates an overspend of £932,000 against the budgeted £143.7M. This overspend would normally be met from DSG balances brought forward from 2016/17. However there is insufficient reserves to cover the overspend, with DSG reserves predicted to have a £607,000 deficit by the year end. There will therefore be a need to top slice 2018/19 resources. This situation highlights the continually need to address spending on the High Needs Block as a matter of urgency so as to bring it sustainably back within the funding resource available.

## **5 Draft 2018/19 Schools Budget**

- 5.1 2018/19 will see the DfE distribute resources to Local Authorities based on the National Funding Formula (NFF) calculation for the first time. Within reason it is a local decision how these resources are distributed to each school.
- 5.2 Under the Government's NFF proposals, before minimum funding guarantees, every school in Southend would lose funding. Education Board will recall this was highlighted as a large financial risk when the consultation came out. Indeed the Southend response to the consultation highlighted the need for additional funding and a minimum level of funding per pupil. The Education Board endorsed response argued for minimum per pupil funding for 2018/19 of £4,170 and £5,000 for primary and secondary pupil respectively.
- 5.3 The outcome of the consultation, and with the influence of the General Election results, saw the Government providing a guaranteed increase in pupil led funding of 0.5% and minimum per pupil funding for 2018/19 of £3,300 and £4,600, with 2019/20 seeing a further 0.5% increase in pupil led finance, and minimum funding levels rising to £3,500 and £4,800.
- 5.4 The Government also confirmed the High Needs NFF consultation outcomes.
- 5.5 Appendix 2 sets out the draft 2018/19 schools budget. The draft budget is presented for illustration purposes to enable early planning by schools, but will be subject to change once the DfE data release is provided to the Council late December. Given the forecast overspending within the high needs block for 2017/18, the first call on the 2018/19 resources will need to be to replenish DSG reserves.

### **Schools Block**

- 5.6 Education Board has already agreed it is minded to implement the NFF in full from 2018/19 (Hard Implementation) for the schools block, subject to de-delegation arrangements for the remaining maintained schools. The October meeting of Education Board however requested that the distribution of the schools block be modelled on three different models.
- |         |   |
|---------|---|
| Model 1 | The NFF, allowing for a guaranteed increase in pupil led funding of 0.5% and guaranteed per pupil funding of £3,300 and £4,600 for primary and secondary settings respectively (the NFF 2018/19 transitional arrangements); |
| Model 2 | The NFF resources distributed through the existing local formula arrangements, updating the basic entitlement only; and   |
| Model 3 | The NFF, allowing for guaranteed per pupil funding of £3,500 and £4,800 for primary and secondary settings respectively, and scaling back the guaranteed pupil led funding to a 0.285% increase accordingly.                |
- 5.7 The three models have been run using 2017/18 data, and is therefore based on October 2016 census numbers. The results should therefore merely be viewed as indicative of the impact of the model choice. Clearly changes in pupil numbers and the characteristics of those pupils, will have an impact on the final

2018/19 budgets for schools, and will be factored into the budget proposed to Education Board in January 2018.

- 5.8 To ensure a like for like comparison, the 2017/18 budget has been updated to reflect the high needs transfer into the schools block in respect of those schools with special high needs bases. Previously these places were funded entirely from the high needs block. Now the basic entitlement element is embedded into the schools block, with the high needs block providing additional place funding at £6,000 per pupil together with the relevant top-up rate.
- 5.9 The indicative funding for 2018/19, including amounts for split sites, rates and mobility is £114,677,122, some £970,000 more than 2017/18. This is the quantum of funding had been used in the three models. The results of each model are set out in Appendix 3. The appendix shows both the totality of formula funding (3a) and the increase from 2017/18 (3b). For wider information, funding received through the pupil premium in 2017/18 is also shown (3c).
- 5.10 **This report continues to recommend that Education Board adopt the methodology of the NFF under the 2018/19 transitional arrangements (model 1)**. To continue to use the local formula arrangements (model 2), which undoubtedly would see more schools gain more money, would go against the Education Boards own argument that there should be a basic minimum amount of funding per pupil – all six schools currently funded below the governments de minimis funding level would remain underfunded by that measure. It would also lead to three other schools actually losing funding compared to 2017/18 through the on-going impact of the -1.5% minimum funding guarantee under the local formula. Further, although adoption of the NFF as the local distribution method is currently a local decision, it is the Government's intention to mandate the NFF in the future; to continue to diverge from the NFF proposals by using the local formula will only increase the painfulness of the eventual financial adjustment needed.
- 5.11 Accelerating the NFF by adopting the 2019/20 de minimis per pupil funding levels is consistent with the Education Board consultation response. However it does come at the price of not being able to deliver the 0.5% increase in pupil led funding; that would need to be scaled back to 0.285%, as there will not be sufficient funds within the Southend system to deliver on both guarantees. In effect every school would be contributing towards guaranteeing minimum per pupil funding of £3,500 and £4,800 a year ahead of the Government's schedule.
- 5.12 The three options modelled only look at 2018/19. Although the NFF proposed funding has been made available by the DfE for 2019/20 also, it will still be a local decision for Education Board in that year how it wishes to distribute those resources. Therefore modelling of the three options into 2019/20 has not been undertaken. It is the DfE's intention to make the NFF mandatory for 2020/21, but that is dependent on Parliament passing the appropriate primary legislation. However if either model 1 or 2 were to be extended into the second year, both would result in the same outcome as the DfE modelled 2019/20 NFF. Continuing the local formula (model 2) for a second year would move individual schools further away from the planned outcome of the NFF; leaving a handful of schools significantly underfunded and the majority overfunded as measured by the NFF, and therefore exacerbating the eventual financial adjustment required

as and when the NFF is mandated. It is considered unlikely that there would be any further transitional protection to overfunded schools and that the adjustment would be immediate.

- 5.13 The final funding formula will be presented in January once actual funding for each block has been issued and final pupil numbers are known. Dependent on the distribution model chosen by Education Board, further tweaks to funding rates may therefore be necessary once the pupil data is available in order to balance the income received and total amount to be released through the formula.

### **Early Years Block**

- 5.14 The DfE have confirmed that there will be no change to the funding rates they pay in respect of the Early Years block. Therefore for this report no changes have been made to the early years block, and at this stage no changes to funding rates are proposed. 2018/19 will be the last year of transitional protection for school nurseries as early years moves to a single funding rate across all settings.
- 5.15 Discussions have been on-going with DfE officials to try to secure some comfort that overall DSG in 2019/20 will be sufficient to enable the £500,000 transfer from schools block (growth funding) to early years block, to fund work to sustain the quality and sufficiency of early years providers to continue. To date no assurances have been forthcoming. Given the now highly likely risk of loss of this resource for early years, the Early Years' service will prepare an options paper for Education Board to consider the benefits of sustaining this provision of service from within the early years block, which will likely require a proposal to top slice the rates passed onto providers from 2019/20, if those services are to continue. That paper will also address the creation of a contingency budget within early years to assist in coping with in-year financial pressures.

### **High Needs Block**

- 5.16 The high needs NFF will see a much needed increase in DSG resources being made available. However given that this is the second year of substantial overspend on the high needs block, leaving the DSG in deficit, a cash freeze across all high needs settings and providers is the best case scenario for 2018/19 given the need to recover balances.
- 5.17 As agreed by Education Board on 6 July 2017, a minimum funding guarantee disapplication request has been submitted to the DfE in respect of the special schools, to assist in achieving a sustainable budget for 2018/19 and beyond. Should the request be granted, it will only be used in the absence of any alternative way of balancing the high needs budget, and with the agreement of Education Board. It is to be hoped that the Vulnerable Learners Sub Group, in conjunction with the Council's high needs team, are successful in finding workable and sustainable alternatives to assist in balancing the high needs block without invoking any granted disapplication. Such alternatives may well need to include reductions in funding rates within the minimum funding guarantee.



- 5.18 However it is recognised that given the scale of the DSG reserve deficit, it may well mean that to return reserves to a positive position will take more than one year. It is suggested however that the process of returning high needs block to sustainability needs to be achieved within no more than two years. It is suggested that the Vulnerable Learners Sub Group prepare an options paper for Education Board to consider how to make the high needs block sustainable within this timeframe to the March meeting. That paper will also address the creation of a contingency budget within high needs to assist in coping with in-year financial pressures, so as to hopefully avoid deficit reserves situations in the future. In the meantime, the 2018/19 high needs budget will be proposed in January based solely on the quantum of resources available for that year.

### **Central Schools Services Block**

- 5.19 A number of services are covered by funding that is held centrally subject to a limitation of no new commitments or increases in expenditure from 2017/18. For 2018/19 this will be funded from the new central schools services block, with the exception of a small amount de-delegated from maintained schools to fund particular services solely to them. The growth funding money contained within the schools block will also be held centrally for distribution.
- 5.20 Approval is required by Schools Forum each year to confirm the amounts.
- 5.21 The table below provides a breakdown of the services funded by centrally retained funding, and indicates the voting rights on each line.

	<b>Amount</b>	<b>Voting Right</b>
<b>From Schools Block</b>		
<b>De-delegated budgets</b>	£9,085	Maintained Schools Only
<i>Being:</i>		<i>(amounts may change should further schools convert to academies)</i>
<i>Licences</i>	£1,015	
<i>Staff Costs (TU)</i>	£8,070	
<b>Growth Fund</b>	£690,000	Whole Forum
<b>From Central Schools Services Block</b>		
<b>CLA/MPA Licences</b>	£122,297	Estimate - for information only
<b>Combined Budgets</b>	£941,288	Whole Forum
<b>Schools Admissions</b>	£236,300	Whole Forum
<b>Servicing of Schools Forum</b>	£18,700	Whole Forum
<b>ESG Retained Duties</b>	£407,969	Whole Forum

- 5.22 De-delegated amounts have been reduced in line with the reduction of maintained schools, and the central schools block has been reduced in line with the reduction in DSG funding being made available to local authorities.
- 5.23 The Forum is asked to agree, as in previous years, that this portion of the DSG can be held centrally for the services to continue.

## **Overall Position**

- 5.24 With the exception of the previously agreed transfer of funds between the schools block and early years block, the 2018/19 schools budget will be set in anticipation of each block being contained within its own resources. Out of necessity this will have to include any top slicing necessary to implement a DSG recovery plan to restore reserves to a positive amount.

## **6 Conclusion**

- 6.1 This report has set out the likely outturn for 2017/18, and based on the DfE NFF consultation outcomes, potential budgets for 2018/19. Notwithstanding some increases in funding, especially for main stream schools over and above earlier indications, DSG funding is not keeping pace with the financial pressures faced. Moving the high needs block to a sustainable financial footing in particular, continues to be a difficult challenge.
- 6.2 The report highlights the now highly likely risk of loss of resources that have enabled a transfer from schools block to early years. Consequently the Early Years' service will prepare an options paper for Education Board to consider the benefits of sustaining this provision of service from within the early years block own resources.
- 6.3 Similarly the report highlights the current financial sustainability issues within the high needs block, and notes that the Vulnerable Learners Sub Group will prepare an options paper for Education Board to consider how to make the high needs block sustainable within a two year timeframe to the March meeting.
- 6.4 Based on Education Board decisions made, the schools budget for 2018/19 will be recommended to the January Forum.

## **7 Appendices**

Appendix 1 - DSG Budget 2017/18 – Forecast Outturn as at November 2017

Appendix 2 - DSG Budget 2018/19 – Provisional Dedicated Schools Grant  
Funding

Appendix 3 - DSG Budget 2018/19 – Schools Block Distribution Models