

READING BOROUGH COUNCIL
REPORT BY FINANCIAL SERVICES

TO:	Reading Schools Forum		
DATE:	18 th October 2018	AGENDA ITEM:	5
TITLE:	Dedicated Schools Grant (DSG) Budget Setting Strategy for 2019/20		
SERVICE:	Children's, Education & Early Help Services	WARDS:	All
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1. PURPOSE AND SUMMARY OF REPORT

- 1.1 This report sets out the estimated funding to be received through the Dedicated Schools Grant (DSG) in 2019/20, reviews the possible impact on each of the funding blocks, and sets out what is required in setting the budget for each block.

2. RECOMMENDED ACTION FOR SCHOOLS FORUM

- 2.1 **NOTE:** The DSG allocations likely to be received by block in 2019/20.
- 2.2 **NOTE:** The likely budget position by block in 2019/20.
- 2.3 **AGREE:** To consulting with schools on proposal to transfer 0.5% funding from the schools block to high needs block.
- 2.4 **NOTE:** The next steps and actions required in setting the DSG budget for 2019/20

3 POLICY CONTEXT

- 3.1 The Council has strategic aims to establish Reading as a learning city and a stimulating and rewarding place to live and visit, to promote equality, social inclusion and a safe and healthy environment for all. Education and the funding of education is a key factor in the achievement of this aim.

4 BACKGROUND

- 4.1 The DSG funds both maintained schools and academies and is ring fenced for school/pupil activity. The grant allocation is largely based upon actual pupil numbers from the October pupil count proceeding the actual financial year. The grant received is notionally split between four funding blocks - schools, central school services, early years and high needs - and its use is split between the:

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- Individual School’s Budget (ISB) or delegated budget - this is mainly formula driven;
 - Centrally Retained School’s Budget - the non-delegated budget.
- There is some limited flexibility in transferring funding between blocks.

- 4.2 Overspends on the DSG are carried forward and are a first call on the new year’s allocation of DSG. Underspends on the DSG are carried forward to support the future year’s school’s budget. The Authority must therefore monitor the outturn position as to inform the impact upon the new financial year’s budget position. The budget monitoring of the Authority distinguishes between how services are funded, namely by DSG or by the Local Authority.
- 4.3 The methodology for allocating the DSG to local authorities changed significantly in 2018/19, with new national funding formula introduced for each of the schools, central school services (new block in 2018/19), and high needs blocks. The early years block was funded by a new national formula from 2017/18.
- 4.4 The Authority must ensure that DSG is correctly deployed in accordance with the conditions of grant and the School and Early Years Finance (England) Regulations. The arrangements for 2019/20 are detailed by the Education and Skills Funding Agency (ESFA) in the “Schools revenue funding 2019 to 2020 operational guide” published in July 2018 and for high needs in the “High needs funding 2019 to 2020 operational guide” published in September 2018. From 2019/20, ESFA will require a report from any LA that has a DSG deficit of more than 1% as at 31 March 2019, to explain how it plans to bring the DSG account back into balance.

5 DSG ALLOCATION FOR 2019/20

- 5.1 Appendix 1 of this report sets out the detailed calculation of Reading’s DSG. Although funding rates for the schools, central and high needs blocks are now set for 2019/20, the pupil numbers the rates are calculated on will be based on the October 2018 census or later. Based on current pupil numbers, the allocations would be as shown in Table 1, also compared to 2018/19 allocations on a like for like basis.

Table 1: RBC’s DSG allocations for 2018/19 (revised) and 2019/20 (estimated)

Block	DSG Allocations after recoupment		
	2018/19 Revised (£m)	2019/20 Estimated (£m)	Change (£m)
Schools Block (includes ISB)	86.824	88.100	+1.276
Central School Services Block	1.305	1.319	+0.014
Early Years Block	12.560	12.560	0
High Needs Block	19.128	19.476	+0.348
Total	119.816	121.455	+1.639

- 5.2 Overall, the 2019/20 allocation is set to increase by £1.64m, assuming pupil numbers remain the same. The new national formula for schools has given a further increase for Reading in the schools block, and the high needs formula delivers a minimum increase of 0.5% to the base funding.
- 5.3 Recoupment for academy schools and post 16 high needs places is deducted from the gross allocations, though note that from August 2019, the funding for post 16 high needs places will no longer be recouped for maintained schools. The only impact recoupment has on the budget will be if there are additional places to be funded in high needs settings which will be deducted from the gross allocation (there is no additional funding for growth in number of places). The DSG is adjusted in year for new academy conversions, but this has a neutral impact.
- 5.4 The following paragraphs set out the 2019/20 budget setting requirements and possible issues in each funding block.

6. BUDGET SETTING BY FUNDING BLOCK

6.1 Schools Block

This block consists of the individual school budget shares to primary and secondary mainstream schools allocated to schools through the school funding formula. The proposed funding formula for 2019/20 is covered in a separate report. All funding in this block is allocated out to schools, other than funding held back for the growth fund and falling rolls fund, also covered in the report on the school formula.

Transfers of funding from this block are subject to the following conditions:

- Local authorities (LAs) may transfer up to 0.5% of their schools block funding into another block, with the approval of Schools' Forum. This is approximately £440k.
- LAs wishing to transfer should consult with all maintained schools and academies, and the Schools' Forum should take into account the views of schools before giving their approval.
- If the local authority wishes to move more than 0.5%, or if the Schools' Forum has turned down a proposal to transfer but the LA still wishes to proceed, they must submit a disapplication request to the Secretary of State.

There are a limited number of central services that maintained mainstream schools can opt to de-delegate from their budget allocation. This decision is made by the relevant members on Schools Forum for their school phase (it is not the same as a buy back which is an individual school decision). This is an annual decision, and the final decision for 2019/20 will need to be made at the January 2019 meeting of the Schools' Forum. A report detailing the proposals for 2019/20 will be brought to the December 2018 meeting of the Schools' Forum. The services de-delegated in 2018/19 are as follows:

- Behaviour support - £178k
- Equality services - £40k (part year, now ceased)
- Union duties - £45k

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- School Improvement - £141k
- General duties formally met by the Education Services Grant (e.g. internal audit, finance, IT systems) - £81k

6.2 Central School Services Block

The central block was separated out from the schools block in 2018/19, and is funded on a per pupil rate, so the funding allocation received can fluctuate depending on the number of pupils. In addition, £680k is received for historic commitments. Schools' Forum approval is required for most services funded by this block. Table 2 sets out the services Reading currently fund from this block, and the 2018/19 budget.

Table 2: Budgets funded from the Central School Services Block DSG allocation

Service	2018/19 Budget (£'000)	Approval Required by Schools Forum	Restrictions
Admissions	215	Yes	None
Servicing of Schools' Forum	20	Yes	None
Copyright Licences	102	No	None
Statutory/Regulatory services e.g. finance	390	Yes	None
Prudential Borrowing (historic commitment)	50	Yes	Cannot exceed previous budget & no new commitments
Contribution to Commissioning (historic commitment)	15	Yes	Cannot exceed previous budget & no new commitments
Contribution to School Improvement (historic commitment)	116	Yes	Cannot exceed previous budget & no new commitments
Contribution to Early Help Services (historic commitment)	224	Yes	Cannot exceed previous budget & no new commitments
Contribution to Children's Social Care (historic commitment)	136	Yes	Cannot exceed previous budget & no new commitments
Contribution to LAC Education (historic commitment)	139	Yes	Cannot exceed previous budget & no new commitments
Total	1,407		

Assuming the 2019/20 budget remained the same as 2018/19 at £1.407m, compared to the likely funding allocation of £1.319k there would be a shortfall in this block of £88k. This is because copyright licences were funded from the schools block in 2018/19.

It is the ESFA's expectation that spending on historic commitments (funding allocated at the same level as in 2018/19) will reduce over time as contracts and other commitments reach their end points. The ESFA intend to monitor this position. These budgets therefore need to be reviewed and determined whether the reduction in any of these budget lines will bring this block's budget within the funding allocation. From 2020/21 it is expected that the ESFA will start to reduce the historic commitments element of the funding allocation.

6.3 Early Years Block

Funding for the early years block is determined by the number of 2, 3 & 4 year olds recorded in the January census - 5/12 from the January falling in the previous financial year, and 7/12 in the January falling in the current financial year. The assumption is therefore that January numbers reflect the average position for the year, with lower numbers in the autumn, building up to the highest numbers in the summer term; this is because the free entitlement commences the term following the child's birthday. Providers receive funding based on their actual take up each term, so it is unlikely that the DSG funding received will ever match the actual spend, and this needs to be carefully managed. Pressure on this block will occur if the January census data is not an average take up for the whole year. The same methodology applies to pupil premium funding and the disability access fund (DAF).

When setting the provider funding rates the above needs to be borne in mind, with any deficit or surplus from the previous year taken into account. The intention is to balance this block

Lump sum funding is also received for maintained nursery schools. This is supplementary transitional funding, and at this stage it is not known how long this will continue for, but it is still payable in 2019/20. The amount received is adjusted if pupil numbers change, and for 2018/19 the amount has gone down due to nursery school numbers falling. The intention will be to pay the nursery schools this funding based on the same methodology on which it is received, and this is likely to be a lower amount than in 2018/19.

All providers are already receiving the single formula rate (of £4.80 per hour) for 3 & 4 year olds, which is compulsory by 2019/20. The current 2 year old rate paid to providers is £5.55 per hour. DSG funding rates for this block for 2019/20 have not yet been published by the ESFA, and are expected late November/early December alongside the operational guidance. Unless the funding rate received increases, it is probable that the rates paid to providers will stay the same.

Centrally retained funding from the early years block are subject to a 95% pass through rate - this means that up to 5% can be retained, and this includes any transfers of funding out of this block (there were none in 2018/19). As DSG funding will fluctuate according to pupil numbers, the amount available for central services can be affected and needs to be carefully managed. As nursery numbers have decreased between 2017 and 2018, this *may* have an impact on the amount available for central services in 2019/20. The centrally retained budget in 2018/19 totals £580k compared to a revised allocation in

2018/19 of £12.6m, so the pass through rate is still comfortably within the limit.

A detailed budget plan for the early years block will be brought to Schools' Forum in January 2019.

6.4 High Needs Block

The bulk of funding to be received for high needs in 2019/20 is already fixed, with the remainder of funding estimated - to be based on actual pupil numbers in special schools (October 2018 census), and import/export adjustments based on the 2018/19 academic year to be informed by July 2019 (for Reading this is a deduction in funding). This is based on special needs places provided in Reading to other LAs less special needs places accessed by Reading pupils in other LAs. The total allocation for 2019/20 represents a 3.1% increase over the equivalent 2017/18 baseline. The allocation for Hospital education is under review with the intention to replace the current historical spend with a formulaic factor - the allocation for this factor may therefore change, but no LA will see a reduction.

From 2019/20 LAs will be responsible for the funding of special free school places, and a funding transfer will be made to reflect this. This means that LAs will therefore have to fund any increases to the place funding for these settings from their DSG allocation. Reading will therefore be funding Thames Valley School out of its DSG allocation.

Pressures in this block have not yet slowed down with the number of pupils receiving EHCPs which the Council is legally obliged to fund continuing to grow, and the inflationary increases applied by the providers continuing to rise at a much greater rate than the increase in funding received. It is hoped that the high needs strategy in place will start to curb this growth and possibly start reducing spend.

In 2018/19, there was a 0.5% transfer of funding from the schools block. Underspends in other blocks in 2017/18 have also been used to offset the deficit, and these are options available in 2019/20 subject to Schools' Forum approval.

Assuming expenditure in 2019/20 and 2020/21 does not increase above the current forecast for 2018/19, the position on the high needs block will be as shown in Table 3. Note that the figures are gross of recoupment for academies and post 16.

Table 3: High Needs Block Estimates

High Needs Block Budget	2018/19 Forecast (£m)	2019/20 Estimated (£m)	2020/21 Estimated (£m)
Place Funding	3.954	3.954	3.954
Top Ups	13.222	13.222	13.222
Centrally Retained	2.255	2.255	2.255
Expenditure prior to repayment of deficit	19.431	19.431	19.431
Repayment of previous year deficit	2.860	2.364	2.319
Total Expenditure	22.291	21.795	21.750
DSG in year Allocation	19.128	19.476	19.824
Transfer from other blocks	0.434		
Possible under spends in other blocks	0.365		
Total Funding	19.927	19.476	19.824
Net Position (deficit)	2.364	2.319	1,926

Although from 2019/20 it is possible that in year expenditure can be met by in year grant income, without contributions from other blocks and/or significant reductions in expenditure, it will take several years for the previous years' deficit to be repaid.

A separate report details progress on the SEND strategy. When the budget for 2018/19 was set, it was assumed that the strategy would deliver savings and repay the deficit. In order to repay the deficit over the next two years, one off block transfers and/or savings of approximately £0.750m would be required in 2019/20 plus an additional £0.400m in 2020/21, as illustrated in Table 4.

Table 4: High Needs Block Savings Required

Needs Block Budget - Savings High Required	2019/20 Forecast (£m)	2020/21 Estimated (£m)
Net Deficit (as table 3)	2.319	1.176
In year savings 2019/20	-0.750	-0.750
Further in year savings 2020/21		-0.400
Revised Deficit Position	1.569	0.026

Given the current position and the uncertainty over the level of savings that can be achieved in 2019/20, it is proposed that schools are consulted on transferring up to 0.5% from the schools block to the high needs block again in 2019/20.

Further information on budget estimates for 2019/20 will be brought to the December meeting of the Schools' Forum.

As in previous years, a review of the number of high needs places to be funded in 2019/20 will need to take place during October and November, and agreement reached with each provider. This will now include engaging with special free schools. Changes in place numbers need to be notified to ESFA through the place change notification process by 16 November 2018.

7 NEXT STEPS/ACTIONS

7.1 The following list summarises the next steps and actions required in order to set the DSG budget for 2019/20

- Consult with schools on proposal to transfer 0.5% of schools block funding to the high needs block. Result to come back to Schools' Forum in December to agree or otherwise.
- Proposal for school funding formula for 2019/20 to be agreed by Schools Forum in October and sent to all schools for comment. Final proposals agreed in December and final formula funding rates set in January.
- Growth fund and falling rolls fund budgets and criteria for 2019/20 to be considered and agreed by Schools Forum in December.
- De-delegation of services to be considered by Schools Forum in December with final agreement in January.
- Centrally retained block service proposals including review of the historic commitments, to be brought to Schools Forum in December, with final agreement to be made in January.
- Draft early years block funding proposal to be brought to Schools Forum in January, with final agreement to be made in March (as relies on January census data).
- High needs place funding review to be completed and submitted to the ESFA 16th November 2018.
- Draft high needs block proposals to be brought to Schools Forum in December, with final agreement to be made in March.

Appendices

Appendix 1 - DSG Allocation 2019/20 - First Draft

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Appendix 1

DSG Allocation 2019/20 - First Draft

	Actual Allocation 2018/19		Estimated Allocation 2019/20	
	July 2018 Notification		Autumn 2018 Estimate	
Schools Block				
Pupil Numbers Primary	13,320.0		13,320.0	
Rate	£3,938.01		£3,971.00	
Allocation		£52,454,293		£52,893,720
Pupil Numbers Secondary	6,057.0		6,054.0	
Rate	£5,105.75		£5,223.35	
Allocation		£30,925,528		£31,622,161
Growth Funding		£3,443,696		£2,091,899
Premises & Mobility Funding				£1,492,369
Gross Allocation		£86,823,517		£88,100,149
Academy Recoupment		-£40,604,564		-£40,604,564
actual funding rounding adjustment		£47		
Schools Block Net Total		£46,219,000		£47,495,585
Central School Services Block				
Pupil Numbers	19,377		19,374	
Rate	£32.27		£32.97	
Allocation		£625,296		£638,761
Historic Commitments		£680,000		£680,000
actual funding rounding adjustment		-£296		
Central School Services Block Net Total		£1,305,000		£1,318,761
High Needs Block				
Formula		£20,156,112		£20,321,842
Place Numbers - Special Schools	215.0		215.0	
Place Numbers - Alternative Provision	41.0		41.0	
Total	256.0		256.0	
Rate	£4,208.94		£4,208.94	
Allocation		£1,077,489		£1,077,489
Import/Export Adjustment	-351		-351	
Rate	£6,000.00		£6,000.00	
Allocation		-£2,106,000		-£2,106,000
Hospital Funding				£182,810
Gross Allocation		£19,127,601		£19,476,141
Recoupment - academy/post 16 places		-£1,756,993		-£1,756,993
actual funding rounding adjustment		£392		
High Needs Block Net Total		£17,371,000		£17,719,148
Early Years Block				
3 & 4 year olds Universal - Schools	1,396.0		1,396.0	
3 & 4 year olds Universal - PVI	1,496.0		1,496.0	
3 & 4 year olds Additional - Schools	198.4		198.4	
3 & 4 year olds Additional - PVI	628.7		628.7	
Total	3,719		3,719	
Rate	£5.14		£5.14	
Allocation		£10,896,219		£10,896,219
2 year olds - schools	67.0		67.0	
2 year olds - PVI	314.1		314.1	
Total	381.1		381.1	
Rate	£5.74		£5.74	
Allocation		£1,246,883		£1,246,883
PPG - schools	226.0		226.0	
PPG - PVI	120.4		120.4	
Total	346.4		346.4	
Rate	£0.53		£0.53	
Allocation		£104,647		£104,647
DAF - eligible pupils	54.0		54.0	
Rate	£615.00		£615.00	
Allocation		£33,210		£33,210
Maintained Nursery Grant		£278,895		£278,895
actual funding rounding adjustment		£145		£145
Early Years Block Net Total		£12,560,000		£12,560,000
SUMMARY NET IN YEAR ALLOCATION				
Schools Block		£46,219,000		£47,495,585
Central School Services Block		£1,305,000		£1,318,761
High Needs Block		£17,371,000		£17,719,148
Early Years Block		£12,560,000		£12,560,000
TOTAL DSG ALLOCATION IN YEAR		£77,454,999		£79,093,493