

CABINET

18 December 2019

Title: Dedicated Schools Budget and School Funding Formula 2020/21	
Open Report	For Decision
Wards Affected: All	Key Decision: No
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Accountable Directors: Philip Gregory – Director of Finance Jane Hargreaves, Commissioning Director – Education, Youth and Childcare	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer Elaine Allegretti, Director of People and Resilience	
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 2020/21 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 2020/21 strategy for the Schools Block as set out in section 3 of the report; (iii) Agree, subject to consultation with schools and (iv) below, to adopt the proposed model as the method for allocating school funding in 2020/21, as set out in section 4 and Appendix A of the report; (iv) Note the allocated funding for the High Needs Block as set out in section 5 of the report; (iv) Approve, subject to final confirmation of Early Years funding, the increased hourly rates for two, three and four-year olds as set out in section 6 of the report; and (v) Delegate authority to the Director for People and Resilience, in consultation with	

the Chief Operating Officer, the Schools Forum and the Cabinet Member for Educational Attainment and School Improvement, to approve the final 2020/21 school funding formula submission to the Education Funding Agency.

Reason(s)

The Dedicated Schools Budget is part of the Council's overall budget and Local Authorities are required to develop and maintain a Local Funding Formula to distribute funding to schools.

1. Introduction and Background

- 1.1 Most Education funding including the bulk of funding for individual schools is provided by the Department of Education in the form of a specific ringfenced grant to Local Authorities known as the Dedicated Schools Grant (DSG). This grant was originally introduced in 2006 based on the allocations that Local Authorities were making at that time for Education and Schools. Although the grant has been modified in various ways since that time it remained based on those historic allocations until 2018.
- 1.2 The grant is made up of four distinct blocks of funding: the Schools Block based on an individual school level national funding formula plus an authority level allocation for pupil growth, the High Needs Block (HNB) allocated to Local Authorities to support the education of pupils with additional needs and disabilities, the Early Years block which funds education for two, three and four year old children and the Central Services to Schools Block (CSSB) which is provided to Local Authorities to meet some of their education responsibilities (new since 2018/19). This report will consider each of these blocks in turn.
- 1.3 The Department of Education has been committed for a number of years to an updating the funding system and in 2016 brought forward proposals for a National Funding Formula (NFF) to replace the historic allocations. When fully implemented the allocation to individual schools will be determined by this national formula although the Local Authority will still be responsible for other elements (growth, HNB, CSSB. However the implementation is phased and in 2020/21 which is the third year of the transition period, Local Authorities still have the ability to set a local formula in consultation with their local schools and School Forum.
- 1.4 Although Schools had previously been somewhat sheltered from the impact of austerity, in recent years Education funding has not been increasing in line with inflation resulting in a real terms reduction in funding. There are severe pressures in the High Needs Block which has been historically underfunded in comparison with the level of demand and in the schools block the reallocation of funding implicit in the new National Funding Formula has meant that Barking and Dagenham schools have received only small increases in their per pupil funding (0.5% for primaries and only slightly more for secondaries.) Where this has been combined with a short term reduction in pupil numbers from a small demographic dip this has led to actual overall cash reductions for a small number of schools. All schools will have experienced real terms reductions and some level of budget pressure.

1.5 Following intensive lobbying from many interested parties across the country including locally our own councillors, MPs, headteachers and governors and the teaching unions, Central Government has increased the overall funding available. This has resulted in a large increase in the High Needs block funding (17.6%) and a small increase (3.4% overall or 2.8% per pupil) in Schools funding. At 17.6% the increase in the High Needs Block funding is proportionately the largest increase in the country which underlines the level and extent of the growth in high needs which the borough has been experiencing, largely unrecognised in funding allocations over many years. The increase brings funding more in line with the level of demand but is not sufficient to make up for years of financial pressures. Moreover it should be noted that other elements of funding – the Growth fund and the CSSB have reduced and that the per pupil increase in schools funding still leaves a real terms reduction since the introduction of the new funding formula.

2. The Dedicated Schools Grant (DSG)

2.1 As described above the Dedicated Schools Grant has sub-components or “blocks” which are allocated to fund different aspects of the Education system. The table below shows the baseline allocation for Barking and Dagenham since 2017/18 (ie before the introduction of the new funding formulae) and the baseline indicative figures for 2020/21. These allocations were published on 21st October 2019 (somewhat later than in previous years.) These baseline indicative figures are based on school census data from October 2018 and will be subject to change based on the October 2019 census. The Early Years allocation has not yet been published but the 2019/20 amount is shown for information.

Table One: DSG 17/18 Baselines and provision 2018/19 allocations:

	2017/18 Baseline £000	Current 2018/19 Allocation £000	2019/20 Allocation £000	Indicative 2020/21 Allocation £000
Pupil numbers		38,437	38,661	38,661
High Needs Block (before recoupment)	26,530	27,971	31,678	37,253
Central Block	2,518	2,531	2,574	2,338
Schools Block (exc growth)	205,156	208,217	213,657	218,885
Early Years Block	19,681	21,319	22,230	tbc

Notes: - the HNB is before Recoupment ie includes funding for academies etc that will not come directly to the Borough.

The Schools block does not include Growth fund.

2.2 Further information about each block is provided below.

3. Schools Block

3.1 The national formula for schools funding is intended 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.) It therefore provides a basic age weighted pupil unit (AWPU) of funding for each student in a school with further 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.)

- 3.2 The AWPU in the national formula is lower than was previously the case for LBBB schools (this is the case for most London authorities) resulting in a distribution of funding away from London on average. However, the additional needs factors are highly weighted so schools with these kinds of students are partially compensated for this. Finally, a funding floor has been used to contain funding losses at a minimum level. For 2020/21 this has been set at 1.84%.
- 3.3 In 2020/21 a new factor was included in the national formula for in year pupil mobility. This was lobbied for by urban authorities as a driver of additional needs/costs but was previously only a local factor. The new national factor is £989/£1412 (primary/secondary) – which is higher than the previous LBBB unit factor of £422/£700.
- 3.4 There are still some funding elements for special premises factors such as business rates and PFI that have yet to be converted into formulas. Although the DfE is still exploring whether this can be done, funding is still based on historic LA allocations. As by their nature these kinds of costs are very individual and, in most cases, not easily controlled or changed this could present a risk for authorities if the formula allocation does not provide a good match for the distribution of costs. However this is likely to be mitigated by some level of transitional protection.
- 3.5 In practice, if the national funding formula were fully implemented as a hard formula based on the illustrative figures published by the Department of Education all primary schools in Barking and Dagenham bar one are on the funding floor receiving only the minimum increase in per pupil funding of 1.84%. Of the thirteen secondary and all through schools, two also receive an 1.84% per pupil increase and the other eleven would receive an average per pupil increase of 3.34%. This presumably reflects greater levels of need as measured by the formula among secondary pupils. (This does not necessarily reflect actual need as is affected by the level of take up of free school meals for example.)
- 3.6 In addition to the individual school allocations the Schools block also includes allocations for the special premises factors and funding for growth in pupil numbers post the October 2018 census. The special premises funding tends to lag behind budget requirements which results in a slightly lower amount being available for distribution.
- 3.7 Since 2018/19 growth funding has been allocated based on a formula which has resulted in a reduction in the growth funding available to this borough. The formula is time lagged (being based on changes between the 2019 and 2018 census figures) and appears to provide a less generous allocation than the previous arrangements. However this has been mitigated by transitional protection. For the 2018/19 financial year LBBB received £4.044m growth funding but under the formula calculation the 2019/20 was only £1.938m before protection and £2.983m after protection. In 2020/21 this will reduce again to £2.5m. In the light of this reduction in consultation with Schools Forum we changed our growth policy last year to reduce the funding allocated for new classes to be AWPU only (instead of the previous AWPU + 20%.) Despite this change the funding available is short of

the budget requirement for all planned growth and funding will need to be held back from distribution. Failure to do this would mean that growing schools would be severely disadvantaged and could lead to a shortage of places especially in the secondary phase.

- 3.8 Finally there are a number of primary schools that have seen a reduction in pupil numbers as a result of a temporary dip in the birth rate. This is expected to reverse in the coming years but is causing a current squeeze in funding. We therefore propose to make an allocation to support primary schools with large reductions in funding as a result of falling rolls. This was approved in principle by Schools Forum and we will be including in our consultation with all schools. If this is not agreed, the amount for distribution would increase resulting in a very small increase in the AWPU amounts (approx. 0.3%)

	Schools Block Allocation	Budget Required
	£000	£000
Schools Block	218,885	
19/20 Pupil growth adjustment (estimate)	1,584	
Distributed through the formula		218,738
2020/21 Growth Fund (estimate)	2,549	3,781
Falling Rolls	0	500
TOTAL	223,018	223,018

- 3.9 Cabinet are asked to approve the approach to the Schools Block outlined above.

4. The LBD School Funding Formula for 2019/20.

- 4.1 Although funding has been calculated using the national funding formula at Local Authority level Authorities have the ability to vary this in consultation with their local forum.
- 4.2 For Barking and Dagenham the need to set aside additional Growth fund, premises factors funding and a fund for Falling rolls 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.) The operation of the national funding formula however results in a ratio of 1:1.40.
- 4.4 In the previous two years it was agreed that the local formula would be adjusted in order to bring the funding balance approximately one third of the way towards the national formula ie to a ratio of 1:1.34. This would allow a gentler transition towards the eventual funding balance and would offer some protection to primary schools. In practice this was further dampened down by the requirement to offer funding floor protection so in practice the final ratio was in the region of 1:1.31.

- 4.5 In addition to the change in the funding formulas, some primary schools are also being affected by a range of other factors including reductions in pupil numbers from a temporary demographic dip, low take up of early years places, and reduction in pupil premium funding along with supporting increasing numbers of children with complex and additional needs. It is also evidently true that improved attainment in secondary schools is dependent on a strong primary sector.
- 4.6 The Council and Schools Forum have therefore agreed that the Barking and Dagenham local funding formula be based on the following principles:
- Funding should be set aside to support premises factors, the full growth fund requirement and a fund to support schools with falling rolls
 - The national funding formula factors should be used for all the additional needs
 - The AWPU factors should be adjusted in order to meet the funding available.
 - All schools should receive the minimum funding per pupil amounts set out in the national formula either through the AWPU or through MFG
 - All schools should receive as close to the 1.84% uplift as is possible within the total funding available.
 - Additional funding above this level should be allocated to secondary school factors so long as it does not move the ratio above 1:1.35 (midway between the current formula and the impact of the NFF.)
- 4.7 These principles were approved at the recent Schools Forum meeting on 26th November. A consultation with local schools is currently under way. It is therefore recommended that the Cabinet approve in principle the funding factors set out in Appendix A subject to consultation with Schools. 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 in line with the principles above.
- 4.8 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 and local schools. Cabinet are asked to approve delegated authority of the final sign off to the Director of People and Resilience in consultation with the Chief Operating Officer and the Cabinet Member for School Improvement and Educational Attainment. Any significant changes will be reported back to Cabinet in February.

5. High Needs Block

- 5.1 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. Over recent years it has become very apparent that the national quantum of funding was not sufficient to meet the true levels of need. Following consistent lobbying from across the country including by our own councillors, MPs, Headteachers and Governors and the Teaching Unions this has been recognised by Central Government with the announcement of additional funding for 2020/21 nationally. The allocation to individual areas varies reflecting the pre-existing gap between historic funding and the local level of need as defined

in the HNB funding formula. LBBD had one of the largest existing funding gaps (in the region of £4m) and so received the maximum possible uplift of 17%.

- 5.2 As a reflection of the historic underfunding and the high levels of demand in previous years there have been severe financial pressures on the High Needs Block which have required the transfer of £1.1m (or 0.5%) from the Schools Block to the HNB. This is not expected to be required in 2020/21.
- 5.3 The High Needs Block will continue to need careful management in order to contain costs within the total funding. The Authority works closely with representatives from local schools through the High Needs Working Party in order to devise strategies to manage and reduce demand and control costs.
- 5.4 Cabinet are asked to note that the increase in HNB funding means that the intra block transfer is no longer required but that there are still demand risks to this budget and stringent management will still be required.

6 Central Block

- 6.1 The Central Block was 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.
- 6.2 The historically agreed services within LBBD are shown in the table below along with the ongoing central services element. (Note this is the grant allocation – not necessarily the current budget.)

Services	2019/20 £000	Indicative 2020/21 allocation
On going central services element	1,418	1,413
Trewern Outdoor Education Service	209	167
Community Music Service	310	248
Advisory Teachers	330	264
School Games Organiser Funding	50	40
School Estates	150	120
School Improvement	108	86
Total	2,575	2,338

- 6.3 The funding for the historic services has been reduced by 20% in line with the previously announced taper strategy. This will require the services funded from these allocations to either reduce their costs or to increase income through increased trading or charging.

6.4 Cabinet are asked to note the reduction in historic allocation funding for Central Services as outlined above.

7. Early Years

7.1 The Early Years funding system was reformed in 2017/18 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 allocation basis has been increased in 2020/21 by an additional £0.08 per child per hour. It is proposed to passport this increase through to providers. The hourly rates to providers for children in LBBD will therefore be as follows:

	2019/20 hourly rate	2020/21 hourly rate
Two year olds	£5.35	£5.43
3 and 4 year olds	£4.70 to £5.22	£4.78 to £5.30

8. Financial Implications

Implications completed by: Katherine Heffernan, Group Manager Service Finance

8.1 The Dedicated Schools Grant is a ringfenced grant provided by the Department of Education. The anticipated allocation for 2020/21 will be confirmed once October 2017 pupil census data is finalised but is expected to be at least £238m. Any further implications will be reported to Cabinet as part of the final budget report in February.

9. Legal Implications

Implications completed by: - Dr Paul Field, Senior Governance Lawyer

9.1 The Schools Forum is a decision making and consultative body in relation to matters concerning schools' budgets as defined in the School Finance (England) Regulations 2012 and the Schools Forums (England) Regulations 2012 (the Regulations).

9.2 In accordance with the Regulations, the Local Authority must submit to Schools Forum for consultation the Budget formula, for comments on any proposed changes to the funding formula for maintained schools (before the funding period starts) (Regulations 8 & 9).

9.3 This report requires that Cabinet Delegate authority to the Strategic Director for People and Resilience in consultation with the section 151 officer, Schools Forum and with the Cabinet Member for Educational Attainment and School Improvement to approve the final 2020/21 school funding formula submission to the Education Funding Agency.

10. Other Implications

10.1 **Risk Management** – There are several risks in relation to the national funding reform proposals. The first risk is that Barking and Dagenham is losing funding as a whole; secondly the national formula differs from our local formula resulting in large

changes in distribution of funding between schools and especially a change in the balance of funding between primary and secondary schools.

There are also significant risks as the funding formula for High Needs still does not fully reflect the true level of need within the borough and although it has been reduced there is still a level of pressure on the block.

The Minimum Funding guarantee that limits any reduction in funding to 1.84%% per pupil and the Funding Floor that protects funding per pupil at 1% above the 2017-18 baseline offer some mitigation as it provides a smoothing mechanism preventing sudden funding changes.

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.

- 10.2 **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. In addition the Council operates a fund for Schools Facing Financial Difficulties and is consulting on the establishment of a Falling Rolls fund.
- 10.3 **Customer Impact** – Schools will continue to take steps to minimise any adverse impact on outcomes for children.
- 10.4 **Safeguarding Children** – The additional needs factors and the pupil premium provide targeted support for looked after children and those entitled to free school meals.
- 10.5 **Health Issues** – The health and well being board and Joint Strategic Needs Assessment (JSNA) highlight the importance of investing in early intervention to support children's long term well being. 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 – Funding Formula Rates