Summary

This report provides an update on the national Education Funding reforms and their likely impact on Barking and Dagenham. This report also sets out the Dedicated Schools Budget (DSB) strategy for 2018/19 and the principles that we plan to use for the Local Funding Formula for Schools following discussion with Schools Forum and consultation with schools.

The report also considers the implications for the Council of the funding changes and the risks and opportunities that arise as a result.

Recommendation(s)

The Cabinet is recommended to:

(i) Note the latest position on the national Education Funding Reform and the expected implications for Barking and Dagenham as set out in section 2 of the report;

(ii) Approve the 2018/19 strategy for the Dedicated Schools Budget as set out in section 3 of the report;

(iii) Agree, in principle, the proposed model for allocating school funding in 2018/19 set out in section 4 and Appendix A of the report; and

(iv) Delegate authority to the Strategic Director for Service Development and Integration, in consultation with the Cabinet Member for Educational Attainment and School Improvement, the Chief Operating Officer and the Schools Forum, to approve the final 2018/19 school funding formula submission to the Education Funding Agency.
1. Introduction and Background

1.1 Most Education funding including the bulk of funding for individual schools is provided by the Department of Education (DfE) in the form of a specific ringfenced grant to Local Authorities known as the Dedicated Schools Grant (DSG). This grant has sub components or “blocks” which are allocated to fund different aspects of the Education system: the Early Years block which pays for education and childcare for two, three and four year old children, the High Needs block for support to meet special educational needs and the Schools block which is in turn allocated to individual schools and academies according to a funding formula. From 2018/19, a fourth Central block has been created to fund core Local Authority education services. The table below shows the baseline allocation for Barking and Dagenham. These are baseline indicative figures based on school census data from October 2016 and will be subject to change based on the October 2017 census. The Early Years allocation has not yet been published but the 2017/18 amount is shown for information.

<table>
<thead>
<tr>
<th>Block</th>
<th>2017/18 Baseline £000</th>
<th>Provisional 2018/19 Allocation £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Needs Block</td>
<td>26,530</td>
<td>27,935</td>
</tr>
<tr>
<td>Central Block</td>
<td>2,518</td>
<td>2,531</td>
</tr>
<tr>
<td>Schools Block</td>
<td>205,156</td>
<td>207,966</td>
</tr>
<tr>
<td>Early Years Block</td>
<td>19,681</td>
<td>tbc</td>
</tr>
</tbody>
</table>

2. Changes to the Education Funding System

Schools Block

2.1 The Government has the policy intention of moving towards a new funding system based around a national formula for school funding. The aim of this proposal is to provide more consistency and transparency around funding so that, in time, similar children in similar schools will be funded at the same level (adjusted for local cost variations.) The DfE has carried out a two-stage consultation on this topic with a first part consultation on the principles and overall methodology in spring 2016 followed by a second stage in the winter of 2016/17 on the specific weightings and allocations. The Council responded to both consultations, as did some schools, councillors, governors, parents and other interested parties.

2.2 The Schools Funding formula provides a basic unit of funding for each student in a school (72.9% of the total funding being distributed this way) with 17.8% funding allocated to factors that are indicative of additional needs (deprivation, English as an additional language and low prior attainment) and a small amount of funding for
school led funding (a lump sum and funding for rates and exceptional premises costs.) The basic unit for LBBD schools and in fact for most London schools is lower than currently used – resulting in a distribution of funding away from London on average - but the additional needs factors are highly weighted so schools with very high levels of additional needs students are partially compensated for this. Finally, a funding floor has been used to contain funding losses at a minimum level. In July 2017, the Secretary of State for Education announced that additional funding had been found within the DfE budget to ensure that the formula allowed a minimum of 0.5% increase in pupil led funding.

2.3 In practice, based on the illustrative figures published by the DfE all primary schools in the Borough would be losers under the formula before protection and so are on the funding floor receiving only the minimum increase. Most (but not all) secondary schools are potential gainers to a small extent and so will receive some increase in funding above the floor level. It is important to note that all schools are facing cost increases, both in teachers’ pay and general inflation, and so effectively a below-inflation increase amounts to a real-terms cut in funding. It should also be noted that the distribution described is based on 2016/17 data and if the pattern of the data about additional needs changes it could result in a different funding pattern.

High Needs Block

2.4 The High Needs Block provides funding for Local Authorities (rather than for delegation to schools) and is made available to meet the additional costs of supporting students with special educational needs aged 0 to 25 years. The funding was previously based on historical allocations with very little linkage to actual levels of need in an area. There is some evidence that the block is underfunded at a national level and that the distribution is not closely linked to needs in local areas. This is particularly problematic for Barking and Dagenham as High Needs spending has not kept up with the growth in the child and young person population resulting in several years of above grant spending (funding from the DSG reserve or transfers from other blocks.)

2.5 The government has also proposed a national formula for High Needs to distribute money to Local Authorities in a more consistent and transparent way. This presents a number of technical problems as establishing good data on the true drivers of need in this block remains challenging, although a number of proxy indicators have been developed. Under the proposed formula Barking and Dagenham as High Needs spending has not kept up with the growth in the child and young person population resulting in several years of above grant spending (funding from the DSG reserve or transfers from other blocks.)

Central Block

2.6 The Central Block has been created in 2018/19 by combining the residual Education Services Grant of £0.6m and £1.9m of funding allocations for central
services previously agreed by Schools Forum. The latter is made up specific continuing statutory functions (Admissions and running a Schools Forum) and local arrangements for historically agreed services. The Government’s clear intention is to move the ESG and statutory functions elements towards a per head funding regime and to taper off historically agreed services over time.

2.7 The historically agreed services within LBBD are shown in the table below.

<table>
<thead>
<tr>
<th>2017-18 Services</th>
<th>Historic Central Contribution £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trewern Outdoor Education Service</td>
<td>209</td>
</tr>
<tr>
<td>Community Music Service</td>
<td>310</td>
</tr>
<tr>
<td>Advisory Teachers</td>
<td>330</td>
</tr>
<tr>
<td>School Games Organiser Funding</td>
<td>50</td>
</tr>
<tr>
<td>School Estates</td>
<td>150</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,049</strong></td>
</tr>
</tbody>
</table>

2.8 It should be noted that the Education Services Grant has been very severely cut over the past two years. Prior to 2017/18, LBBD used to receive in the region of £3.4m to carry out a wide range of duties on behalf of maintained schools. However most of this funding has been removed with the exception of the £0.6m for a much more limited range of duties carried out on behalf of all children and schools including academies. However, the Council still retains most (if not all) of its previous responsibilities. Authorities were given the option last year to consult with their Schools’ Forum to increase their central funding from the schools block. Barking and Dagenham did not choose to pursue this in recognition of the financial pressures in schools.

**Early Years**

2.9 The Early Years funding system was reformed last year with a welcome increase for Barking and Dagenham which has been largely passed onto our providers, partners and schools in an increased basic unit rate of £4.50. The overall allocation is expected to rise again to provide adequate funding for the recently introduced thirty hours of free childcare for working families.

**Transition**

2.10 There will be a minimum two-year transition period towards the full national funding formula. In 2018/19 the schools funding will be calculated by the DfE using the national formula but then aggregated at Local Authority level. Local Authorities are expected to work with their schools to agree a local formula within the overall allocation and the parameters set by the DfE. During this period, it will be possible to make limited transfers between the blocks.

3. **The Dedicated Schools Budget Strategy for 2018/19**

3.1 The table below shows the final outturn for the Dedicated Schools Grant in 2016/17 and the subsequent impact on the reserve.
<table>
<thead>
<tr>
<th>Block</th>
<th>2016/17 Grant allocation</th>
<th>2016/17 Outturn</th>
<th>Use of Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early Years Block</td>
<td>16,858</td>
<td>16,526</td>
<td>- 332</td>
</tr>
<tr>
<td>High Needs Block</td>
<td>24,316</td>
<td>30,207</td>
<td>5,891</td>
</tr>
<tr>
<td>Schools Block</td>
<td>167,233</td>
<td>167,137</td>
<td>- 96</td>
</tr>
<tr>
<td></td>
<td>208,407</td>
<td>213,870</td>
<td>5,463</td>
</tr>
<tr>
<td>Opening Reserve at 1st April 2016</td>
<td></td>
<td></td>
<td>8,689</td>
</tr>
<tr>
<td>Reserve drawdown (net impact)</td>
<td></td>
<td></td>
<td>- 5,463</td>
</tr>
<tr>
<td>DSG reserve at 31st March 2017</td>
<td></td>
<td></td>
<td>3,226</td>
</tr>
</tbody>
</table>

3.2 There was an exceptional planned drawdown from the reserve in 2016/17 of £5.185m into the High Needs block including £3m one off investment in a borough SEN strategy to promote inclusion. Nevertheless, the High Needs block overspent by £0.7m reflecting the huge pressures in this area.

3.3 There is a further planned drawdown of £1.256m in 2017/18 – again largely for High Needs. This will reduce the reserve to £1.97m – that is to less than 1% of the total DSG. Given the risks of overspending it would not be prudent to plan to draw down any further from this reserve.

3.4 It is therefore proposed to transfer 0.5% of the 2018/19 Schools block allocation to the High Needs block to meet the forecast pressures in that block. This is the maximum permitted transfer and amounts to £1.197m which is just under the estimated funding gap of £1.221m. This assumption in itself depends on a reduction of out of borough placements and managing demand and cost increases to no more than 1%. This will require strict attention, strong financial management and close partnership working between the borough, schools and other partners.

3.5 The impact of the transfer is that there is less money available to distribute directly to schools. However, schools that include pupils with high levels of special educational needs are likely to benefit from the availability of funding to meet the needs of those students.

3.6 Schools Forum have been consulted on this transfer and approved it for 2018/19. It will be reviewed again next year and will be reversed if not required.

3.7 It is also proposed to set aside a growth fund of £3.5m. This is used to provide funding for growing schools and additional classes that have been agreed with the Borough in order to meet our responsibilities for place planning. The amount of £3.5m is sufficient to cover all currently known expansions (including where previously agreed increases in reception class numbers work through the school) plus a small contingency. Any funding underused at the end of the year will be carried forward to future years.

3.8 No new funding has been set aside to support Schools Facing Financial Difficulties. This now operates as a loan scheme and future support will be funded from loan repayments made by former recipients. However, this will be kept under review especially as it is expected that the next few years will be challenging for all schools especially smaller primaries.
3.9 It is proposed to maintain the Central block allocation provided in the grant and this has been agreed with Schools Forum. However, it will be important to develop options to safeguard the future of the historically agreed services. The School Improvement partnership will provide a future framework for some of these services however further work will be needed to consider options for Trewern and the Community Music service. This may include changes to service provision or introduction of some additional charges. This needs to be done with care in order not to have an adverse impact on poorer families or other vulnerable or protected groups. Further reports will be brought to Cabinet over the few years as the funding situation develops.

3.10 Cabinet are asked to approve the budget setting principles set out above and in particular the transfer between Schools and High Needs block and the amount set aside for the Growth fund.

4. The School Funding Formula for 2018/19.

4.1 Although funding has been calculated using the national funding formula at Local Authority level it is not actually possible to exactly replicate this at local level for a number of technical reasons including the following:

- for many schools especially primaries, the formula produces a funding loss in the first instance but protection has been applied to reduce the loss. However the funding model that Local Authorities are required to use calculates protection in a different way.
- In particular the greatest protection that can be set is zero loss not a small increase. (The DfE may change this when they issue the final guidance in December but this is not certain.)
- The national formula does not include a factor for mobility or split sites but these are important local factors.

4.2 In addition, the need to transfer funding to the High Needs block and to set aside a Growth fund does necessarily mean that there is less funding available for direct redistribution.

4.3 It is also a concern that the impact of the formula is uneven in the borough with primaries as a group being more adversely affected than secondaries. For a number of years it has been a local principle that the overall funding ratio between the two sectors should be 1:1.30 (or as near as technically possible.)

4.4 For this reason Council officers have consulted with the Schools Forum and local schools on three options:

- Option one – to adjust the formula in order to bring the funding balance back to the previously agreed ratio of 1:1.30
- Option two – to adjust the formula in order to bring the funding balance to 1:1.34 in 2018/19 (ie a transitional figure between options one and three)
- Option three – to accept the funding balance produced by applying the national formula of 1:1.43.
4.5 Schools Forum in their initial meeting on the 17th October were supportive of option two. There were 23 responses to the consultation with schools (40%), with 13 (56.5%) selecting option 1 as their preference, with 10 (43.5%) selecting option 2.

4.6 Although there was a small majority in favour of option one the result of the consultation is not conclusive given the clear expectation of the DfE that the transition years should be used to move towards the new formula. The Schools Forum on the 22nd November therefore approved option two. It is therefore recommended that the Cabinet also approve this option.

4.7 Following this principle it is recommended that the Cabinet approve the funding factors set out in Appendix A. These factors have been established using the National funding formula amounts as a starting point but the basic age weighted pupil funding has been adjusted to produce a funding balance of 1:1.34 as set out above.

4.8 In addition the factor for Looked After Children has been removed as it has been replaced by an increased Pupil Premium amount. However, the mobility factor has been retained as this is an important local factor.

4.9 The DfE will release updated census data and revised funding allocations based on that in December. When this is published it may be necessary to adjust some factor weightings or other aspects of the calculation. This will be done in line with the principles approved and in consultation with Schools Forum. Cabinet are asked to approve delegated authority of the final sign off to the Strategic Director for Service Development and Integration in consultation with the Chief Operating Officer and the Cabinet Member for School Improvement and Educational Attainment.

5. Financial Implications

Implications completed by: Katherine Heffernan, Group Manager Service Finance

5.1 The Dedicated Schools Grant is a ringfenced grant provided by the DfE. The anticipated allocation for 2017/18 will be confirmed once October 2017 pupil census data is finalised but is expected to be at least £238m.

6. Legal Implications

Implications completed by: Lucinda Bell, Education Lawyer

6.1 The report updates Cabinet on changes to schools funding and the likely effect on this Authority. This information should be used to inform the decisions Cabinet is requested to make in this report.

6.2 Cabinet is requested to approve the 2018/2019 strategy for the dedicated schools budget, as set out in the report. The Authority is bound by the School’s Forum (England) Regulations 2012 to consult with the Schools Forum on certain financial issues including, under regulation 10 (1)(d), administrative arrangements for the allocation of central government grants paid to schools via the Local Authority. Under regulations 8 and 9 of the School Finance Regulations 2016, the Authority may change the formulae which it previously determined, but must consult with Schools Forum and schools it maintains about proposed changes in relation to the
factors and criteria taken into account, and the methods, principles and rules adopted. Details of this consultation with the Schools Forum are given in the body of the report. Cabinet is asked to decide the proposed model of allocation of school funding for 2018/2019, as per the report.

6.3 Cabinet is requested to delegate authority to the Strategic Director for Service Development and Integration, in consultation with the Cabinet Member for Educational Attainment and School Improvement, the Chief Operating Officer and the Schools Forum, to approve the final 2018/19 school funding formula submission to the Education Funding Agency. The Authority’s Officer Scheme of Delegation gives authority to the Strategic Director of Service Development and Integration for all matters within the remit of education, save for those reserved to Member-level meetings or other specific provisions within the Constitution.

7. Other Implications

7.1 Risk Management – There are several risks in relation to the national funding reform proposals. The first risk is that Barking and Dagenham loses funding as a whole; secondly the national formula may differ from our local formula resulting in large changes in distribution of funding between schools. There are also significant risks if the funding formula for High Needs does not reflect the true level of need within the borough and the pressure on the block worsens.

The Minimum Funding guarantee that limits any reduction in funding to -1.5% per pupil offers some mitigation as it provides a smoothing mechanism preventing sudden funding changes. In addition, the Council operates a fund for Schools Facing Financial Difficulties. The Council will continue to work with Schools and others to ensure there are high standards of financial management and control to meet these funding challenges.

7.2 Staffing Issues – The MFG should mean that consequent reductions in staff can be managed by schools in a phased way. Many schools continue to see growth in pupil numbers. In most cases schools should be able to manage through the usual staff turnover processes.

7.3 Customer Impact – Schools will continue to take steps to minimise any adverse impact on outcomes for children.

7.4 Safeguarding Children – Increases in the pupil premium provide targeted support for looked after children and those entitled to free school meals.

7.5 Health Issues – The health and wellbeing board and Joint Strategic Needs Assessment (JSNA) highlight the importance of investing in early intervention to support children’s long-term wellbeing. The reports draw attention to the impact of family background, parental education, good parenting, primary education and the opportunities for learning and development in the crucial first five years of life, and identified what matters most in preventing poor children becoming poor adults.

Public Background Papers Used in the Preparation of the Report: None

List of appendices:
Appendix A: Schools Funding Formula Factors