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|  | **Education and Skills** |  |
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**SCHOOLS FORUM**

**14 January 2016**

**Setting the Dedicated Schools Grant (DSG) 2016/17**

**1. Purpose of the Report**

To inform Schools Forum of the anticipated overall DSG for 2016/17 and to agree the way in which it is to be spent.

**2. Recommendations**

 It is recommended that the Schools Forum agree all of the specific recommendations set out in the paragraphs below.

**3. Background**

The DSG remains as a ring-fenced grant and is subject to formal grant conditions. It is notionally divided into three Blocks; the Schools Block, the Early Years Block and the High Needs Block. Virement is possible amongst these three blocks with the approval of the Schools Forum.

Both the Schools Block and the Early Years Blocks are funded on a per pupil basis. The Schools Block is based on pupil numbers taken from the October 2015 census. The Early Years Block will ultimately be based on the pupil numbers taken from the January 2016 and January 2017 censuses. The High Needs Block is based on historical 2012/13 information modified for the full year effect of changes since that date. This contains funding for all the education provision for High Needs pupils from birth to 25, including the budgets for Special Schools and Units.

For 2016/17, the per pupil funding for the Schools Block is £4,544.73, formally including the £12m increase in 2015/16. The per fte pupil funding for the Early Years Block remains at £3,506.06 (£3.69 per hour) for 3 and 4 year olds and at £4,607.50 (£4.85 per hour) for 2 year olds.

The estimated DfE’s allocation of the whole DSG for 2016/17 for Northumberland before any recoupment deductions for academies is £218,924,300. This has been calculated by the DfE as set out in **Annex 1**.

**4. Early Years Block**

The indicative budget for the Early Years Block for 2016/17 is £11,571,763, including the £219,276 indicative allocation for the 3 and 4 year old Pupil Premium. This is shown in **Annex 1.** It includes an initial allocation of £9,021,092 for 2573 fte 3 and 4 year olds as well as an initial allocation of £2,331,395 for 506 fte disadvantaged 2 year old children.

All these allocations are indicative and are based on the January 2015 census, but they will all be revised once the pupil numbers from the January 2016 census are known and will be further partly revised in the light of the January 2017 census. However, payments will have to be made to schools and PVI settings based on actual pupil numbers in each of the three terms, Summer 2016, Autumn 2016 and Spring 2017.

In Summer 2015, a consultation paper was issued to all schools and PVI settings which set out the challenges faced in the Early Years budget for 2016/17. This paper set out that if the current hourly rates of funding to schools and settings were to continue there would be an estimated overspend in the region of £350k in 2016/17, which is clearly unsustainable. The consultation paper set out full details of the issues, and also a series of proposed reductions to help bring the budget back into balance.

The outcomes of that consultation were considered by the Schools Forum at its meeting in October 2015. Following that meeting, the Council’s Cabinet considered the issues and in order to achieve the required savings it reluctantly decided that all of the recommended reductions in funding values should be implemented.

However, since those decisions were taken, there have been two significant changes. Firstly, a saving in the region of £57k in the early Years staffing budget has been identified which reduces the savings required from the formula. Secondly, the DfE has updated the IDACI index to take account of the deprivation situation nationally as at September 2015, and this has resulted in a different number of pupils in each Band, and in particular no pupils being in Band 6. Applying the 2015/16 cash values to this new deprivation data would have resulted in a reduced allocation of £83k in 2015/16 without any change to the formula values. Applying both of these savings would reduce the savings required by reducing formula values by £140k to £210k.

The savings proposed in the consultation paper were 1.5% (£145k) in respect of the basic hourly rate and 20% (£211k) in respect of the deprivation factor (IDACI). Regulations require that the basic rate cannot be reduced by more than 1.5%, hence the much more significant proposed reduction to the IDACI values to achieve the required savings. With the staff saving and the reduction on the number of children eligible for deprivation funding, the required saving of £350k can now be made as follows:

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|  | **Saving (£k)** |
| Basic Hourly Rate (1.5% reduction on 2015/16 cash values | 145 |
| Staff Savings |  57 |
| IDACI (New Data Set) |  83 |
| IDACI (6% reduction on 2015/16 cash values) |  65 |
| **TOTAL** | **350** |

and the formula values associated with achieving the savings in this way would be:

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| --- | --- | --- |
| **Formula Factor** | **Current (2015/16) Hourly Rate** | **Proposed 2016/17 Hourly Rate** |
| Basic Rate (3 and 4 year olds) | £3.20 | £3.15 |
| Basic Rate (2 year olds) | £4.19 | £4.13 |
| Deprivation using IDACI - Band 0- Band 1- Band 2- Band 3- Band 4- Band 5- Band 6 | £0.00£0.54£0.54£0.82£1.10£1.37£1.64 | £0.00£0.51£0.51£0.77£1.03£1.29£1.54 |

Even though the IDACI values are only being reduced by 6%, this approach would still reduce the funding delivered through the IDACI mechanism by 14% overall.

**Recommendation 1: The Early Years Block budget be set at £11,571,763 as detailed in Annex 1.**

**Recommendation 2: The funding rates for the Early Years formula be set at the values shown above.**

**5. High Needs Block**

The indicative High Needs Block allocation for 2016/17 is £30,615,298. There continues to be a high degree of uncertainty over the costs that will have to be incurred in this block, especially in respect of Top-Up funding, as much of the expenditure is essentially led by the changing needs of the students living within the County.

The DfE continue to require that expenditure in respect of SEN Home to School Transport within the DSG has to be accounted for within the Schools Block, yet the funding is within the High Needs Block Allocation. As in the two previous financial years, it is proposed to vire the budget of £1,174,920 for this purpose into the Schools Block and to reduce the High Needs Block accordingly.

The number of permanent exclusions from schools continues to increase, from 21 in 2012/13 to 41 in 2013/14, 49 in 2014/15 and with 13 in the Autumn Term 2015 a figure of 60 is predicted for 2015/16 school year. Furthermore, it is becoming increasingly difficult to obtain a school place for permanently excluded pupils and therefore many more excluded pupils are being educated either in Alternative Provision settings or in small EOTAS teaching groups which increases the cost associated with each permanent exclusion. The budget for excluded pupils, even with the £200k vired in from the Schools Block in 2015/16, is currently overspending by £320,000 during the current financial year, and it is estimated that this is likely to be a £420k overspend in 2015/16 with the current rate of permanent exclusions. Consequently, a total of £620k is required in 2016/17 to fund the additional costs of the expected additional excluded pupils, and it is proposed to fund this increase by the virement of £620,000 from the Schools Block into the High Needs Block.

Work is continuing on the detail of the total requirements within the High Needs Block, and it is recommended that the total for the High Needs Block is set at this time, with the detailed breakdown of that funding into the various services being set at the Schools Forum meeting on 23 February 2016. Setting the overall total for the High Needs Block is necessary at this time as final decisions in relation to the Schools Block must be made before the deadline of 21 January 2016 for submitting the final formula and final formula values for school budgets to the DfE.

**Recommendation 3: To vire £1,174,920 from the High Needs Block into the Schools Block, as well as the vire £620,000 from the Schools Block into the High Needs Block, and the total budget for the High Needs Block be set at £30,060,378.**

**Recommendation 4: To agree that the various budgets within the High Needs Block be set at the meeting on 23 February 2016.**

**6. Schools Block**

The per pupil funding allocation at £4,544.73 in 2016/17 has increased marginally from £4,543.76 in 2015/16.

**The following paragraphs relate to the situation as at 30 December 2015. If any of the data currently available changes, either in respect of an individual school and/or in Annex 3, then cash values and percentages quoted below will also change.**

The total Schools Block for 2016/17 is £176,737,238, but as described above this needs to be increased and decreased with the virement of:

* £1,174,920 in from the High Needs Block in respect of SEN Home to School Transport; and
* £620,000 out to the High Needs Block to recognise the increasingly high costs to the EOTAS Team of proving education to an increased number of permanently excluded pupils.

The Schools Block has to meet certain items of centrally retained expenditure, some of which are cash limited by The School and Early Years Finance (England) Regulations 2015 (which came into force on 7 January 2016) to the previous (2015/16) funding level. Details of the budgets set in 2015/16 and the proposed centrally retained budgets for 2016/17 are given in **Annex 2**. Agreeing to all the centrally retained budgets and the above virements, would leave £173,584,908 available for school budgets.

When the formula values that were used in 2015/16 and all the other data (including capping at 1.5%) were entered into the spreadsheet supplied by the DfE for calculating school budget shares for 2016/17, the amount of money available for school budget shares was £406k more than would have been required. This figure is well within normal expectations for a standstill budget situation. It should be noted that this surplus figure of £406k above assumes that the DfE approves an application to disapply the MFG factor in respect of the split site allocation at Ashington High School. This school has just moved onto a single site and it is therefore not entitle to receive the Split Site allocation of £62,267 in 2016/17. However, without the disapplication being approved most or all of this amount would be returned to the school through the MFG factor which is clearly inappropriate in the circumstances. The result of this application will be reported to the Schools Forum at the meeting.

However, this masks the financial effect of a very significant change to the IDACI factor within the formula. In previous years, the IDACI Index was based on deprivation levels as measured in 2010, but the DfE have now changed to use the latest IDACI data from September 2015, and for Northumberland this has meant more pupils in lower bands of deprivation and no pupils at all in Band 6. The changes can be summarised as follows:

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| --- | --- | --- |
| **IDACI Band** | **Percentage of Primary Pupils** | **Percentage of Secondary Pupils** |
| **2015/16** | **2016/17** | **2015/16** | **2016/17** |
| 0 | 61.6 |  59.8 | 64.1 |  62.2 |
| 1 |  8.2 |  8.6 |  8.0 |  9.1 |
| 2 |  3.4 |  7.4 |  3.8 |  6.8 |
| 3 | 12.7 |  11.4 | 11.6 |  10.7 |
| 4 |  9.5 |  10.6 |  8.4 |  9.5 |
| 5 |  2.7 |  2.2 |  2.4 |  1.8 |
| 6 |  1.9 | 0 |  1.7 | 0 |

and if the cash values of each for each of these Bands remains unchanged there would be an unintentional reduced allocation of £497k through this factor, equivalent to 8% of the allocation last year. The DfE have recognised this impact on a national basis and have specifically advised that Local Authorities should review the cash values associated with the IDACI formula factor as a result of using the revised index. It is proposed that the IDACI factor should deliver the same amount of cash overall in 2016/17 as it did last year would cost £497k and it proposed that this should be done by adopting the following formula values in 2016/17 compared with 2015/16:

|  |  |  |
| --- | --- | --- |
| **IDACI Band** | **Primary** | **Secondary** |
| **2015/16** | **2016/17** | **2015/16** | **2016/17** |
| 0 |  0 |  0 |  0 |  0 |
| 1 |  150 |  150 |  250 |  250 |
| 2 |  150 |  175 |  250 |  275 |
| 3 |  350 |  400 |  450 |  500 |
| 4 |  550 |  575 |  650 |  675 |
| 5 |  750 |  900 |  850 | 1000 |
| 6 |  950 | 1100 | 1050 | 1200 |

Implementing this change would mean that the amount of money available for school budget shares is £181k more than is required for a standstill situation, and this is still well within normal expectations for a standstill budget situation. Although this figure would have been expected to be £406k - £497k = -£91k, putting in the additional money reduced the need for MFG by £272k to give the figure of +£181k.

In 2016/17, there are 34 schools which need the protection of the MFG at a cost of £488k compared with 12 schools at a cost of £185k in 2015/16. This increase has been caused at least in part by the change to the IDACI factor outlined above. Similarly there are 32 schools that gain by more than 1.5% per pupil, and if the gains were capped at 1.5% this would make a contribution of £224k towards the cost of the MFG leaving a net cost of £264k. The gains could be capped at 0.51% and this would over the MFG costs in full, but this approach is not recommended. This net cost of £264k towards the MFG is included within the £181k surplus above.

In October 2015, the Council’s Cabinet agreed that, in consultation with the Schools Forum, in such circumstances any additional funding would be distributed in accordance with the agreed principles and criteria. The following increases to the formula funding values are proposed which are consistent with those principles and criteria:

1. The value for the KS3 AWPU should be increased by £12 to take the value to the Lower Quartile figure for the country in 2015/16. This would cost £113k gross but the net effect due to a reduction in the need for MFG is £82k; and
2. The remainder of the £181k should be added to the values for the Free School Meals factor by increasing both primary and secondary values by £39 per eligible pupil. This would have cost £196k gross but the net effect due to a reduction in the need for MFG is £99k. This has the effect of increasing the percentage of funding for deprivation from 7.58% to 7.69%, which is still below the Northumberland figure for 2015/16 of £7.73% and below the national median value of 7.81%.

All these proposed increases, together with the changes to the IDACI values, are included in the final column of **Annex 3**.

With these increases, there would then be 32 schools which need the protection of the MFG at a cost of £414k, and there would be 37 schools that gain by more than 1.5% per pupil, and with the gains capped at 1.5% this would make a contribution of £278k towards the cost of the MFG leaving a net cost of £136k.

**Recommendation 5: The Schools Block be set at £177,292,158 which includes the virement in of £1,174,920 from the High Needs Block in respect of SEN Home to School Transport as well as the virement of £620,000 out to the High Needs Block in respect of the increased number and cost of excluded pupils.**

**Recommendation 6: Centrally retained budgets within the schools block be set at the values shown in the table in Annex 2.**

**Recommendation 7: School budget shares be constructed based on the formula values shown the final column of Annex 3.**

**Recommendation 8: Schools gains be capped at 1.5% per pupil to contribute towards the costs of the MFG.**

**De-Delegation**

There are four services, the funding for which is included within the formula:

Determination of FSM Eligibility

Behaviour Support Services

EAL

Trades Union Facility Time.

The Regulations permit that these services be centrally retained for maintained schools by the de-delegation of the funding from maintained schools (but not from academies) with the specific approval of the relevant members of the Schools Forum. Academies are, however, free to purchase these services, either through a SLA or on a Pay As You Go basis. Special Schools and the PRU are not affected by the de‑delegation, but can also participate through the SLA or on a Pay As You Go basis.

De-delegation is an integral part of the way in which these services are funded and any changes would require a significant change of the way of working with schools. Anecdotal evidence suggests that schools are content with the de-delegation of the funding for these four services. Schools Forum agreed to de-delegate from all phases during all years since 2013/14 when the de-delegation regime was first introduced, and it recommended that these are agreed again for 2016/17 using the cash values set out in **Annex 3**.

**Recommendation 9: Schools Members of the Schools Forum representing maintained mainstream schools agree on a phase by phase basis to the de-delegation in respect of the four services listed above for 2016/17 using the funding values as set out in the final column of Annex 3.**

The School and Early Years Finance (England) Regulations 2015 make provision that allows Local Authorities to carry over into 2016/17 any unspent de‑delegated central expenditure to be used for the same purpose as it was used in 2015/16. In other words, it can be used for de-delegated services without having to be allocated through the formula again. This responds to representations during the DfE’s consultation that this money de-delegated from maintained schools should continue to be available for the use of maintained schools only, as academies have already had their share of this funding. This approach has been used for the balances carried forward from 2013/14 into 2014/15 and again from 2014/15 into 2015/16, and it is intended to do the same again at the end of 2015/16.

The budget balances to which this applies in 2015/16 are:

Determination of FSM Eligibility

Behaviour Support Services

EAL

Trades Union Facility Time

**Recommendation 10: Schools Members of the Schools Forum representing maintained mainstream schools agree that any under or overspends in these four de-delegated budgets in 2015/16 be carried forward in a ring fenced way to be used for the same purposes in 2016/17.**