

Southend-on-Sea Borough Council

Agenda
Item No.

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

To
Education Board

On
26th March 2019

Report prepared by:
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Dedicated School Grant (DSG) Growth Fund application 2019/20 and future years

1 Purpose of Report

- 1.1 To recommend to the Education Board (EB) the proposed and revised funding methodology for the application of growth fund to be awarded to the applicable Schools from September 2019 (the start of the 2019/20 academic year).
- 1.2 And remind, the EB and Schools (explained further in the background of this report), that the change in funding methodology for award of growth funding to our required local schools has been driven by the Department for Education (DfE) DSG future years growth fund announcement in July 2018, updating the basis for growth funding allocations awarded to DSG funding allocations from 2019/20 onwards as part of the National Funding Formulae.

2 Recommendations

- 2.1 Education Board (EB) are asked to agree:
- 2.2 That to remain affordable within Southend's DSG funding allocation, the growth funding awarded to Schools from September 2019 will be distributed on the basis of £1,866 per primary place and £2,213 per secondary place for a class size of 30 places, awarding total equivalent funding for a full year of £55,979 per primary class and £66,397 per secondary class. (As referenced in 7.5)
- 2.3 To approve delegated power to the local authority and therefore the 'Director of Learning' and 'Senior Finance Business Partner' – DSG Financial lead, that from September 2020, given the volatility in nature of predicting growth funding allocations to future years DSG resources (As referenced in 7.7), and therefore to also remain affordable within local DSG allocations, that the local growth rates can be reduced by a maximum 10% from the rates shown in 2.2 if required, but, also with no upper limit for increased funding to those rates.

- 2.4 And note, in relation to both recommendations 2.2 and 2.3, these applied growth funding rates for the following financial year are proposed to be made available in the annual “January DSG EB budget setting report” which is then timed with the final DSG school block - mainstream school funding allocations. (As referenced in 7.8)

3 Key reminder – what is the growth fund?

- 3.1 The DSG growth fund is centrally retained within the School block allocations, with the core purpose to support a growing school with the revenue resources required of running a new intake class from the September of that applicable academic year.
- 3.2 The growth fund is therefore administered to cover the delayed gap in DSG funding within that applicable School’s own Individual core DSG School Block (ISB) budget share, which is based on the preceding October school pupil census which would therefore not capture the additional intake class’s pupil numbers.
- 3.3 And it must remain minded, it remains a statutory duty of the Local Authorities and therefore School Admission team to determine and approve any required new local intake class.

4 Recent background in relation to DfE’s announcement on future funding for Growth

- 4.1 As a remaining item of changes imposed as a result of the DfE’s National Funding Formulae in 2018/19, the DfE announced in July 2018 their new funding distribution methodology for DSG resources in relation to growth funding from 2019/20. And this was first shared to the EB in the “Oct 2018 DSG EB 2018-19 forecast outturn and 2019-20 budget planning” paper, including the following EB approved recommendation 2.7 in that paper:

“That an additional options paper and recommendation on the application of growth fund awarded to Schools from 2019/20, is presented to the EB for approval in March 2019, and once considered through the Resources Sub Group.”

- 4.2 The actual guidance, on the calculation for DSG growth has been published in the DfE’s “National funding formula policy document for 2019 to 2020”, but to summarise:

4.2.1 The growth funding distributed to DSG resources from 2019/20 will now be based on any pupil growth between annual October school census’s, and only using positive growth within middle layer super output area’s (MSOA) will be counted. Note – MSOAs are defined, as small enough geographical areas to detect pockets of growth by the National Office for Statistics; and these are, therefore based on post codes, grouped within a particular geographical area.

4.2.2 Multiplied by annual funding rates of £1,370 for each per primary ‘growth pupil’ and £2,050 for each per secondary ‘growth pupil’,

adjusted slightly by a local area cost adjustment to formulate a final funding allocation to DSG resources.

- 4.3 The following table demonstrates the actual DfE – 2019/ 20 DSG growth fund calculation for our local schools, and as shown in the “Jan 2019 EB DSG budget 201920” paper:

A	B	C	$D = A * £1,370 * C$	$E = B * £2,050 * C$	D + E
Primary growth no.s	Secondary growth no.s	Local Area cost adjustment	Primary growth allocation	Secondary growth allocation	Total growth allocation
172.0	344.5	1.003	£236,456	£708,677	£945,135

- 4.4 It must also be noted, that this funding methodology as with the Individual School Block allocation themselves is now also a lagged funding approach. i.e. the funding awarded for that financial year, will be based on the previous year’s growth. But, in theory, this therefore does also mean that on a longer term funding basis, once growth has reached its peak across a certain period of financial years, any in year depleted DSG resources, should be recovered within the following years DSG funding awarded. However, what does this also mean of course is that the DSG itself would require cash flow support from the local authority should a total DSG reserve deficit occur in any given financial year.

5 Why does our current methodology of growth funding awarded to schools need to change?

- 5.1 As first shared in the “Oct 2018 DSG EB 2018-19 forecast outturn and 2019-20 budget planning” paper, whilst the principle of the new DfE growth funding formulae seems justifiable, i.e. in terms of measuring actual positive growth within an authority on MSOA’s, it was flagged that with regard to the funded unit rates the DfE have applied to this approach are considerably lower than the unit rates Southend has historically awarded for Growth.
- 5.2 The DfE, are also clear that, it is still a local decision on how the growth fund is actually applied to Schools so they continue to place the duty on Local Authorities and School Forums / Education Boards to ensure the distribution of growth is affordable within their own DSG funding allocations.

6 Reminder of current Growth Fund application for 2018/19 and previous years

- 6.1 Under Southend’s School Forum approval in 2013, as required in accordance with statutory policy, growth funding is awarded to schools who have a planned and confirmed additional intake class (And as agreed with the Local Authorities school admissions service) from the start of that respective academic year.
- 6.2 And growth funding applicable to those schools, is received on the basis of 30 pupils multiplied by the latest local basic entitlement average weighted pupil unit (AWPU) rate per pupil for both primary and secondary schools. (And current local growth funding rates for both primary and secondary key C1 and D1, are as illustrated in the accompanying Appendix)

- 6.3 The funding was also agreed to be physically passed over to those schools twice a year, 5/12ths paid in the month April (covering the period April through to August) and the remaining 7/12ths paid in July (covering the period September through to March).
- 6.4 It must also remain noted, the growth fund for a maintained school would only be applicable for 7/12's of a financial year, as their DSG ISB core budget share is updated from the following April. Where, as an Academy School which does not receive their updated ISB share until the following September therefore requires a full funded years allocation of growth fund.

7 Growth Fund application for 2019/20 and future years

- 7.1 As illustrated in the accompanying "Appendix - Growth fund forecast model 2019/20 and future years", the appendix, presents a revised and recommended local growth funding rate per primary and secondary pupil to be applied from Sept-19, and this is also to ensure the application of the Growth fund remains affordable within our local and estimated DSG allocation for futures years. The model also allows in year deficits to occur that will then be recovered in subsequent years funding. This then also ensures a school is not unfairly penalized for an expected deficit balance in that year alone.
- 7.2 The recommended new local rates are therefore by statutory requirement, seeking to balance both the consideration of a school running a new intake class (based on a class size of 30) to meet basic need, whilst also remaining affordable within the local DSG growth fund allocation. Therefore, it is envisaged that the revised growth fund applied should be sufficient to fund a moderate to experienced teacher (incl. oncosts costed at £45,000 per annum), whilst also allowing a further minimum funding of £10,000 per annum to support the class with required revenue purchases for materials, fixture and fittings that are not deemed capital purchases, energy costs and any other applicable low level revenue purchases.
- 7.3 As stated in 3.3, it is the statutory duty of the Local Authority school admission team to determine and approve the number of new intake classes required each year for Schools. And note this can change up until the previous summer term as final admission numbers are confirmed. As shown in the Appendix, the current number of new intakes classes expected from Sept-19 for primary schools are 6 (and reducing for each year after), and 6 for secondary schools (increasing for the following 2 years and then reducing).
- 7.4 It is of course also recognised that any additional new intake class required requires further financial support than the direct cost related to the running of that new class (i.e. wider and indirect overhead costs), but it must remain minded that the purpose of the growth fund as defined by the DfE (referenced in 3.2), is simply used to cover the annual gap in funding and meet basic need until the School receives the full expected funding for those pupils in their core DSG budget in the following financial year.
- 7.5 The appendix, does also model three potential different options to apply the required saving reductions to existing local growth rates for both primary and secondary schools. However, the recommended option, as fully illustrated in the

Appendix is Scenario 2. Scenario 2, is the favoured option as given known growth will now be experienced in our local secondary schools for the next 7 years, it applies a level of protection to primary schools for 2019/20, to ensure they do not receive less than £55,000 per class. You can also see as demonstrated in the other scenarios, that any further equivalent funded % reduction applied to both a primary and secondary school disproportionately disadvantages a primary school compared to a secondary school. Scenario 2 also ensures a Secondary School in 2019/20 will receive a circa £66,000 per annum for growth. And in terms of equivalent, funded rates per pupil this amounts to £1,866 per primary pupil and £2,213 per secondary pupil.

- 7.6 It must also remain heavily caveated, that the funded model shown in the Appendix is attempting to forecast (and minded to the key purpose of determining local growth funding rates to be applied) anticipated MSOA measured growth for future years that the DfE will statistically recognise and register in determining future years DSG allocations for growth. Therefore, by its nature this is incredibly difficult to predict and forecast and therefore the model itself will need to be updated annually and refined.
- 7.7 Therefore, in recognition of the risk associated with future forecast modelling as referenced in 7.6, it is further recommended that the Education Board approve delegated authority to both the “Director of Learning” and “Senior Finance Business Partner – DSG financial lead” to allow annual changes to the local growth fund rates, with an unlimited maximum increase tolerance, but also a maximum reduction amount of 10% to the rates shown in 7.5. (uplifted by 2% each year from 2019/20 to cover basic inflationary rises). And the applied minimum amounts will only be acted upon, if required to remain affordable within the DSG allocation over future years. In the event, the annual class amount was needed to reduce further than this (and it is hoped this will be very unlikely), the decision would need to be brought back to the attention of Education Board for agreement as a separate report.
- 7.8 And therefore on the basis 7.7 is agreed, it would also enable future years growth fund rates to be set and shared in the annual January EB DSG budget report, once the applicable growth fund allocation having been determined by the DfE for the following financial year.
- 7.9 And finally, in review of the physical current payment process (referenced in 6.3), which does cause both an in year cash flow issue for the Local Authority (LA), as the growth fund is physically distributed before the DSG fund is physically paid into the LA, and the fact, that the lion share of the growth fund is used to support a teacher salary paid monthly. The local authority from Sept-19 will be physically distributing the cash funding applied to growth on a monthly basis, timed with the current monthly school cash payment process, which is also sensibly paid a few days in advance of the monthly salary cost of a school. This will then also further support the stream lining of DSG related monthly cash payments administered by the local authority.

8 Conclusion

- 8.1 An updated 2019/20 Growth fund financial allocation model has been presented in this report alongside a starting point for now revised funding rates.
- 8.2 As highlighted in this report, to determine what will actually become the final DSG allocation for that year is incredibly complex to forecast and predict. However to help mitigate this risk, it is proposed that this model is updated and revised each year with the flexibility to increase or reduce funded rates as needed within the suggested and advised tolerance levels.

9 Appendices

- 9.1 Appendix – Growth Fund forecast model 201920 and future years