

## Report of Head of Finance, Children and Families

### Report to Director of Children and Families

Date: January 2019

Subject: School funding 2018/19 – local funding formula and transfer between funding blocks of the Dedicated Schools Grant



Are specific electoral wards affected?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If yes, name(s) of ward(s):	
Are there implications for equality and diversity and cohesion and integration?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If relevant, access to information procedure rule number:	
Appendix number:	

### Summary of main issues

1. The Dedicated Schools Grant (DSG) is allocated to local authorities in four blocks: schools, high needs, early years and central school services. The Education and Skills Funding Agency (ESFA) has been reforming the school funding system with the intention of making it simpler, fairer and more transparent. 2019/20 is a transitional year where local authorities will be allocated their funding based on a new National Funding Formula, but they are still required to decide on a local formula for distributing this funding to schools, and some funding can be moved within the different blocks of the DSG.
2. ESFA regulations require the council to make the final decision on two DSG proposals for 2019/20: the schools funding formula and a transfer of £800k of funding from the Central School Services Block to the High Needs Block of the DSG. This report presents the proposals in these two areas for approval by the Director of Children and Families.

### Recommendations

3. The Director of Children and Families is asked to approve the proposed schools funding formula for 2019/20 and the transfer of £800k from the Central Schools Services Block to the High Needs Block of the 2019/20 Dedicated Schools Grant.

## **1. Purpose of this report**

- 1.1 This report details the outcome of the consultation with schools and Schools Forum on funding arrangements for 2019/20, and requests approval in relation to the 2019/20 schools funding formula and a transfer of £800k in 2019/20 from the Central School Services Block to the High Needs Block.

## **2. Background information**

### Overview

- 2.1 The Dedicated Schools Grant (DSG) is allocated in four blocks: schools (pre-16 pupils), high needs, early years and central schools services. The Education and Skills Funding Agency (ESFA) has been reforming the school funding system with the intention of making it simpler, fairer and more transparent. Transitional arrangements have applied since 2018/19 and will continue until at least 2020/21, during which time local authorities are allocated an amount each year based on the new National Funding Formula, but they still decide on a local formula for allocating this to schools. There is also some flexibility for local authorities to move funding between the different funding blocks of the DSG.
- 2.2 The council held a consultation with maintained schools and academies on school funding arrangements for 2019/20 between 18<sup>th</sup> October and 2<sup>nd</sup> November 2018. During the consultation period schools were provided with background information and figures to demonstrate the impact of the proposals, a briefing session was held and any queries received from individual schools were responded to.
- 2.3 Of the 265 schools consulted with, 77 responses were received (compared to 69 the previous year). Further details of the consultation are provided below.

### Funding formula consultation

- 2.4 The council is required to apply a funding formula in order to allocate schools block funding to schools. The ESFA sets a range of compulsory and optional factors that can be used in the formula. Within each of these factors there are also certain restrictions that can apply, for example the weightings that can be used for each factor, the minimum funding levels and a cap on gains.
- 2.5 At the time of the consultation, the council proposed a £2.5m transfer from the Schools Block to the High Needs Block to support pressures in that area. In common with many areas around the country, Leeds is under considerable pressure due to increasing demographic growth and complexity of children's needs. Given this proposal to transfer funding out of the Schools Block, the council would not have been able to fully move to the national funding formula and so schools were consulted with on options for a local funding formula.
- 2.6 Given the complexity of the possible formula factors there are a significant number of formula options that it would have been possible to model for consultation, and the council looked at a number of alternative options. The two options that the council consulted on both proposed to move as close as possible to the national funding formula for 2019/20, as this was the approach taken for 2018/19 which was supported by the majority of schools that responded to the consultation and also Schools Forum.

- 2.7 Under both options the council included an increase in per-pupil funding, so that all schools would still see a per-pupil gain compared to 2018/19. However the options distributed funding differently to schools depending on which aspects of the formula were prioritised.
- 2.8 The local authority's view was that option 1 provided the greatest stability in the formula as it would deliver the same priorities as in 2018/19: a 0.5% minimum per pupil increase in funding, a 2.3% cap on gains per pupil and the same minimum funding level per pupil. The minimum funding level means that where any schools are not attracting this level of funding through other factors in the formula then their funding is uplifted to this minimum amount and this is not subject to a cap on gains.
- 2.9 The council also modelled a second option to demonstrate the effect of increasing the minimum per pupil funding level while protecting the cap on gains at 2.3%: this would have resulted in a reduced minimum increase per pupil of 0.25%.
- 2.10 77 responses were received on the funding formula, with the results being almost evenly split between the two options:
- 36 preferred option 1
  - 39 preferred option 2
  - The remaining two said they had no preference
- 2.11 A number of schools acknowledged that they had responded on the basis of the option that benefitted them the most, although some chose the option that they felt was best for the city as a whole.
- 2.12 Some concerns were expressed that the impact of the transfer to the high needs block was being felt disproportionately by some schools, for example under option 1 there were a small number of schools who would see a much lower increase than they would under option 2.
- 2.13 As the voting did not identify a clear preference between the two options that were consulted on, the council took a proposal to Schools Forum in November 2018 that the general principles of option 1 should be applied (as this provides the greatest stability in the formula factors compared to 2018/19) but with some adjustments to reduce the difference between the two options for the schools that would see the lowest increase under option 1. Schools Forum members voted in support of this approach.
- 2.14 Subsequently, on the 17th December the Secretary of State for Education announced that there would nationally be an additional £250m of high needs funding on top of existing allocations, in recognition of the cost pressures that Local Authorities (LAs) are experiencing on the High Needs Block. The national announcement provides £125m for 2018/19 and £125m for 2019/20. For Leeds this results in £1.76m additional funding in each year.
- 2.15 The letter from the Secretary of State included an expectation that LAs may want to review their Schools Block transfer proposals. In line with this, the council proposed a reduction in the 2019/20 Schools Block transfer from £2.5m to £1.5m, which would enable an additional £1m to be allocated to schools through the funding formula. Schools Forum supported this approach at the meeting in January 2019.

As the Schools Block transfer is a Schools Forum decision no further approval is required of this transfer by the council. The use of the remaining additional High Needs funding will be detailed in a separate decision report on the overall 2019/20 High Needs Block budget.

- 2.16 At the January 2019 Schools Forum meeting we also provided updated details of the final funding formula proposal, taking into account the previous views of Schools Forum, the final funding allocation from the ESFA and the £1m reduction in the Schools Block transfer. The information provided to Schools Forum included details of the formula funding values and updated school level allocations.
- 2.17 On a per-pupil basis compared to 2018/19 the formula provides for a £100 increase in the minimum funding levels for both primary (£3,400) and secondary (£4,700) schools, retains the 0.5% Minimum Funding Guarantee and increases the cap on gains from 2.3% to 2.7%. In particular, the increase in the minimum funding level fulfils the council's commitment to adjust option 1 to ensure that funding was increased for the small number of schools with the most significant difference between option 1 and 2. Schools Forum members fully supported these final proposals at the January 2019 meeting.
- 2.18 The table below summarises the final priorities for the 2019/20 funding formula, compared to the full national funding formula in 2019/20, the local funding formula in 2018/19 and the two options presented for consultation.

Funding formula factor	<b>Final formula proposal (for approval)</b>	For comparison			
		National Funding Formula 2019/20	Local funding formula 2018/19	Consultation option 1 2019/20	Consultation option 2 2019/20
Minimum per pupil increase in funding <sup>1</sup>	<b>0.5%</b>	0.5%	0.5%	0.5%	0.25%
Cap on gains per pupil <sup>1</sup>	<b>2.7%</b>	3%	2.3%	2.3%	2.3%
Minimum per pupil funding <sup>1,2</sup>	<b>Primary: £3,400 Secondary: £4,700</b>	Primary: £3,500 Secondary: £4,800	Primary: £3,300 Secondary: £4,600	Primary: £3,300 Secondary: £4,600	Primary: £3,400 Secondary: £4,700

<sup>1</sup> Excluding lump sum and certain premises based funding

<sup>2</sup> If any schools are not attracting this level of funding through other factors in the formula then their funding is uplifted to this minimum amount. In line with the national funding formula this is not subject to a cap on gains.

## PFI funding

- 2.19 PFI schools have different arrangements around a number of cost elements including premises costs and various facilities costs. The funding arrangements for such schools are also slightly different to other schools. A number of financial issues have recently arisen specifically around PFI schools which the Council has been looking to address and has had discussions with the DfE over options to manage these. The main issue is around how the projected increasing costs of the contracts will be funded in the future. The Council has sought a solution which avoids having to take more funding from the Schools Block and provides some financial certainty over the next few years.
- 2.20 Leeds has a high number of PFI funded schools with 29 PFI maintained schools and academies across five PFI schemes representing around 11% of schools in Leeds. The PFI contracts are between the council and the PFI contractors and the council is responsible for contract management. The contracts are for 25 years and the schemes will end at various stages up to 2036/37. The budgeted total unitary charge for 2018/19 is £52.1m. The cost of the unitary charge is met through a combination of income received from PFI credits grant from the DfE and contributions from schools through a school budget contribution and a school affordability gap contribution. The affordability gap is the difference between the full cost of the contract and the combined income from the PFI grant and school budget contributions. In order for PFI schools to pay the affordability gap contribution they receive additional PFI Factor funding through the Schools Block of DSG.
- 2.21 There are significant differences between the original assumptions in the PFI financial models and what has actually been experienced for variables such as the rate of inflation, the rate of overall increase of the unitary charge payments, lettings income and the available funding to meet the payments. Re-modelling of the financial position for each of the PFI schemes shows increasing and significant funding issues over the remaining lifetime of the schemes, particularly as inflation has increased over the last few years. The options to meet this growing funding gap are limited as most of the funding is fixed or based on previous year spend with an annual uplift for RPIX. In future years it is projected that the uplift will not be sufficient to meet the overall increase in the unitary charge.
- 2.22 Following discussions with the DfE it is proposed to increase the PFI factor in the formula through an additional contribution from the Council. The DfE have confirmed that this would then be baselined in future years. This option protects non-PFI schools from contributing to an increase in the PFI Factor and provides more certainty over meeting the projected increase in costs for the PFI schools. The Council is therefore proposing to make a contribution of £1m to the PFI Factor in the school funding formula in 2019/20. This will then be baselined by the DfE in future years' Schools Block DSG settlements. The additional £1m will be distributed to PFI schools through an increase in their PFI Factor funding within the schools funding formula. The £1m contribution by the Council is being put forward as part of the Council's 2019/20 budget proposals and is referenced in the associated budget report.

## Consultation on the transfer from the Central Schools Services Block to the High Needs Block

- 2.23 We consulted with schools and Schools Forum on a transfer to the high needs block of £800k from the central school services block (CSSB), which funds local authorities for the statutory duties they hold for both maintained schools and academies.
- 2.24 The ESFA currently provides CSSB funding based on the previous year's expenditure, and due to a reduction in costs for equal pay borrowing since 2018/19 we are able to transfer £800k of the CSSB funding for 2018/19 to the High Needs Block, in order to support pressures in this area.
- 2.25 75 responses were received to this proposal. 61 (81%) supported the proposal and 14 (19%) did not. Very few comments were received about this proposal, and as indicated by the results the comments were generally supportive of the proposal. Schools Forum also voted in support of the proposal at the November 2018 meeting. Following confirmation of the final funding and costs relating to the CSSB, Schools Forum reiterated their support for this proposal at the January 2019 meeting.

### **3. Main issues**

#### Funding formula

- 3.1 In line with the outcome of the consultations with schools and Schools Forum, we are seeking approval of the funding formula which, in comparison to 2018/19, includes a £100 increase in the minimum funding level for both primary (£3,400) and secondary (£4,700) schools, retains the 0.5% Minimum Funding Guarantee and increases the cap on gains from 2.3% to 2.7%.
- 3.2 The funding formula also includes the proposed £1m contribution by the council to address funding requirements for PFI schools, which will then be baselined by the DfE in future years.
- 3.3 Detailed figures for all the formula funding values and school level allocations were provided to Schools Forum in January 2019 and are published on the council's website.

#### Transfer from the central schools services block to the high needs block

- 3.4 In line with the outcome of the consultations with schools and Schools Forum, we are seeking approval to transfer £800k from the CSSB to the High Needs Block. Sufficient funding will remain within the CSSB to fund projected costs for 2019/20. The ESFA regulations set out that movements from the CSSB are not subject to any limit and can be made by the council following consultation with Schools Forum.

### **4. Corporate considerations**

#### **4.1 Consultation and engagement**

- 4.1.1 The ESFA requires that we consult with all schools and Schools Forum on our proposals for the schools funding formula and the funding transfer from the CSSB. As detailed within section 2 of this report, the council held a consultation with

maintained schools and academies on these proposals for 2019/20. The proposals made within this report take into account the opinions of schools that responded to the consultation and they were also supported by Schools Forum.

#### **4.2 Equality and diversity / cohesion and integration**

- 4.2.1 The ESFA is introducing the National Funding Formula in order to make school funding fairer and more transparent. The ESFA carried out a national consultation on its proposals, and their formula was subject to equality considerations. By moving as close as possible to the National Funding Formula in 2019/20 we are mirroring the formula that the DfE has assessed as a fair way to allocate funding.
- 4.2.2 We have completed an Equality, Diversity, Cohesion and Integration Screening form which demonstrates how equality has been considered throughout the process of developing and consulting on the proposals contained within this report. A copy is provided as an appendix to this report.

#### **4.3 Council policies and best council plan**

- 4.3.1 Allocating funding to schools in a fair and transparent way in line with the ESFA National Funding Formula ensures that funding is aligned with national priorities. The National Funding Formula targets more funding towards deprivation, but it also ensures a minimum per pupil level of funding is provided for all schools regardless of pupil characteristics. Through mirroring the National Funding Formula as closely as possible the funding allocation should support the Best Council Plan priority of being a Child Friendly City, specifically in the area of educational attainment.

#### **4.4 Resources and value for money**

- 4.4.1 The council's Dedicated Schools Grant allocation is calculated by the ESFA, however the council currently has some decision making powers in terms of how it is allocated to schools. The proposed schools block formula recognises the financial pressures faced by schools and provides a minimum 0.5% funding increase per pupil, compared to 2018/19 funding.
- 4.4.2 The transfer of £800k from the CSSB to the High Needs Block has been proposed with consideration for the projected costs against the CSSB and the pressures on the High Needs Block. Sufficient funding will remain within the CSSB in 2019/20 for the contributions required to CSSB services.

#### **4.5 Legal implications, access to information, and call-in**

- 4.5.1 DfE regulations set out that the recommendations within this report are council decisions, following consultation with schools and Schools Forum.

#### **4.6 Risk management**

- 4.6.1 If school funding is not allocated in a fair and transparent way then this may impact on the ability of schools to operate within their budgets in order to maintain or raise the educational attainment of pupils in Leeds.

## **5. Conclusions**

- 5.1 The 2019/20 proposals for the funding formula and funding transfer from the CSSB to the High Needs Block have been put forward having taken account of ESFA funding regulations and the need to allocate available funding in a fair and transparent way. The decisions requested in this report take into account the opinions of schools that responded to the consultation and were also supported by Schools Forum.

## **6. Recommendations**

- 6.1 The Director of Children and Families is asked to approve the proposed funding formula for 2019/20 which moves as close as possible to the National Funding Formula, and the transfer of £800k from the Central Schools Services Block to the High Needs Block of the 2019/20 Dedicated Schools Grant.

## **7. Background documents<sup>1</sup>**

- 7.1 None

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.