

Report to: East Riding Schools Forum
5 October 2017

Schools Budget 2017/18 to 2021/22

Report of the Interim Director of Corporate Resources and Director of Children, Families and Schools

A. Executive Summary

- The final 2017/18 Schools budget of £215.875m was approved by the Schools Forum on 12 January 2017.
- On 19 July 2017 the Education and Skills Funding Agency (ESFA) confirmed a reduction to the 2017/18 early years block of £0.868m. A further reduction in the 2017/18 early years block of £0.507m was announced by the ESFA relating to over funding of the early years block in 2016/17.
- Pressures identified against the Schools budget for 2018/19 and 2018-22 total £2.408m and £8.448m respectively.
- Recoupment of Dedicated Schools Grant (DSG) by the ESFA for the nineteen East Riding academies and one free school now total £48.685m in 2017/18. Recoupment of High Needs funding for 2017/18 totals £0.640m.
- On 14 September 2017, the Department for Education (DfE) announced final details of the schools national funding formula to be introduced in 2018/19 for each of the schools, high needs and central schools services blocks. For the East Riding the headline funding changes are:

	2018/19 Increase		2019/20 Increase	
	£m	%	£m	%
Schools	4.890	2.8	3.950	2.2
High Needs	0.598	2.8	0.628	2.8
Central School	-0.037	-1.7	-0.036	-1.7
Total	5.451	2.7	4.542	2.2

B. Corporate Priorities

Reducing Costs, Raising Performance

C. Portfolio Holder

Children, Young People and Education

D. Recommendations

It is recommended –

1. The Forum supports the Local Authority in its proposal for 2018/19 and 2019/20 to distribute schools block funding to schools and academies using the existing East Riding local funding formula whilst including national funding formula deprivation values and distributing all remaining additional resource through the age weighted pupil unit values.
2. That the Forum submits its comments to the Council on pressures being faced by schools in 2018-22.
3. The current schools budget baseline for 2017/18 of £215.007m is approved, matching the confirmed allocation for 2017/18 announced by the ESFA on 19 July 2017.
4. The reduction in primary and secondary budget within the schools block in 2017/18 of £48.685m to reflect the recoupment by the ESFA to fund the current nineteen academies and one free school in the East Riding is noted.
5. The current level of DSG after recoupment for 2017/18 of £165.175m is noted.

1. Background

- 1.1 The Schools Budget is funded by a ring-fenced grant, the Dedicated Schools Grant (DSG). A local authority can, if it is in a financial position to do so, add to the level of DSG from local resources. The DSG has historically been broken down by the ESFA into three separate funding blocks – schools, high needs and early years.
- 1.2 At its meeting on 12 January 2017, the Schools Forum formally approved a 2017/18 Schools budget of £215.875m, matching the figure in the funding settlement announced by the ESFA on 20 December 2016. The final division of this amount between the schools, high needs and early years funding blocks was:-

Block	2017/18	Revenue	Final
	DSG	contribution to	2017/18
	£m	Capital	Budget
		£m	£m
Schools	178.243	-0.800	177.443
High Needs	20.718	0.800	21.518
Early Years	16.914	-	16.914
Total	215.875	-	215.875

- 1.3 The DfE has previously indicated that as part of the new national schools funding formula a fourth central school services block would be created from 2018/19. To reflect this funding would be transferred from the schools block to the central school services block based on decisions taken previously by the Schools Forum for 2017/18. As a result the DfE have amended our 2017/18 funding baseline to -

Block	Baseline 2017/18 (Approved budget 2016/17) £m	Baseline 2018/19 (Approved budget 2017/18) £m	Difference £m
Schools	178.243	175.283	-2.960
Central services schools	-	2.152	2.152
High Needs	20.718	21.526	0.808
Early years	16.914	16.914	-
Total	215.875	215.875	-

- 1.4 The DfE consulted extensively throughout 2016 and the early part of 2017 on the introduction of new national funding formulae for each of the schools, high needs and new central school services blocks. Indicative funding allocations under the new national funding formula were announced by the ESFA on 14 December 2016. On the 14 September 2017 the ESFA announced results from the consultations and amended notional funding allocations for each local authority and school under the finalised national funding formula. These allocations are still illustrative and will be amended in December 2017 following confirmation of final October 2017 pupil numbers.
- 1.5 The new national funding formula for early years was introduced in 2017/18. The East Riding receives the minimum funding level of £4.30 per hour for three and four year olds. In 2017/18 local authorities were able to retain 7% of funding for three and four year olds to fund central costs. This equates to £0.30 per hour. We also retained the equivalent to £0.13 per hour to fund deprivation. From 2018/19 we are only able to retain 5% of available funding centrally, which whilst creating a budget pressure of £0.272m will enable the East Riding to increase the hourly rate from £3.87 to £3.95 subject to what is decided with regard to retained funding for deprivation.

2. Schools Budget 2017/18

- 2.1 Following the meeting of the Schools Forum on 22 June 2017, the ESFA announced a series of changes on 19 July 2017 to the level of 2017/18 DSG.
- 2.2 Each year the ESFA adjust the early years block to reflect changes in the January early years census. This year as a result of a reduction in numbers in the January 2017 early years census, the ESFA has reduced the East Riding's early years block by £0.868m. A further one-off reduction of £0.507m has been made to the 2017/18 early years block relating to changes impacting on the 2016/17 early years block allocation. This one year retrospective adjustment would normally be funded from the balance on the ISB early years reserve brought forward from the previous year. One complicating factor for 2017/18 is that £0.414m of the ISB early years reserve in 2016/17 was used to meet the high needs place funding overspend. The impact of this and the cumulative reduction of £1.375m in the early years block in 2017/18 is currently being assessed to determine a forecast outturn for the early years block in 2017/18.
- 2.3 At the Schools Forum on 22 June 2017, recoupment for the 17 maintained schools and one free school had been confirmed as £47.545m. Since this meeting the ESFA has confirmed the values for two further schools that converted on 1 June 2017 (Gilberdyke and Sproatley). This has resulted in the overall recoupment figure increasing to £48.685m. The recoupment

value will increase further to reflect Wolfreton’s conversion on 1 September and Cottingham Croxby’s planned conversion on 1 October.

2.4 As a result of the above changes the East Riding’s schools budget baseline for 2017/18 has reduced to £215.007m and the dedicated schools grant to be applied in 2017/18 is £165.175m.

Block	2017/18 Baseline £m	Early Years Permanent £m	2017/18 Amended Baseline £m	Early Years One-Off £m	Recoupment £m	2017/18 DSG £m
Schools	175.283		175.283		-48.685	126.598
Central School Services	2.152		2.152			2.152
High Needs	21.526		21.526		-0.640	20.886
	198.961	0.000	198.961	0.000	-49.325	149.636
Early Years	16.914	-0.868	16.046	-0.507		15.539
Total	215.875	-0.868	215.007	-0.507	-49.325	165.175

3. Schools National Funding Formula 2018/19 and 2019/20

3.1 Over the summer the Secretary of State for Education and DfE have made several announcements concerning the schools national funding formulae.

3.2 On 17 July 2017, the Secretary of State announced an additional £1.3 billion for schools and high needs across the next two years, over and above the schools budget set at Spending Review 2015. This further funding will support the introduction of the national funding formulae in 2018/19 and 2019/20.

3.3 On 4 August 2017, the DfE released its school revenue funding 2018 to 2019 operational guidance. Whilst not confirming details of allocations for schools or local authorities under the schools national funding formulae, it did confirm the following -

- a) From 2018/19 the DSG will be comprised of four blocks: schools, high needs, early years and a new central school services block.
- b) Each of the four blocks will be determined by a separate national funding formula.
- c) Budget baselines have been adjusted to take account of local authorities 2017/18 spending plans.
- d) Within the schools block, the national funding formula will provide for at least a 0.5% per pupil increase for each school in 2018/19.
- e) The schools national funding formula will provide local authorities with per pupil funding of at least £4,800 for all secondary schools that have pupils in years 10 and 11 by 2019/20.
- f) Within the high needs block, the Government will provide for at least a 0.5% overall increase in 2018/19 through the high needs national funding formula.
- g) The minimum funding guarantee (MFG) for schools will continue, but local authorities will have the flexibility to set a local MFG between 0% and minus 1.5% per pupil.
- h) The schools block will be ring-fenced from 2018/19 but local authorities will be able to transfer up to 0.5% of their schools block funding out with the agreement of their schools forum.

- 3.4 On 14 September 2017, the DfE released final details of its schools national funding formulae together with funding details by school and local authority for each of the schools, high needs and central school services blocks in 2018/19 and 2019/20. In addition to those announcements on 4 August, the DfE confirmed –
- a) The schools national funding formula will provide within the overall local authority schools block allocation for a minimum per pupil funding level in 2019/20 of £4,800 for every secondary school and £3,500 per pupil for every primary school. As a step towards this, in 2018/19 minimum funding levels per pupil will attract £4,600 for secondary schools and £3,300 for primary schools.
 - b) The schools national funding formula will provide for up to 6% gains per pupil for underfunded schools by 2019/20 (originally had been 5.5%) and as a minimum, a 0.5% cash increase in 2018/19, and a 1% increase by 2019/20, compared to their 2017/18 baseline, in respect of every school.
 - c) Underfunded local authorities will receive up to 3% gains a year for the next two years within their high needs block.
 - d) That school-level funding allocations for 2018/19 published are notional and that local authorities will continue to set local formula for determining individual schools' budgets in 2018/19 and 2019/20 ('soft' funding formula), in consultation with schools in their area.
- 3.5 The DfE has confirmed that the additional £1.3 billion investment has allowed them to make the following changes from their original December 2016 proposals –
- a) Increasing the age weighted pupil units to £2,747 from £2,712 for primary, £3,863 from £3,797 for key stage 3 and £4,386 from £4,312 for key stage 4.
 - b) Target the lowest funded schools by introducing a minimum level of per-pupil funding. This will allow all secondary schools to attract minimum funding per pupil of £4,600 in 2018/19 and £4,800 in 2019/20. For primary schools this will be £3,300 in 2017/18 and £3,500 in 2019/20. These values will only be seen by schools if the Local Authority chooses to replicate these national funding formula values within its local funding formula.
 - c) Providing a minimum cash increase in respect of every school. Every school will attract at least 0.5% more per pupil in 2018/19 and 1% more in 2019/20.
- 3.6 The DfE have further confirmed that there will be no change in the additional needs factors proposed in December 2016 and that the lump sum for every school in the national funding formula will remain at £110,000.
- 3.7 Funding for premises costs in 2018/19 will be allocated as previously proposed on the basis of historic spend. For PFI costs, this will be on the basis of historic costs uprated annually in line with the retail price index.
- 3.8 An area cost adjustment will be applied to the formula.
- 3.9 The gains cap per pupil of 3% in 2018/19 and 3% in 2019/20, will not apply to those lowest funded schools where they are funded below the minimum per-pupil levels of £4,600 for secondary and £3,300 for primary in 2018/19 and £4,800 and £3,500 respectively in 2019/20. Local authorities have the option to include a new factor in their formula to allow them to implement this policy locally.

- 3.10 That DfE have confirmed that the high needs national funding formula will see –
- Local authorities that are under-funded see gains of up to 3% per year in each of 2018/19 and 2019/20.
 - Local authorities will be protected from losing funding under the formula and will instead see minimum increases of 0.5% per head in 2018/19 and 1% per head in 2019/20, on their planned high needs spending levels from 2017/18 DSG.
- 3.11 As a result of the changes to the school level changes in the national schools funding formula, the East Riding's overall schools block allocation has increased by £4.890m in 2018/19 and a further £ 3.950m in 2019/20.
- 3.12 The central school services block will cover two distinct areas – ongoing responsibilities and historic commitments. For ongoing responsibilities 90% of funding will be allocated according to a per pupil factor and 10% on a deprivation factor. Protections will be in place to ensure no local authority loses more than 2.5% per pupil a year in 2018/19 and 2019/20 for ongoing responsibilities. Similarly in 2018/19 gains of to 2.5% per pupil will be allowed.
- 3.13 For each of the three funding blocks, the provisional national funding formula allocations announced on 14 September will be recalculated in December to reflect October 2017 pupil numbers.
- 3.14 In December 2016, the DfE released provisional funding allocations under the national funding formula as part of their 2nd stage consultation.

Schools and High Needs National Funding Formulae - 2nd Stage Consultation

Block	2016-17 Baseline £m	Year 1 of NFF £m	Change £m	%	NFF in Full £m	Change £m	%
Schools	173.770	177.294	3.526	2.0%	178.950	5.180	3.0%
High Needs	20.198	20.773	0.575	2.8%	22.317	2.119	10.5%
Central school services							
Historic Commitments	1.699	1.699	0.000	0.0%	1.699	0.000	0.0%
On-going responsibilities	1.591	1.551	-0.040	-2.5%	1.271	-0.320	-20.1%
Total	3.290	3.250	-0.040	-1.2%	2.970	-0.320	-9.7%
Total	197.258	201.317	4.061		204.237	6.979	

- 3.15 As part of the announcement on 14 September 2017 and reflecting the changes announced by the DfE over the summer, the East Riding's notional allocations for 2018/19 and 2019/20 were confirmed as –

ERYC - Schools National Funding Formula Provisional Allocations As At 14 September 2017

Block	2017/18	2018/19	Increase		2019/20	Increase			Overall Increase	
	Baseline	Provisional	£m	%	Provisional	£m	£m	%	£m	%
Schools	175.282	180.172	4.890	2.8%	184.122	3.950	2.2%	8.840	5.0%	
High Needs	21.526	22.124	0.598	2.8%	22.752	0.628	2.8%	1.226	5.7%	
Central School	2.152	2.115	-0.037	1.7%	2.079	-0.036	-1.7%	-0.073	-3.4%	
Total	198.960	204.411	5.451	2.7%	208.953	4.542	2.2%	9.993	5.0%	

3.16 Details of each schools notional allocations for 2018/19 are attached at Appendix 1. As previously mentioned local authorities are then required to distribute their schools block between maintained schools and academies using their own funding formula based on decisions taken locally.

3.17 Although notional allocations for each school under the national funding formula have been announced by the ESFA, the technical detail on how these calculations were performed have yet to be released by the ESFA. At the time of writing this report, these details are still awaited.

3.18 To assist a comparison between the ‘hard’ and ‘soft’ formulae approaches, Appendix 1 also illustrates two options showing what each East Riding school and academy would get if the total East Riding schools block allocation under the national funding formula was distributed using –

1. The East Riding’s existing local schools funding formula but including national funding formula deprivation values and with the balance of the additional resource allocated through age weighted pupil unit values.
2. The East Riding’s existing local schools funding formula with the additional resource all allocated through the age weighted pupil unit values.

The effect on formula factor values of the distribution of funding through the two options above compared against the national funding formula can be seen at Appendix 2.

In both options one and two the following assumptions are made -

- a) That 0.5% minimum gain per pupil will be maintained
- b) That the cap on gains of 3% per pupil will be maintained except for those schools and academies on the minimum level of funding per pupil
- c) Minimum funding guarantee of 0%

As more East Riding schools for the next two years will see the greatest benefit from the additional schools block resource using option one above, this is the Local Authority’s preferred option. As option one will require an amendment in our local schools funding formula, Cabinet approval of the change will be required. It is currently proposed that a report be taken to Cabinet on 12 December 2017. All decisions need to be taken before the deadline of 19 January 2018 for submitting to the ESFA the East Riding’s funding proforma.

To assist Cabinet in making a final decision, all East Riding schools and academies will be consulted as required by the DfE to seek their views on the proposed change to the local schools funding formula and the Local Authority's preferred option for distributing resources in 2018/19 and 2019/20.

- 3.19 Despite the additional £0.800m transferred into the high needs block in 2017/18 from what would now be the central school services block and the national uplift by the DfE in 2017/18 high needs allocations of £0.520m, the high needs budget is currently forecast to overspend in 2017/18 by £0.868m due mainly to additional top up payments to Special schools and schools in other local authorities. At the end of 2016/17 the non-ISB element of the schools reserve stood at £0.586m. The increase in the high needs block for 2018/19 through the national funding formula is likely to be needed to meet these on-going pressures. Any overspend on high needs in 2017/18 will in part be met from the non-ISB schools reserve, with any deficit on the non-ISB schools reserve at the end of 2017/18 being met by a one-off central retention from the Schools budget in 2019/20.
- 3.20 As mentioned in paragraph 3.3(h) the new national funding formula allows, with the agreement of the schools forum, for the transfer of up to 0.5% from the schools block into the high needs block. With a schools block of £180.172m in 2018/19, theoretically a transfer from the schools block to high needs block of £0.901m would be possible. There are currently no plans to seek a transfer from the schools block to the high needs block.
- 3.21 A new early years national funding formula was introduced in 2017/18. The East Riding receives the minimum funding level of £4.30 per hour for three and four year olds. Although introduced in 2017/18 there are two issues that still need addressing with regard to the early years block:-
- 1) In 2017/18 and 2018/19, supplementary funding of £0.530m will be paid by the ESFA for maintained nursery schools. The need for maintained nursery schools to receive this funding after 2018/19 is to be reviewed by the DfE.
 - 2) In 2017/18, 7% or £0.952m of funding for three and four year olds (£13.597m) can be retained centrally. In 2018/19, the maximum retention reduces to 5%, thereby requiring further savings to be identified of £0.272m.

4. 2018/19 to 2021/22 Financial Planning & School Budget Pressures

- 4.1 The financial planning process for 2018-22 is now underway.
- 4.2 Cost pressures facing schools for the period 2018-22 are currently estimated at £8.448m. These pressures include pay awards (currently assumes 1% for 2018/19 and 2019/20 and 2% for 2020/21 and 2021/22) and increases in the living wage rising. Any additional resources available to schools through the introduction of the national schools funding formula need to be considered against a background of these additional pressures plus pressures introduced in previous years for pension and national insurance increases, which have often been funded from school balances.
- 4.3 The following table is an extract from the current version of the Schools budget reduction strategy paper for 2018-22:-

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Schools Block				
Inflation - Primary and Secondary Schools	0.695	0.537	1.086	1.109
Inflation - De-delegated and Central	0.009	0.009	0.019	0.019
Living Wage	0.239	0.496	1.012	0.882
Community Use	0.121	-	-	-
Climate Change Levy	-	0.125	0.080	0.000
Revenue consequences of capital schemes	0.397	0.165	- 0.085	0.000
Total Schools Block	1.461	1.332	2.112	2.010
High Needs				
Inflation and living wage - Special Schools, PRU's and central budgets	0.062	0.086	0.188	0.189
2017/18 Overspend	0.868	0.000	0.000	0.000
Total High Needs Block	0.930	0.086	0.188	0.189
Early Years				
Inflation - Nursery Schools & PVI's	0.017	0.021	0.049	0.053
Total Early Years Block	0.017	0.021	0.049	0.053
Total Schools Budget	2.408	1.439	2.349	2.252

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