

Southend-on-Sea Borough Council

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

To
Education Board

On
22nd October 2019

Agenda
Item No.

Report prepared by:
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Dedicated School Grant 2019/20 budget update and planning for 2020/21

1 Purpose of Report

- 1.1 To update the Education Board (EB) on the latest Dedicated Schools Grant (DSG) budget 2019/20 following the applied annual July 2019 funding update changes made by the Department of Education (DfE).
- 1.2 To update the EB on budget planning for the 2020/21 following the Government's and subsequent DfE September 2019 School funding announcements.
- 1.3 To seek to agree a decision in principle with regard to the setting of our local 2020/21 Individual School Block funding allocations per pupil.

2 Recommendations

Education Board are asked to agree:

- 2.1 With regard to individual school's budget (ISB) planning for 2020/21, to continue on the trajectory of adopting the principles of the National Funding Formulae (NFF). (As referenced in 5.2 through to 5.6). And therefore;
 - 2.1.1 Set the minimum per pupil 2020/21 funding levels at £3,750 for primary schools and £5,000 for secondary schools (which note - is based on the nationally defined pupil led funding factors including lump sum).
 - 2.1.2 Any School that attracts their core NFF funding factors (i.e. with no MFG or funding floor protections applied), to benefit from the NFF applied 4% increase to those core factors.

- 2.1.3 Ensure all schools (except those who will receive a greater % funding increase per pupil from either recommendation 2.1.1 or 2.2.1) are modelled to receive the same and remaining maximum available % pupil led funding increase, which is up to 1.84% from the individual schools NFF 2019 to 2020 baseline (but also has to be a minimum of 0.5%). However, please note, the ability, to award the max 1.84% remains caveated, with any EB consideration and therefore decision applicable or available in relation to recommendation note 2.4.

Education Board are asked to note:

- 2.2 The update to the DSG 2019/20 budget allocations for both early years and high needs funding following the DfE's July 2019 funding updates. (as referenced in 7.2 and 8.1, respectively).
- 2.3 That, as per the annual local DSG funding cycle, the actual 2020/21 funded amounts per pupil for each school, based on the principles agreed in 2.1.1 - 2.1.3 will therefore be presented:
- 2.3.1 To the EB in December 2019, illustrated using the 2019/20 school block data set but with proposed funding increases shown per pupil and any resulting or possible considerations relating to 2.4, although, caveated that those schools that will benefit from the 4% NFF core funding factor increase (recommendation 2.1.2), in terms of their overall per pupil amount, cannot actually be confirmed until January 2020.
- 2.3.2 And then for EB in January 2020, the final ISB funding allocations (also illustrated per pupil) will be presented based on the updated School 2020/21 block data set.
- 2.4 And as referenced in 5.6 and 9.5, any recommendations for EB considerations, on the historic commitment element of the 2020/21 Central Block funds will be presented to the EB in December 2019.

3 Background

2019/20

- 3.1 The updated DSG budget for 2019/20 follows the annual July 2019 release from the DfE of the latest 2019/20 DSG funding block allocations at a local authority level, where funding changes are applied to the high needs and early years block only.

2020/21

- 3.2 The DSG budget planning for 2020/21, follows both the September 2019 Government headline announcements on the future of schools funding and subsequent DfE's release of the "Schools revenue funding 2020 to 2021 operational guide" used to help guide Local Authorities and their Schools Forums/Education Boards to plan the local implementation of the funding system.
- 3.3 The DfE have however only been able to publish the actual indicative NFF funding allocations at both a local authority level, as well as notional school level allocations on the 11th October 2019 (which is usually released in July) and they state, "We appreciate, funding levels and allocations being announced later than in previous years, local authorities have less time for modelling and consultation".
- 3.4 2020 to 2021 is also now the third year of the National Funding Formulae (NFF) reforms.
- 3.5 However, it must also be noted and commended, that given the recent school funding announcements (which will be highlighted within the body of this report). That our own Local Authority and Education Board has positioned itself well over the last three years to align our DSG resources to the principles of the NFF, and therefore this presents both a very favourable and continued strategic position to continue on that trajectory.
- 3.6 It must also be noted and continually commended, that given the national and recognised pressures on High Needs Funding, that through the joint work of Southend's Local Authority, Education Board, Applicable Special Schools and Schools (where savings have been made and agreed over the last 3 years). Southend's own DSG High needs funding position is now in a much healthier financial position, which currently remains planned and projected to achieve full financial recovery by the 2019/20 year end. However, it must, also continue to remain minded that the financial pressures with the distribution of high needs funding are forever continually increasing, so this position remains at risk, as we continually progress through the financial year.

4 Dedicated Schools Grant 2019/20 and 2020/21 Budget planning

Foreword

- 4.1 In September 2019, the Government and the DfE have released a statement, “that the funding for schools and high needs compared to 2019-20, will nationally rise by £2.6 billion for 2020-21, £4.8 billion for 2021-22, and £7.1 billion for 2022-23”. Which, is ofcourse, a helpful funding message to overall Dedicated Schools Grant resources, given the now recognised national (and our own local) context of financial pressures mainly on the high needs block, and an ever increasing financial strain on particular mainstream individual school balances themselves.
- 4.2 The 2020/21 indicative DSG funding allocations at a total level, are presented alongside the detail of the latest 2019/20 Budget allocations as shown in “Appendix 1 – DSG Latest 2019/20 budget and Indicative budget 2020/21”. The total funding allocation for 2019/20 DSG resources is now £150.549M and the total indicative 2020/21 allocation is shown as £156.235M.
- 4.3 All the applicable changes to the updated 2019/20 budget, and basis of the indicative 2020/21 budget allocations are explained within each DSG block of this paper, including any EB considerations for recommendation now, and the potential for later decisions where required.

5 Schools Block – Individual School Block (ISB) allocations 2020/21

- 5.1 The 2020/21 indicative DfE allocations published, contain the actual 2020/21 primary unit of funding (PUF) and secondary unit of funding (SUF) that the DfE will use to calculate each local authority’s final school block allocation. And as repeated annually, they will then also issue the updated and final total 2020/21 school block funding allocations in December 2019 based on the pupils numbers and adjusted funding factors recorded through the October 2019 school census.
- 5.2 The following are the key headlines related to mainstream school funding for 2020/21, released by the Government and subsequent DfE release in September 2019:
- 5.2.1 In 2020/21, the minimum per pupil levels will be set at £3,750 for primary schools and £5,000 for secondary schools. The primary level will rise to £4,000 in 2021 to 2022. The DfE also intend to now make the minimum funding pupil a mandatory factor and are currently consulting on that proposal.
- 5.2.2 The funding floor will be set at 1.84%, in line with the forecast GDP deflator to protect pupil-led per pupil funding in real terms. This minimum increase in 2020 to 2021 allocations will be based on the individual school’s NFF allocation in 2019 to 2020 (which will now also be the individual schools funding floor baseline).

- 5.2.3 Schools that are attracting their core NFF allocations will benefit from an increase of 4% to the formula's core factors. (excluding free schools meals factor will be increased at inflation)
 - 5.2.4 There will be no NFF gains cap, so that all schools attract their full allocations under the formula. Local authorities will still be able to use a cap in their local formulae.
 - 5.2.5 A new formulaic approach to the mobility factor, rather than on the basis of historic spend.
 - 5.2.6 Minimum MFG (Minimum Funding Guarantee) protection between +0.5% and +1.84% per pupil, as well as to use a gain caps.
 - 5.2.7 Continue to be able to transfer up to 0.5% of their schools block to other blocks, with school forum approval. A disapplication continues to be required for transfer above 0.5%, or any amount without school forum approval.
 - 5.2.8 Teachers' pay grant and teacher's pension employer contributions grant will both continue to be paid separately from the NFF in 2020 to 2021.
 - 5.2.9 The government has also confirmed that the intention remains to move to a single 'hard' national funding formula to determine every school's budget.
- 5.3 The 2020/21 school level funding headlines are ofcourse helpful, and it is also particularly helpful to see that both the teacher's pay and employer pension contributions grant also remain separate to the DSG funding announcements for 2020/21.
- 5.4 Now given, that our local Education Board has been a strong adopter from the start of the NFF reforms over the last 3 years and that the government's intention remains to move to a single 'hard' national funding formula to determine every school's budget, there is therefore no foreseeable reason why our Education Board would choose to move away from the NFF principles. We must also remain minded, that is now very likely that the DfE intend to make the national 2020/21 minimum funding amounts a compulsory factor, and for all remaining schools, any deviation away from seeking to award up to the maximum pupil led 1.84% uplift from a Schools 2019/20 NFF baseline, is also capped by a minimum 0.5% MFG uplift from this baseline.

- 5.5 It is therefore strongly recommended, that for 2020/21, our own local individual mainstream school budget shares are set on both the updated national minimum funding rates per pupil of £3,750 per primary school and £5,000 per secondary school (and as a comparison the 2019/20 minimum per pupil rates are £3,500 per primary school and £4,800 per secondary school), we also apply the fully funded 4% increase to the core NFF funding rates, and for all other applicable schools, they receive the same % uplift to their 2019/20 NFF per pupil led baseline up to the maximum available of the 1.84% funding floor increase, subject to 5.6 (if they do not benefit, by further % increases from either the updated minimum funding amounts per pupil or 4% applied to the core NFF funding rates).
- 5.6 In relation to the ability to award the maximum 1.84% funding floor increase, it must at this time, unfortunately remained caveated, this will need to be considered alongside any possible EB consideration in December 2019, in relation to 9.5 and the Central Block – Historic Commitment.
- 5.7 In relation to the 2020/21 updated NFF minimum funding rates per pupil of £3,750 per primary school and £5,000 per secondary school, there are currently 5 out of our local 12 Secondary Schools who are below this rate in 2019/20, and 11 out of our 33 local primary schools.
- 5.8 And, it has to be noted, that with regard, to the 4% increase on the core NFF funding rates, it will only be possible to view those schools, that will actually benefit from this increase per pupil overall, once the DfE have released the updated School block data set for 2020/21 due for release in December, and therefore can only be finalized in the January 2020 EB DSG report.
- 5.9 Therefore, with the recommendation that 5.5 is agreed and noted later consideration in relation to 5.6, as per the annual DSG funding cycle, the December 2019 DSG EB paper will model and illustrate the individual schools budget per pupil rates 2020/21 compared to 2019/20, based on the 2019/20 school block data set (although, this has to remain caveated, those who will benefit from the 4% NFF core factor funding increase, cannot actually be confirmed until the January 2020 report as per 5.7), and then for EB in January 2020 the final funding allocation for 2020/21 will be confirmed using the updated 2020/21 school block data set.

6 Schools Block – Centrally retained 2020/21

- 6.1 The following is the key headline, released by the DfE in relation to growth fund for 2020/21;
- 6.1.1 Growth funding will be based on the same methodology as last year, and will have the same transitional protection ensuring that no authority who growth is unwinding will lose more than 0.5% of its 2019 to 2020 schools block allocation. There will no capping or scaling of gains from the growth factor.

- 6.2 The current estimate 2020/21 allocation has simply been set using the 2019/20 allocation, the actual final 2020/21 allocation will be based on the MSOA (as defined by the DfE Middle Super Output Area) growth between the October 2018 and October 2019 censuses, and will be released by the DfE in December 2019 alongside an uplifted per pupil rate.
- 6.3 Now, again, given our Education Board agreed the recommendation for the revised and updated application of growth fund in March 2019, which followed the DfE's future funding announcements for growth in July 2018. This announcement presents no change from that expected position, and therefore any revision to applied growth funding rates for 2020/21 within the agreed EB minimum tolerance, if necessary, will be presented in the January 2019 DSG EB paper.

7 Early Years Block

2019/20 Budget Update (and 2018/19 Final Budget allocation)

- 7.1 As repeated, on an annual basis, the DfE announced in July 2019 the results of January 2019 early years census, which not only adjusts and updates the funding applied to the early years DSG resource for last financial year 2018/19 to a now final 2018/19 funding allocation, but also forms the basis of a revised indicative funding allocation for the current 2019/20 and following 2020/21 financial year.
- 7.2 The results of the Early Years January 2019 census and therefore updated PTE* funding are shown in the table below, also illustrating the revised and welcome overall net increase change in both the DSG funding allocation for 2018/19 (which is now final) and updated indicative allocation for both 2019/20 and 2020/21.

	2018/19 & 2019/20 Previous PTE*	2018/19 Final PTE*	2018/19 Equivalent Funding change Increase / (decrease)	2019/20 Revised PTE*	2019/20 & 2020/21 Equivalent Funding change Increase / (decrease)
2 year old	422	461	£115,805	488	£198,523
3 & 4 year old Universal	2,739	2,712	(£66,076)	2,693	(£114,945)
3 & 4 year old Additional	660	691	£78,750	714	£135,000
Disability Access Fund	£42k & £45k	£42k	£0	£45k	£0
Pupil premium	£126K	£127k	£1,061	£127k	£1,819
Total			£129,540		£220,397

*PTE (Part Time Equivalent). DfE defined as the number of children taking up 15hours per week over 38 weeks.

**7/12's of the PTE adjustment is the applicable funding reduction in 2018/19.

- 7.3 The £220,000 circa. net increase for 2019/20 will be used to fund the now ongoing and expected increase take up for both 2 year old disadvantage funding and 3 & 4 year old additional extended entitlement funding, which are both good measures to see growth in terms of providers/parents and carers now increasing their access to those funds. However, the reduced PTE* and therefore reduced funding for the 3&4 year old Universal entitlement funding is a surprise as birth rates have been fairly stable between the applicable years and the early years team continue to investigate any particular reason for this trend.
- 7.4 The £130,000 circa. net funding increase for 2018/19 will firstly and correctly be allocated to the DSG early years reserve as this relates to last year's funding. However, this does now further positively increase the isolated DSG early years reserve to a healthy £724,000 (£130,000 + £594,000 bought forward early years balance).
- 7.5 This is obviously a very favourable and now healthy financial position for the DSG early years balance, however, it is recommended that this isolated DSG reserve is held to a minimum £500,000 (or equivalent circa. 5% of current early years total funding). This then allows the absorption of any one off 'adverse DSG funding reductions'* in future years, without the need to impact on going funding distributed to providers. However, this does now mean £224,000 one off resources are now available to support Early Years moving forward with one off related initiatives. The Local Authority Head of Early Years will therefore bring to the EB a proposal paper to illustrate and seek agreement for the use of this one off fund.

Cause of an 'adverse DSG funding reduction'* - As defined by the DfE, early years funding paid out to providers is based on the 3 seasonal and separate termly head counts within a financial year, whereby actual funding received to the DSG is based on the January early census alone. There therefore continues to be risk or opportunity that the January early year census returns a lower (which would lead to be an adverse DSG funding reduction) or higher head count, respectively, than the average of the 3 terms paid out in any given year.

2020/21 Budget Planning

- 7.6 As explained in 7.1 and 7.2, the indicative 2020/21 Early years funding allocation is now based on the updated January 2019 census.
- 7.7 However, the DfE have confirmed on the 11th October 2019 "Following the chancellor's recent announcement on early years funding, we can now also confirm we'll increase the hourly funding rate for all local authorities for both two year old entitlement, and the vast majority of areas for the 3 and 4 year old entitlement" and they will publish further details in due course. Therefore final indicative 2020/21 allocations will be updated once those new funding rates are known, and as per the annual cycle, there will be a separate DSG Early years funding paper for Education Board including applicable recommendations as to how those increased funding rates should be applied.

8 High Needs Block

2019/20 Budget Update

- 8.1 The High Needs Block DSG budget has now been adjusted following the DfE's annual 'import and export adjustment*' announced in July 2019, and it is welcome to confirm this has increased the High Needs Blocks funds by a further £120,000 to now £19.536M.
- 8.2 In view that the "Detailed high needs budget allocation for 2019/20" was set and agreed at the last and most recent June 2019 EB, which also included a targeted allocation of £348,000 to restore the remaining DSG High Need block reserve deficit balance. This does therefore mean the application of the additional £120,000 fund can be directly allocated to support in year high need expenditure.
- 8.3 The Local Authority Head of SEND, as shown in appendix 1, has therefore applied this funding to commission and support further place fund and top up allocation to an existing enhanced high need primary mainstream provision, and out of borough support, given this is a particular pressure area.
- 8.4 And as noted, in the Appendix 1, the High Needs forecast is currently set online to budget, and this is given both the high need detailed budget allocation was only recently set in June 2019, and a revised and updated forecast position will be presented in the next DSG December 2019 EB paper. An updated position at December 2019, will then also allows enough time for the confirmation of final funded EHCP head count no.s in both our local special schools, and mainstream school provisions for the Autumn 2019 term.

'import and export adjustment*' - relates to a DfE defined in year High Need funding adjustment compiled from the latest January school census and RO6 Individualised learner record. Whereby a local authority's high needs block funding allocation is compensated if there is a net import increase from the previous year due to more other local authority home based pupils placed in their area, or alternatively reduced if there is a net export increase from the previous year, if more local authority home based pupils are placed in another local authority area. Southend's 2019/20 High Need block allocation has therefore increased by a further £120k (£6,000 awarded per pupil for a further 20 pupils), due to an overall revised net import of 84 pupils, compared to a net import of 64 pupils for the previous year.

2020/21 Budget Planning

- 8.5 The following is the key headlines, released by the DfE in relation to High needs funding for 2020/21:
- 8.5.1 The funding floor will be set at 8% so each local authority can plan for an increase of at least that percentage, after taking into account changes in their 2 to 18 population estimated through the office of national statistics. Which is based on the Local Authorities high needs allocation in 2019 to 2020, including the additional funding announced in December 2018.
- 8.5.2 The gains cap will be set at 17%, on the basis of per head of population, allowing authorities to see up to this percentage increase under the funding the formula.

8.5.3 The national funding increase in total for 2020/21 from 2019/20 is £735M.

8.6 Therefore, for our own local 2020/21 DSG high need funding allocation this has now been indicatively been set at £22.540M, an additional £3.004M from 2019/20, applying the full gains cap at 17%, which as previously stated, is because Southend has historically remained below an uncapped formulae. It must, therefore still remain noted, that the full indicative allocation before any gains cap would have been £22.927M. However, this is still obviously very welcome news considering the extensive financial pressures both nationally and locally that has been experienced. The actual full detailed application of this additional 2020/21 funding will be considered as part of the annually agreed EB June High Need detailed allocation budget paper, but given this substantial funding increase, this does also now allow the opportunity for any earlier and specific urgent considerations within limit, where, and if required.

9 Central Block

2020/21 Budget Planning

9.1 The following is the key September 2019 headlines, released by the DfE in relation to Central Block funding for 2020/21:

9.1.1 “As stated previously, we expect to start to reduce the historic commitments element of the block from 2020 to 2021, and detail of our approach will follow in due course.”

9.1.2 And, following this on the 11th October 2019, the DfE now stated in 2020/21 “there will be a 20% reduction to the element of funding that some authorities receive for historic commitments”.

9.2 As a reminder, the Central Block provides funding for LAs to carry out central functions on behalf of pupils in state-funded maintained school and academies. In 2018-19, as part of the NFF funding reforms, the Central Block was first formed as an isolated block of DSG, and funding was split into funding for historic commitments and funding for ongoing responsibilities (Previously these funds were centrally retained from the School Blocks). LAs received funding for historic commitments (nationally funded at £220M in 2019/20), based on a base lines exercise undertaken and published in August 2017, and funding for ongoing responsibilities (nationally funded at £248M in 2019/20) allocated according to the Central Block NFF funding formula.

- 9.3 Historic Commitments, under relevant schedules of legislation, are defined as “Capital expenditure funded from revenue”, “Prudential borrowing costs”, “Termination of employment costs”, “Contribution to combined budgets”. For our own LA and EB, we have only ever had expenditure recorded under the “Contribution to combined budgets”. – which is services funded from both DSG and other budgets of the local authority or contributions from other bodies. And for own LA and EB, there are no services, that were ever planned to be time limited for which this funding currently supports, which is despite the DfE previously releasing a statement, “in relation to funding for historic commitments there is an expectation that commitments will unwind over time as contracts reach their end points”. And I expect this is a similar position for most other LAs.
- 9.4 For our LA and EB, as shown on Appendix 1 – “contribution to combined budget” expenditure equates to circa £900,000 in 2019/20, but now reflecting a 20% funding reduction in 2020/21 (equivalent £181,000 loss).
- 9.5 It has, to also be said, there are very strict regulations on what Central Block funds are able to support, and therefore classed as ‘ongoing responsibilities’. An urgent question has therefore now been raised to the DfE, in relation to an option to this cover this loss in 2020/21 i.e. can the Local Authority and Education Board in 2020/21, apply a funding movement from the Schools blocks (within the 0.5% tolerance) to cover this loss in the Central Block. And therefore depending, on the DfE answer, this will influence any possible recommendation for Education Board to now consider in the next EB December 2019 meeting.
- 9.6 Therefore, as referenced in 5.6, the potential way to afford and administer this funding transfer from the Schools block to central block (whilst protecting the lowest funded schools per pupil) would be to hold some of the fully applied 1.84% per pupil led funding increase for all other schools back to cover this loss. Whilst, it is impossible to give an exact reduced % per pupil led figure at this time, a £181,000 funding transfer compared to the total 2020/21 indicative quantum of the schools block at £121.955M, is a relatively small 0.15%. Which also translates as an estimate revised minimum 1.5% to max 1.7% per pupil led funding increase, for all other schools instead.
- 9.7 However, regardless of the specific DfE answer for 2020/21, we must remain minded that both the ability to transfer DSG funding from the schools block to other DSG blocks, is subject to the annual conditions released by the DfE (so cannot be guaranteed in any given year), and a full £900,000 loss would also be above the current allowable 0.5% funding transfer. And therefore, to plan on these historic commitment services being supported by funding movements between blocks, is not a long term sustainable funding option moving forwards and particular consideration must also be given that the government’s intention remains for the implementation of a single ‘hard’ National Funding Formulae.

10 Latest forecast DSG reserve balances

10.1 The table below updates the current DSG reserve balances in relation to the Early years funding adjustment for 2018/19 only, as explained in 7.2.

Block	Schools – ISB	Schools - growth	Early Years	High Needs	Central	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Reserves surplus / (deficit)						
1 April 2019 B'fwd	0	(69)	594	(348)	39	216
18/19 Early years funding adj.	0	0	130	0	0	130
2019/20 forecast						
Variance	0	175	0	348	0	523
Transferred in year	0	0	0	0	0	0
31 March 2020	0	106	724	0	39	868

10.2 The DSG forecast reserve balance, does of course now forecast a much healthier reserve balance overall of £868,000 by March 2020 (and this is after considering the deficits expected over the last 2 financial years due to pressure on high needs funding, and therefore recovery actions taken to achieve this position). It must, however, remain minded at this time in the year, £724,000 of this total balance relates to early years funding, and it is also on the basis that the £348,000 bought forward High Need deficit balance remains on target to be re-paid back by the end of year.

11 Conclusion

11.1 Overall, it has to be recognised that the September 2019 funding announcements for both the Schools and High Needs block, are both a positive and welcome message for Dedicated School Grants funds and therefore the educational services provision those funds support.

11.2 It does however, have to remain noted, it is disappointing that the DfE intention for Dedicated School Grant funding allocations to support “historic commitments” under the Central Block is now unwinding from 2020/21.

12 Appendices

Appendix 1 - DSG 201920 latest budget and 202021 Indicative budget allocation