



## SCHOOLS FORUM

### School Funding Update

5 December 2016

Content Applicable to;		School Phase;	
Maintained Primary and Secondary Schools	X	Pre School	X
Academies	X	Foundation Stage	X
PVI Settings	X	Primary	X
Special Schools / Academies	X	Secondary	X
Local Authority	X	Post 16	X
		High Needs	X

### Purpose of Report

Content Requires;		By;	
Noting	X	Maintained Primary School Members	
Decision		Maintained Secondary School Members	
		Maintained Special School Members	
		Academy Members	
		All Schools Forum	X

1. This report provides an overview of;
  - The 2017/18 Dedicated Schools Grant Settlement
  - 2017/18 School Funding
  - Redefinition of 'estimated pupils' in respect of the pupil number adjustment arising for schools undertaking or being affected by age range changes
  - The impact of the introduction of the Apprenticeship Levy on schools
  
2. It was hoped that this report would set out the potential changes to the school funding system for 2018/19, however at time of publication no information had been published by the Department for Education.

### **Recommendations**

3. That Schools Forum note the content of this report.
4. That Schools Forum Members ensure that the schools they represent are aware of the content of this report.

### **Dedicated Schools Grant Settlement 2017/18**

5. In March 2016 the Department for Education (DfE) consulted on significant changes to the Dedicated Schools Grant (DSG) including the introduction of a national funding formula for schools and a formulaic basis for the calculation of High Needs funding to be implemented in 2017. It was announced in July by the Secretary of State that this would be postponed for one year with a further announcement being made 'later in the autumn'. At the time of publication no further information had been released by the DfE leaving the basis of DSG and school funding uncertain for 2018/19.
6. DSG has remained largely based upon local authorities 2005/06 expenditure. In preparation for the expected national funding formula the EFA undertook an exercise to baseline the 2017/18 blocks in line with local authorities expenditure. For the 2017/18 settlement the funding transfer from the schools block to the high needs block increases the high needs block allocation.
7. DSG rates have not increased for 2017/18, comparison of the combined Schools and High Needs Blocks confirms a low funding position for Leicestershire of £4,867.44 per pupil, 12% lower than the national average and 3<sup>rd</sup> lowest of all authorities. As a result significant funding pressures are being incurred in both school budgets where costs are continuing to rise but funding is on cash flat basis and the high needs block is affected continued growth in numbers and costs.

### **Schools Block**

8. The Schools Block allocation for 2017/18 continues to incorporate academy funding, the process whereby local authorities calculate budgets for both maintained schools and academies with the EFA then recouping the funding to pay academies directly remains in place for 2017/18. Schools Block funding is confirmed at £4,156.59 per pupil, placing Leicestershire 2<sup>nd</sup> lowest funded and 12% lower than the national average.
9. A centrally retained element relates to budgets retained by the local authority for pre 2013 historic costs and for nationally negotiated contracts for school copyright licences. These have been approved annually by the Schools Forum. The EFA have undertaken an exercise to validate this expenditure meets the rules for historic commitments, the funding held in Leicestershire has passed that validation. Given the EFA's views that historic commitments should have rolled out now the funding has been confirmed for 2017/18 but there is no confirmation that this will continue for 2018/19. The significant expenditure here is past premature retirement costs for school based staff which goes back many years.
10. It is proposed that the estimated £3m headroom within the Schools Block is transferred to high needs. Whilst the position has not changed, this proposal remains under discussion and is included in the 2017/18 refresh of the County Council's Medium Term Financial Strategy. The views of the Schools Forum and the Formula

Working Group that all or some of the Headroom should be used to address the Key Stage 3 funding disparity have been noted.

11. An element of Education Services Grant (ESG) is transferred to DSG for 2017/18. ESG was previously paid to local authorities at two rates;
  - Retained duties to reflect local authority statutory duties for all pupils in maintained schools and academies. For 2017/18 this funding is included within the Schools Block DSG.
  - General Duties to reflect local authority responsibilities to maintained schools and those transferred to academies on conversion, this funding is removed from both local authorities and academies from September 2017.
12. One area funded by the general duties funding recognised the role of local authorities and academies in school improvement. Other areas of activity will also be unfunded such as asset management and other duties such as finance, HR and ICT that are retained. Whilst it is possible for local authorities to 'top-slice' funding from maintained schools, the practical and technical process needed to undertake it makes it almost impossible to achieve
13. The removal of the General Duties element of ESG affects both the County Council and academies, neither will receive funding post August 2017. The March funding consultation referred to transitional arrangements for academies but not for local authorities. This is a direct funding cut.

### **High Needs Block**

#### **2016/17 Budget Position**

14. The financial projections for the High Needs Block for the current and two subsequent years are detailed within the following table:

	<b>16-17 Fcast £,000</b>	<b>17-18 Budget £,000</b>	<b>18-19 Budget £,000</b>
Placement Costs	54,448	56,418	56,693
Estimated Placement Growth		1,800	1,900
Other High Needs Expenditure	9,218	9,166	9,166
<b>Total High Needs Expenditure</b>	<b>63,666</b>	<b>67,384</b>	<b>67,758</b>
<u>Funded By:</u>			
Dedicated Schools Grant - High Needs	-52,761	-61,880	-61,880
Dedicated Schools Grant - Schools Block	-7,151	-3,000	
6th Form Grants - EFA - special schools	-860	-860	-860
Estimated Potential Impact of Formulaic Grant			1,000
Expected Grant Baseline Adjustment			-3,000
<u>Proposed Savings:</u>			
Schools Causing Concern		-100	-120
Specialist Teaching Services		-788	-1,351
SEN Placements		-726	-1,496
Oakfield		-30	-51
<b>Forecast Overspend</b>	<b>2,894</b>	<b>0</b>	<b>0</b>
Funded From Reserves	-2,894	0	0
<b>Cost to Local Authority Budget</b>	<b>0</b>	<b>0</b>	<b>0</b>

15. The High Needs Block for 2017/18 is provisionally set at £61.88m but will not be finally confirmed until March 2017 and converts to £710.85 per pupil placing Leicestershire 38<sup>th</sup> lowest funded and 17% below the national average of £859 per pupil. This is a further indicator of Leicestershire's low funding position whereby funding within this block has increased as a result of the 2016/17 transfer from the school block yet remains significantly behind the national average.
16. Local authorities have been responsible for top up funding for post 16 students in further education and other post 16 providers, for 2017/18 the place led element has transferred from the EFA to local authorities.
17. As set out in the above table the high needs DSG is insufficient to meet the financial commitments against it for both 2017/18 and 2018/19. In order to protect the local authority budget it is necessary to deliver savings of £1.644m rising to £3.146m in 2018/19. This is however a minimum savings requirement, any further increase in demand will need compensating savings, with the DSG reserve fully committed there is no further capacity to absorb costs arising from deficits reverting to the local authority as maintained schools convert to academies under sponsorship arrangements and school growth and further savings will be required.
18. The savings requirement outlined above assumes that the High Needs Block benefits from the full transfer of the estimated £3 million headroom in the schools block DSG settlement which will only be confirmed in early February when all school budgets

are calculated from the October school census data. Should the headroom be less than £3m further savings will be required, this will need to be within placement costs and / or other services funded from the high needs block.

19. There are a however a number of unknowns within the financial projection. Based on previous trends it is assumed that growth in pupils of 2.9% will occur and although it is not possible to precisely predict the cash impact of the change in allocation methodology for the grant it is estimated that a shortfall may occur, it is expected that the next stage of the funding consultation will exemplify that impact.

### **Early Years Block**

20. The July funding announcement set out early years funding but excluded funding for the expansion of the Free Entitlement to Early Education (FEEE) to 30 hours for eligible pupils to be implemented from September 2017. The DfE released a consultation in July on the introduction of a national funding formula for early years providers and included the impact of the expansion of FEEE in July. The outcome of this consultation is unknown.
21. The consultation proposes that local authority funding will be generated by a formula reflecting pupil characteristics and that 95% of the funding should be delegated to providers also based on pupil characteristics. It also proposed that maintained nurseries should receive funding at the same rate as Private, Voluntary and Independent providers, this would deliver a significant reduction in funding to the one maintained nursery in Leicestershire and conversations are being held with the school to ensure they are able to respond to this nationally led reduction in funding.
22. The proposal to require 95% to providers may require the early years and childcare offer to be reduced, it will also be exceptionally difficult to manage given that the grant itself varies throughout the financial year given there is no clarity what the 95% actually refers to.
23. The proposed settlement is £26m, this includes both an increased average hourly payment for the County Council and providers and funding for the increased offer for 30 hours provision from September 2017. This delivers an estimated hourly rate of £4.05 and places Leicestershire as the 14<sup>th</sup> lowest funded authority, an average hourly rate for providers of £3.77 is illustrated although it should be noted that with a formula based on pupil characteristics this will be different for each provider. The final figure will not be known until after the early year's census in January 2017.
24. The consultation proposes no changes to FEEE for disadvantaged two year olds and rates are expected to remain at £4,607.50 per FTE pupil.

### **2017/18 School Funding**

25. There is estimated to be c£3m headroom within the Schools Block settlement and discussions are ongoing within the County Council on whether any of this could be used to address the Key Stage 3 funding disparity, the proposal of the County Council is that the headroom should be used to support the ongoing financial commitments to high needs.
26. The local authority is proposing to make no changes to the school funding formula, other than enacting a change to reflect the new bandings introduced to the allocation

of IDACI implemented by the EFA, this was discussed at a meeting of Schools Forum on 5 October and has been discussed at a meeting of the Formula Working Group.

27. It may however be necessary to adjust some of the values within the funding formula to account for changes in the underlying data that may increase the overall cost of the formula that may require an adjustment in the AWPU values. Two issues have currently been identified – IDACI re-banding and increases in the rateable values of schools. Both are separately discussed within the following sections of this report.

### IDACI Data

28. The IDACI dataset used by the EFA in the school funding system is updated every 5 years, it was updated in 2016/17 and created a significant amount of turbulence in school budget allocations both local and nationally. The EFA have responded to the concerns expressed by local authorities and have restated the IDACI bands to roughly the same proportion of pupils in each band which will be reflected in the final dataset issued with which to calculate school budgets. Modelling however shows that this change could have a cost implication of c£1.5m, this was considered by the Formula Working Group who agreed with the local authority approach to restate the funding per for 2017/18 to reflect the proportionality;

#### 2016/17 Bandings

Description	Primary amount per pupil	Secondary amount per pupil	Eligible proportion of primary NOR	Eligible proportion of secondary NOR	Allocation £m
IDACI Band 1	£625.00	£634.00	3,952.24	2,557.55	4.1
IDACI Band 2	£625.00	£634.00	2,014.56	1,480.35	2.2
IDACI Band 3	£937.00	£951.00	2,561.00	1,797.19	4.1
IDACI Band 4	£1,250.00	£1,268.00	931.17	995.38	2.4
IDACI Band 5	£1,562.00	£1,584.00	535.48	567.23	1.7
IDACI Band 6	£1,875.00	£1,901.00	4.84	17.15	0.0
					<b>14.6</b>

#### 2017/18 Bandings at 2016/17 Funding Rates

Description	Primary amount per pupil	Secondary amount per pupil	Eligible proportion of primary NOR	Eligible proportion of secondary NOR	Allocation £m
IDACI Band F	£625.00	£634.00	3,966.75	2,560.43	4.1
IDACI Band E	£625.00	£634.00	2,016.65	1,482.16	2.2
IDACI Band D	£937.00	£951.00	1,631.24	1,040.12	2.5
IDACI Band C	£1,250.00	£1,268.00	936.63	760.62	2.1
IDACI Band B	£1,562.00	£1,584.00	932.07	995.93	3.0
IDACI Band A	£1,875.00	£1,901.00	540.12	584.88	2.1
					<b>16.1</b>

### 2017/18 Bandings at Restated 2017-18 Funding Rates

Description	Primary amount per pupil	Secondary amount per pupil	Eligible proportion of primary NOR	Eligible proportion of secondary NOR	Allocation £m
IDACI Band F	£625.00	£634.00	3,966.75	2,560.43	4.1
IDACI Band E	£625.00	£634.00	2,016.65	1,482.16	2.2
IDACI Band D	£937.00	£951.00	1,631.24	1,040.12	2.5
IDACI Band C	£937.00	£951.00	936.63	760.62	1.6
IDACI Band B	£1,250.00	£1,268.00	932.07	995.93	2.4
IDACI Band A	£1,565.00	£1,593.00	540.12	584.88	1.8
					<b>14.6</b>

Whilst this shows a reduction in the funding rate at the higher IDACI bandings, this is compensated for at school level by higher pupil numbers and has a minimal effect on school budgets. Maintaining the methodology for the bandings will limit any changes to the underlying data.

### Revaluation of Ratable Values of Schools

29. Nationally the rateable value of business properties has been completed by the Valuation Agency, this has shown that the rateable values of many schools have increased. As rates is the only area that provides funding to schools on actual cost this will increase the funding required within the formula, this is not reflected within the DSG settlement.
30. Nationally the rates system is moderated by a fixed multiplier, for 2016/17 the standard multiplier is 49.7p which converts the rateable value into the annual rates bill. It is speculated that because of the increase in the values that the multiplier will

reduce and rates bills may be at similar levels as for 2016/17 but this has not been confirmed

### **Pupil Number Adjustments – Age Range Changes**

31. As discussed in previous meeting the general demographic shift in pupils as a result of age range changes has become impossible to disaggregate from that specifically related to age range changes. The current methodology for the pupil number changes was designed purely to reflect the redistribution of pupil numbers and not general increases in number arising from popularity changes or general pupil number growth, schools not affected by age range changes do not get funding for that pupil change until the following year.
32. For the first time for September 2016 changes pupil number growth was identified in a number of affected areas, additionally as a result of PAN increases numbers exceed that as set out in the business cases submitted by academies. The local authority receives no funding for these additional pupils and it has therefore been necessary to clarify the term 'estimate' used within the current methodology.
33. The following definition has been discussed and agreed within a sub group of the Formula Working Group and will be used for September 2017 age range changes;
  - a) The initial estimate will be up to a maximum of the initial PAN for both Year 7 and Year 10, the initial PAN is that set by the school at the start of the age range change in its business plan, and this figure will continue to be used as a maximum adjustment even if the school increases its PAN during the period of age range change. This will mean that;
    - An upper school would be restricted to having a maximum of its initial Year 7 PAN added to its pupil numbers for the 3 years of change.
    - A high school would be restricted to its initial Year 7 PAN for the number to be added to Year 10 for the 2 years of change. So a high school with a pre-change PAN of 200 that restricts its PAN to 150 would have a maximum of 150 added to its pupil numbers at Year 10 even if it retained 160. The 160 would form part of its lagged funding in the usual way the following year
  - b) The initial estimate will be the estimated number of children expected to start (year 7) or remain (year 10), or the school PAN, whichever is lower. The number expected to start will be based on first preferences expressed to Admissions.
  - c) The actual number will remain taken from the October census, but the age range change adjustment will not be increased if this is higher than the estimate. The exception to this will be if the increase is due to 2<sup>nd</sup> or 3<sup>rd</sup> Year 7 preferences known at the time of the estimate but not included in the estimate (which will cover only 1<sup>st</sup> preferences). Any increase due to these 2<sup>nd</sup> and 3<sup>rd</sup> preferences taking up a place will be funded (up to the PAN). Year 10s who were not Year 9s at the school previously will be excluded. The increased number will be part of the lagged funding on the following year's budget as normal. If the actual is lower than the estimate, then a prior year adjustment to correct this will continue to be done as now.



34. The local authority school finance team will continue to support affected schools in planning for the number changes for individual schools and academies where requested. It is however important to note that pupil numbers are only adjusted in year for schools undertaking or affected by age range changes, it should only be the impact of the change that is reflected for these schools given that without this change any demographic growth or any increase in admission number will not routinely generate funding until the following financial year.

### **The Apprenticeship Levy and Schools**

35. From April 2017 schools will be affected by the national Apprenticeship Levy which will be introduced from April 2017, the cost of this is 0.5% of the total school payroll i.e. salary and employer pension and national insurance contributions where the cost is in excess of £3m. Individual maintained schools and academies may be affected by this irrespective of the total pay bill at individual schools and academies;
- Community and Voluntary Controlled Schools – for these schools Leicestershire County Council is the employer, as such the payroll cost for individual schools is aggregated to the employer. Total payroll costs exceed £3m resulting in the local authority and each school liable for the levy.
  - Voluntary Aided Schools – for these schools the governing body is deemed to be the employer. If the total payroll bill exceeds £3m individual schools will be liable for the levy.
  - Stand Alone Academies – individual academies not in a Multi Academy Trust (MAT) will only be liable for the levy where payroll costs exceed £3m.
  - Multi Academy Trusts – the payroll costs will be aggregated for all schools within the MAT, where these exceed £3m in total each school will be liable for the levy.
36. The levy will be collected by HMRC and paid into a digital account and, this is topped up by 10% by HMRC and can be accessed by employers to fund the training and development of apprentices. There is little detail about what this means for individual schools and how the system will be managed, further information will be made available as it becomes available. There is no additional funding in the School Block settlement and schools should assess their liability for the levy and incorporate that into their financial planning processes.

### **Resource Implications**

37. All resource implications are as set out in the individual sections of the report.

### **Equal Opportunity Issues**

38. None arising directly from the report

### **Background Papers**

None applicable

### **Officers to Contact**

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