



BROMLEY CIVIC CENTRE, STOCKWELL CLOSE, BROMLEY BRI 3UH

TELEPHONE: 020 8464 3333

CONTACT: Philippa Gibbs
philippa.gibbs@bromley.gov.uk

DIRECT LINE: 020 8461 7638

FAX: 020 8290 0608

DATE: 25 October 2016

EDUCATION BUDGET SUB-COMMITTEE

Meeting to be held on Tuesday 1 November 2016

Please see the attached report(s) marked "to follow" on the agenda.

6 UPDATE ON EDUCATION FUNDING (Pages 3 - 14)

Copies of the documents referred to above can be obtained from
<http://cde.bromley.gov.uk/>

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Agenda Item 6

Report No.
ED17021

London Borough of Bromley

PART ONE - PUBLIC

Decision Maker: EDUCATION BUDGET SUB-COMMITTEE

Date: 1st November 2016

Decision Type: Non-Urgent Non-Executive Non-Key

Title: UPDATE ON EDUCATION FUNDING

Contact Officer: David Bradshaw, Head of Education, Care & Health Services Finance
Tel: 020 8313 4807 E-mail: David.Bradshaw@bromley.gov.uk

Chief Officer: Chief Executive

Ward: (All Wards);

1. Reason for report

- 1.1 This report gives an update to Members on Education funding streams and the move towards the National Funding Formula.
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2. **RECOMMENDATION(S)**

The Education PDS Budget Sub-Committee is requested to consider and note the contents of the report.

Corporate Policy

1. Policy Status: Existing policy: sound financial management
 2. BBB Priority: Children and Young People Excellent Council
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Financial

1. Cost of proposal: Not Applicable:
 2. Ongoing costs: Not Applicable:
 3. Budget head/performance centre: Education Portfolio budgets
 4. Total current budget for this head: £12.700m
 5. Source of funding: Existing revenue budgets 2016/17
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Staff

1. Number of staff (current and additional): 341 Full time equivalent
 2. If from existing staff resources, number of staff hours: N/A
-

Legal

1. Legal Requirement: Statutory Requirement
 2. Call-in: Applicable
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): The 2016/17 budget reflects the financial impact of the Council's strategies, service plans etc. which impact on all of the Council's customers (including council tax payers) and users of the services
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
2. Summary of Ward Councillors comments:

3. COMMENTARY

Overview

- 3.1 The government is proposing the phased introduction of a new funding formula from 2018/19. Originally it was to be introduced from 2017/18 but this has since been delayed. The government argument is that the average amount of per pupil school funding individual local authorities receive from the Government each year varies considerably. This funding is then distributed to schools using local factors, meaning that different schools, even within the same area receive different levels of funding per pupil.
- 3.2 The intention is that most funding, with the exception of high need funding, will eventually be given directly to schools and not routed through the local authority as now (in the case of maintained schools). The funding will be set nationally and will not be influenced by local decisions, as is the case now.
- 3.3 This report goes through the timeline of the consultations and actions since March 2016 and outlines the proposals and potential impact that they may have for Bromley.

4. CURRENT FUNDING ARRANGEMENTS

- 4.1 For 2016/17 most Education funding is delivered via the Dedicated Schools Grant (DSG), although there are other grant such as post 16 funding and pupil premium which are also given to school settings.
- 4.2 The DSG is worth £256.5m to Bromley. After deductions for academy recoupment and high needs settings recoupment paid directly by government, this figure reduces to £79.9m. The schools block is notionally divided into three non ringfenced blocks. These are shown below for Bromley:-

2016/17 Bromley DSG allocation

	<u>Gross</u> <u>Allocation</u> <u>£m</u>	<u>Deductions</u>	<u>Net</u> <u>Allocation</u> <u>£m</u>
Schools Block	193.57	170.55	23.02
High Needs Block	48.27	6.08	42.19
Early Years Block	14.68	0.00	14.68
	256.53	176.63	79.89

- 4.3 Once the funding is received authorities do not pass the DSG straight onto schools and early years settings straight away. Authorities must consult with their Schools Forums, who have decision making powers in some circumstances. An overall budget is determined which allocates funding to schools and other settings via local funding formulas, some centrally retained funding for the authority and where applicable move DSG funding between the blocks to support particular areas if required. The local schools formula is also used to determine, in part, Academies schools funding and is used to calculate the recoupment from the schools block.
- 4.4 Currently there is no national formula that calculates DSG funding for authorities from 'scratch' each year. DSG calculations are based on historical data and how much an authority received previously, subject to some adjustments. This is then calculated using pupil number data. Therefore if historically an authority was poorly funded, this has continued over time and the gap has widened. This was addressed in part in 2015/16 when £390m was allocated those

authorities that were considered to be the least fairly funded. Bromley received £19m into the schools block through this.

- 4.5 The exception is the high needs block where this is a fixed amount of funding, which is subject to minor amendments by Government, but is not driven by pupil numbers. This is a particular issue for Bromley with the growing special need cohort and is discussed in more detail later in this paper.
- 4.6 Bromley would still consider itself under funded in many respects. Of the three current blocks, two are calculated using an historical measure. The schools block is called the 'Schools Block Unit of Funding' or SBUF and the Early Years is called the 'Early Years Block Unit of Funding' or EYBUF. Current per pupil allocations can be seen in the table below:-

	<u>SBUF</u>	<u>EYBUF</u>
City of London	8,587	7,476
Camden	6,233	8,713
Greenwich	6,020	5,028
Hackney	6,858	7,123
Hammersmith and Fulham	6,351	6,286
Islington	6,221	7,991
Kensington and Chelsea	5,987	6,395
Lambeth	6,486	7,464
Lewisham	5,966	5,814
Southwark	6,463	8,212
Tower Hamlets	6,982	7,804
Wandsworth	5,602	4,933
Westminster	6,020	6,841
Barking and Dagenham	5,578	4,053
Barnet	5,024	4,560
Bexley	4,635	3,776
Brent	5,394	5,930
Bromley	4,548	3,899
Croydon	4,856	4,564
Ealing	5,298	5,653
Enfield	5,204	3,948
Haringey	5,913	5,345
Harrow	4,915	4,321
Havering	4,729	3,980
Hillingdon	4,873	4,898
Hounslow	5,198	3,777
Kingston upon Thames	4,594	3,737
Merton	4,904	3,896
Newham	6,127	4,908
Redbridge	4,796	4,120
Richmond upon Thames	4,503	3,601
Sutton	4,670	4,486
Waltham Forest	5,230	4,884
Kent	4,383	4,307
Wokingham	4,167	3,726

- 4.7 It can be seen that there is a wide spread of per pupil allocations across London. Kent has been added to these figures as a comparative and Wokingham has been added as they are the lowest funded for SBUF.

4.8 The Government, through the national funding formula are attempting to address some of these anomalies in funding and are trying to simplify the process where possible.

5. MARCH 2016 CONSULTATION

5.1 In March 2016 the Government announced the launch of two initial consultations on the future of school funding and on the funding of high need provision of high need.

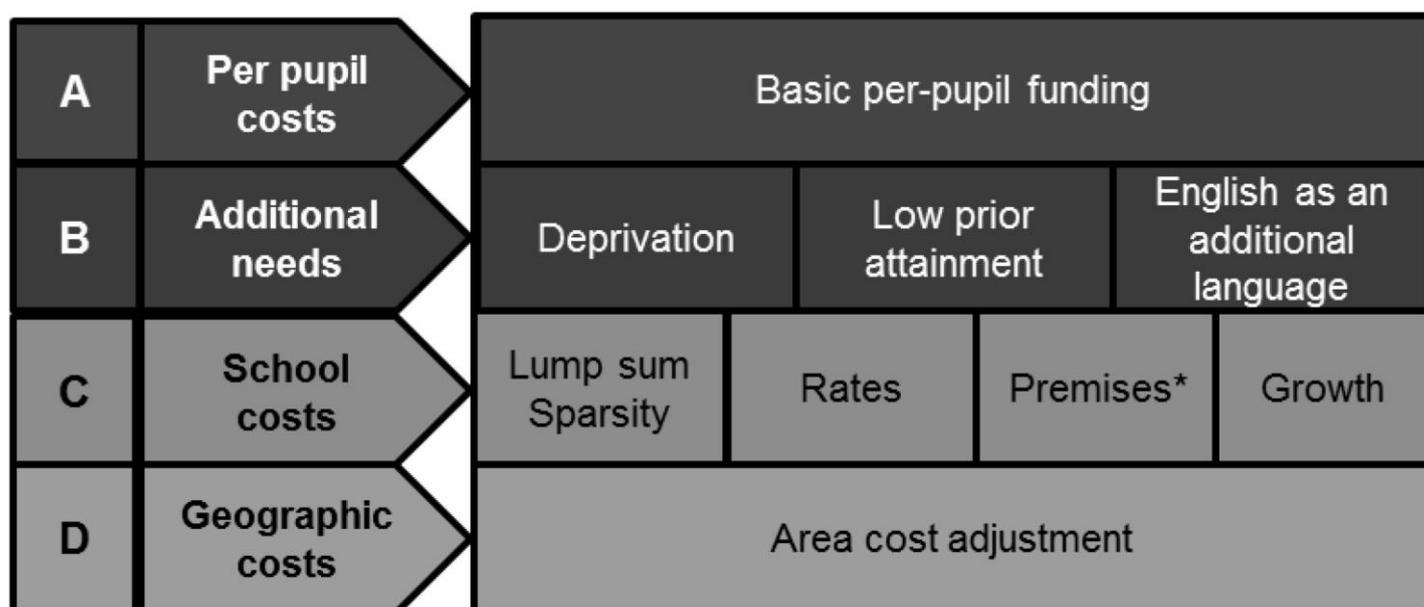
5.2 The main proposals were as follows:-

Schools Block Proposals

- A move from 3 blocks to 4 blocks. The government are in effect continuing with schools, high needs and early years but also adding a centrally retained block which is made up of historic local authority spend on schools plus the transfer of retained Education Services Grant (ESG) into DSG.
- The schools block will go straight to schools by 2019/20. This is termed as the ‘Hard Years’ where the local authority will no longer have any input into the amount of funding the schools receive. The block will be ring fenced. During 2017/18 and 2018/19 these would be known as ‘Soft Years’ whereby the new formula would still be used but the local authority would still be able to use local decisions to pass funding to schools and move funding between blocks.
- The National formula would be made up of the following basic elements:-

Per pupil cost factor
 Additional needs funding
 School costs factor
 Geographic costs factor

- The table below shows the building blocks of the proposed formula



High Needs Block Proposals

5.3 The high needs proposals were as follows:-

- The block will move to a formula driven proxy of need rather than using historic spend. The majority of funding will continue to be distributed to local authorities.
- It is proposed that there is a formula with 5 factors plus an area cost adjustment. The factors are set out in the table below:-

Figure 4: High needs funding formula factors

Basic unit of funding for pupils and students in specialist SEN institutions	
Population factor	
Health and disability factors:	Disability living allowance
	Children in bad health
Low attainment factors:	Key stage 2 low attainment
	Key stage 4 low attainment
Deprivation factors:	Free school meals
	IDACI
2016-17 spending level factor	

- To avoid sudden changes in provision and spend in this area an element of the current spend on SEN will be included in the national formula (based on 2016/17 spend) for the next five years, giving the LA the time to plan.
- Overall protection will be given via the Minimum Funding Guarantee (MFG) so that a local authorities funding will not fall below a certain percentage (% not yet identified) in each of the five years.

Early Years Proposals

5.4 No proposals were put forward for early years at this stage. This was to follow in the summer of 2016.

Centrally retained block

5.5 The main proposals for this block were:-

- As well as the historic central spend in this block the intention is to transfer retained ESG (currently at £15 per pupil) into this DSG block. This amounts to a transfer of funding from ESG to DSG of approximately £740k.

- Funding to be distributed on a formula basis although this was not shared at this stage.

Other elements to the March Consultation

- 5.6 Each element of the four DSG silos would be ringfenced and could not be used to subsidise other areas with the exception of the centrally retained block
- 5.7 As part of the consultation it was announced that the ESG that remains after the transfer of the retained duties (see paragraph 5.5 above) would be removed from 2017/18 as part of a savings exercise. There will be some transitional funding available and there will be an opportunity to use DSG with the agreement of the Schools Forum. The expectation was also to stop some current statutory activities that the local authority currently provides such as School Improvement, which will reduce the burden on local authorities and reduce the need for ESG grant. Further details would come out in the 2nd stage of consultation in the Autumn.
- 5.8 As part the consultation government asked for each authorities DSG allocations to be rebased. As mentioned above, although DSG is distributed in three silos, the silos are not currently ringfenced and so funding is moved to support different areas. Bromley for example historically received more high needs block DSG than it was spending. This was used to offset greater expenditure in the Schools Block. The overall DSG figure remains the same but the sub totals change. The blocks were realigned using 2015/16 base data and DfE will be using this data for future funding allocations.
- 5.9 Minimum Funding Guarantee (MFG) would remain, which is currently -1.5%. This would continue with the national funding formula setting caps on MFG gains and losses. This would be consulted on at a later date
- 5.10 A further consultation will take place in the Autumn of 2016.

Potential funding risks

- 5.11 The consultation did not go into a great detail around funding levels so until more details are provided on what weight and values will be given to the different formula factors it is not possible to gauge the potential impact. The second consultation document is expected to include information on the relative weightings of the factors and will show the impact on funding at school and local authority level.
- 5.12 However some independent analysis has been carried out on some of the blocks. For example for the schools block it is estimated that Bromley will be an overall gainer. As Bromley is historically a low funded authority and the intention is to move more towards the middle ground, it is expected that Bromley will make some gains. Research carried out by London Councils suggests that whilst most London boroughs would lose out a handful would not, including Bromley. Their estimates suggest that a formula may increase the SBUF by 1.5%. this would represent an overall increase in that element of the DSG of £2.8m.
- 5.13 It is anticipated that the high needs block will reduce from its original levels. Bromley per head is one of the highest funded when comparing 2015/16 high need block funding against 2-18 population figures, the measure that DfE used in the March consultation. The Bromley figure was £718 per head. This compared to £518 for Bexley and £597 for Croydon. The likelihood is, and assuming the same levels of funding are available, the same principle of moving to the middle ground would be used by DfE. Moreover the drivers being proposed such as deprivation and low attainment do not place Bromley well in terms of the funding potential.
- 5.14 There is potential some mitigation against the gains and losses above if DfE use the rebased figures in their calculations. The rebased figures have already increased the schools block and decreased the high needs block. This would come out in the second consultation.

- 5.15 The loss of ESG could be an issue but this is dependent on final proposals from DfE. If all of the non retained services ESG were to be eliminated this would result in up to £400,000 shortfall in ESG funding which would have to be offset by transitional funding, use of DSG with the schools forum agreement or stopping services. The next set of consultation proposals should clarify this situation.
- 5.16 It should be noted that MFG would apply to any gains or losses to MFG. The proposed rate is not yet known but historically has been around -1.5% for losses.

6. JULY 2016 STATEMENT

- 6.1 On the 21st July the government announced that whilst they remained committed to the introduction of the formula, it would now not be implemented until 2018/19. It also announced that:-
- The Government would set out its response to the March 2016 consultation in Autumn 2016.
 - It would publish the proposals for the second stage consultation also in the autumn of 2016 with final decisions on the formula in early 2017.
 - In recognition of the schools needs for stability and predictability, no authority would see a reduction on adjusted 2016/17 per pupil school block funding, or the high need cash amount.
 - Retention of the current 1.5% minimum funding guarantee for schools – local flexibility on this would not be implemented in 2017/18 as originally planned.
 - The proposal to strictly ring fence the schools block within the DSG would also not be implemented in 2017/18.
 - The proposal to create a fourth Centrally Retained Block would not be implemented.
- 6.2 All this in effect does is to leave the funding situation at the status quo, apart from the realignment of the DSG blocks. It is assumed that there will only be one 'soft' year instead of two and that the 'hard' year continues to be from 2019/20 as per the original proposal.

7. RECOUPMENT ARRANGEMENTS FOR FREE SCHOOLS CONSULTATION

- 7.1 On the 21st July the DfE launched a consultation seeking views on proposals to changes the local authority recoupment arrangements for mainstream free schools.
- 7.2 At present there are two ways in which free schools can be established:-
- Where the local authority has identified the need for a new school in the areas (known as the presumption process).
 - Where an application to open a free school is made directly to the department by a proposer (known as the centrally delivered process).
- 7.3 Under the current arrangements where a free school is established through the presumption process, the local authority's Dedicated Schools Grant is charged from the point of opening. If it is established through the centrally delivered process, the LA is charged from the second year that the school is open.

7.4 The authority is aware of two secondary free schools expected to open in September 2017 that have been established under the centrally delivered process. Under the current arrangements there would be no charge to the LA in 2017/18, however if these changes are introduced then there will be a cost to the authority in 2017/18. Assuming that each school has an admission number of 180 pupils, early modelling indicates that the cost to the LA for the financial year 2017/18 will be around £1.3m.

7.5 This would have to be contained within the existing DSG arrangements.

8. EARLY YEARS CONSULTATION

8.1 On the 11th August 2016 the DfE launched a consultation document on proposals for an early years national funding formula and changes to the way three and four year old entitlements to childcare are funded. This was originally going to be part of the consultation in March but was delayed.

8.2 The consultation focuses on three main areas:-

Part 1: National funding to local authorities

- Hourly funding rates (national average) to increase from £4.56 to £4.88 for three and four year old (including average Early Years Pupil Premium spend) and from £5.09 to £5.39 for two year olds
- A new early years national funding formula would allocate funding to local authorities for the existing 15 hour entitlement for all three and four year olds and the additional 15 hours for three and four year old children of eligible working parents.
- The formula would include factors for additional needs and an area cost adjustment to reflect variations in local costs
- While the majority of local authorities would see increases in their hourly funding rates, the DfE would set a funding floor to ensure that no authority would see a reduction of more than -10% once the formula is fully implemented.
- To use transitional protections to ensure that no local authority would see an annual reduction in their hourly funding rates of more than -5% in any year
- That all local authorities should be funded by the early years national funding formula, without any transitional protections by 2019/20.

Part 2: Local funding from local authorities to providers

- To require that all local authorities pass 93% in 2017/18 and 95% in 2018/19 of early years funding to providers
- Local authorities would use a universal base rate to fund providers for each hour of the free entitlement, by no later than 2019-20. This would bring about greater equality in funding between different types of provider.
- There would be supplementary funding for maintained nursery schools for at least two years to keep their transition to a universal base rate manageable.
- There would be a limited set of permitted funding supplements, limited to those which reflect drivers of cost and incentivise providers to meet the need of parents. These supplements would be capped at 10% of the hourly funding rate.

Part 3: Meeting children's additional needs

- There would be a new Disability Access Fund to support disabled children to access the free entitlements.
- Local inclusion funds for children with special educational needs would support providers in driving outcomes for these children.
- The Early Years Pupil Premium will continue.

8.3 Alongside the consultation document the DfE has published illustrative funding allocations which show that the funding rates for Bromley would increase from £4.19 (compared to a national average of £4.43) to £4.91 (compared to the national average of £4.71). The two year old rate would increase to £5.66 (compared to the national average of £5.39). The potential funding is detailed in the table below:-

Early Years Block

	<u>Current</u> <u>3&4 y/old</u> <u>£m</u>	<u>Additional 3& 4</u> <u>3&4 y/old</u> <u>£m</u>	<u>2yr y/old</u> <u>funding</u>
Early Years Baseline DSG	13.065	0	1.846
Potential new funding	15.298	2.642	1.938
Difference	2.233	2.642	0.092

8.4 There is good news in this area in terms of the funding levels as they are predicted to rise. However this should be taken with caution as they are not finalised and are subject to possible dampening arrangements.

8.5 The consultation does assume that the vast majority of the funding is passed onto providers; up to 7% in 2017/18 and 5% in 2018/19 can be used by the local authority on appropriate early years expenditure. Currently the level is no more than 1% and is being used to offset the costs of some staffing. There is potential for the further use of this funding to offset some early years costs in the high needs block area. Current estimates suggest that up to £400k could legitimately be rebadged which would take some pressure off the high needs area.

9.0 Future consultations

9.1 Government have committed to respond to the consultations in the Autumn of 2016 and to set out the final funding arrangements for 2018/19 by early 2017. As yet no further information on funding has been forthcoming

10. Current position for 2017/18

10.1 As there has been a delay in the national funding formula Bromley can only assume current funding arrangements are in place and budget for this accordingly

10.2 The current budget position for the blocks is detailed in the table below:-

2017/18 Budget Position

	<u>Schools</u>	<u>High Needs</u>	<u>Early Years</u>
	<u>Block</u>	<u>Block</u>	<u>Block</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Funding	197.880	38.728	20.119
Expenditure	199.880	40.734	19.740
Surplus/(Deficit)	-2.000	-2.006	0.379
Overall deficit			-3.627

10.3 The School Block is currently looking at a £2m overspend in 2017/18. This is due to the potential Free School issue referred to earlier in the paper and the continuing need for bulge classes to be financed. However action has been taken to rectify this and it is proposed to reduce the primary sector funding by £2m. This is anticipated to have a minimal impact as the primary sector received a £13m increase a few years previously as part of the DfE uplift in the underfunded Schools block. This will also have the benefit of reducing the ratio of funding between secondary and primaries to a more reasonable level, and more in line with national funding formula expectations. Bromley is currently an outlier with this and has been looking at ways to improve this ratio.

10.4 The high needs block is estimated to overspend by £2m in 2017/18 if action is not taken. This is due to the continuing expansion of Beacon House, extending places by 25 each year, expanding the Glebe 6th Form places and growing SEN units in mainstream schools. Although this should be offset by a reduction in independent placements, the overall cohort is expanding rather than remaining stable. This area is currently being explored by the Director of Education and areas of rationalisation, efficiency, etc and being looked at for implementation from April 2017 onwards, with some others being implemented from September 2017. There is also potential to use some of the early years block increase to offset some costs.

11. FINANCIAL IMPLICATIONS

11.1 There is still uncertainty surrounding the funding arrangements for 2017/18 and beyond. The government is due to clarify the situation imminently. In the meantime the Department will need to take a cautious approach and have plans in place to deliver a balanced budget in the worst case scenario.

11.2 Whilst the DSG can technically overspend and roll over a deficit, this is not good financial management practise and should be avoided unless there are exceptional circumstances. The future of the funding remains uncertain but balanced budgets will need to be delivered early in the new year with robust plans of action to deliver savings and efficiencies if need be.

Non-Applicable Sections:	Legal Implications Policy Implications Personnel Implications Customer Implications
Background Documents: (Access via Contact Officer)	2016/17 Budget Monitoring files in ECHS Finance Section 2017/18 Budget files in ECHS

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