

**REPORT OF THE CHAIRMAN OF THE CHILDREN AND YOUNG PEOPLE'S
COMMITTEE****SCHOOLS AND EARLY YEARS FUNDING: AGREEMENT OF THE LOCAL
FUNDING FORMULA FOR 2018-19****Purpose of the Report**

1. This report seeks approval for the adoption of the Nottinghamshire Schools and Early Years local funding formula, as recommended by the Schools Forum, for the financial year 2018-19.

Information

2. Since April 2013, all local authorities have been required to use a new simplified local funding formula (LFF) to distribute the notional Schools Block of funding to all mainstream primary and secondary maintained schools, academies and free schools.
3. In accordance with the School and Early Years Finance (England) Regulations 2018, the responsibility for determining the local funding formula for schools and early years providers lies with the local authority. Prior to agreeing the formula, the Local Authority must first consult with the Schools Forum and all maintained schools and academies in the area on the proposed changes. Where any proposed changes affect early years' providers they too must be consulted. The Schools Forum is a representative body from the Nottinghamshire schools and early years community which is constituted to make decisions and give guidance to the local authority about the Schools Budget.
4. 2018-19 is a significant year because of the introduction of the National Funding Formula (NFF) for schools, high needs and central school services. The NFF will be used to calculate the funding blocks within the Dedicated Schools Grant (DSG) and determine the allocations that local authorities will receive in the 2018-19 financial year. Local authorities will however, continue to determine the final funding allocations for schools through their LFF for 2018-19 and 2019-20. The Early Years National Funding Formula was introduced in 2017-18.
5. The NFF introduced a number of key changes to the current funding allocation and formula factors as detailed below. It also set the unit values for individual factors and notional budgets for each school. These notional budgets will be aggregated to calculate the funding allocation for each local authority. They were provided for illustrative purposes only and not to represent the funding that a school would actually receive.

6. The main characteristics of the NFF are:

- the Dedicated Schools Grant will comprise four funding blocks: schools, high needs, early years and the new central school services block. Each block will be determined by a separate national funding formula
- 0.5% cash increase per pupil in 2018-19 and 2019-20 compared with the 2017-18 baseline
- per pupil funding of at least £3,300 for primary schools and £4,600 for secondary schools in 2018-19. In 2019-20 these amounts will increase to £3,500 per primary pupil and £4,800 per secondary pupil
- gains will be allocated up to 3% per pupil in 2018-19 and a further 3% per pupil in 2019-20. The minimum per pupil funding level will not be subject to this cap
- the looked after children factor will not be part of the NFF; instead the Pupil Premium Plus grant will be increased for 2018-19
- the NFF includes the sparsity factor which is currently an allowable optional factor that Nottinghamshire currently does not use
- the deprivation factor uses Free School Meals (FSM), FSM6 (eligible for Free School Meals in the last 6 years) and the Income Deprivation Affecting Children Index (IDACI). Nottinghamshire has only used FSM6 and IDACI
- the Reception uplift factor is not part of the NFF but this is used in the current LFF
- Rates, Mobility, Joint Use, Rental, Split Site and the Growth Fund allocations are all based on 2017-18 spend levels
- exceptional premises factors are excluded from the per pupil calculations for the Minimum Funding Guarantee
- the national average primary to secondary ratio has been used in setting the unit values in the NFF, this is 1:1.29. The actual ratio observed in the funding of each individual local authority will depend on the pupil characteristics of the pupils in that area. The ratio for Nottinghamshire has increased from 1:1.265 to 1:1.270
- the ability to transfer 0.5% of the schools block funding to another funding block e.g. High Needs Block.

7. A report was considered by the Schools Forum in September 2017 which outlined the position with the NFF announcements and possible consultation options. The consensus of the Forum was that the consultation should be with a view to transitioning to the NFF in 2018-19. The actual proposal was to transition the LFF to mirror the NFF as far as possible.

8. A second report was considered which recommended the transfer of 0.5% of schools block funding to the High Needs Block to fund emerging budget pressures. This was agreed and the proposal included in the consultation.
9. The ability of local authorities to transfer 0.5% of schools block funding to another funding block was introduced as part of the 2018-19 funding arrangements and can be actioned with the agreement of the Schools Forum. Transfers above this limit and any transfers opposed by the Schools Forum require Secretary of State approval. The transfer being proposed would amount to £2.3m based on the 2018-19 schools block funding allocation.
10. The draft consultation document was considered by the Forum on 19 October 2017. This was considered further on 30 October 2017 at which a working party of Forum members and Council officers met to finalise the content of the consultation document and the accompanying models. The formal consultation on the proposals was held from 7 - 24 November 2017. The documents provided included financial models to illustrate the financial implications of these proposals at individual school level. Illustrative figures were based on October 2016 census data.
11. The 0.5% funding transfer proposal from the Schools Block to the High Needs Block was for the financial year 2018-19 only and included the potential impact for schools of not agreeing to the transfer of funding. Illustrative figures were provided to show the potential budget allocations which would need to be reduced, on 1 April, to address the High Needs Block budget pressure in 2018-19.
12. The proposal to transfer 0.5% of schools block funding to the High Needs Block arose as a result of significant emerging budget pressures in the High Needs Block. A report was considered by the Schools Forum at the September 2017 meeting which highlighted the reasons for this being a significant increase in the number of children and young people with an Education Health Care Plan (EHCP) accessing specialist education provision in education other than at school (EOTAS) and independent non-maintained schools. This directly links to the increase in the number of children and young people with complex needs locally and nationally and EHCPs issued as a result of SEND reforms (2014) including those accessing education post 16.
13. That report quoted the forecast overspend for 2017-18 to be £2.4m and projected to continue into 2018-19. This will be met from the Non-Individual School Budgets reserve but in doing so will result in a projected reserve deficit at 31 March 2018.
14. As the current situation is not sustainable, the September 2017 report recommended that the Schools Forum works in partnership with the local authority to carry out a comprehensive review of the distribution, use and impact of current funding in the High Needs Block. The aim of this review would be for pupils to access the most appropriate type of provision in order that best value is achieved from the High Needs Block. The review is currently underway but the outcomes will not be known before Summer 2018.
15. The Schools Forum met on 7 December 2017 to consider the consultation responses and decide on how the formula should be implemented for 2018-19. It considered the consultation responses and approved all the proposals with the exception of the 0.5% funding transfer to the High Needs Block. This proposal was opposed by a majority of 2 votes (4 votes against, 2 votes in favour and 2 abstentions).

16. Following this an extraordinary meeting of the Schools Forum took place on 10 January 2018. The Service Director for Education, Skills and Learning outlined the reason for calling the meeting and explained that the report (**Appendix 1**) outlined the current situation, gave an update on the revised projected budget pressure, the reasons for it, mitigating actions and options for addressing it.
17. The report highlighted the increasing pressure on the High Needs Block due to:
- a significant increase in the number of children and young people with an Education Health Care Plan, accessing specialist education provision, in education other than at school (EOTAS) and independent non-maintained schools (INM)
 - increased parental expectations that pupils will stay on in specialist educational provision post 16 and beyond, as a result of the Children and Families Act 2014 and SEND reforms
 - changes to funding from health for continuing care, previously paid to special schools
 - increasing pressure on schools to improve attainment in the context of a highly academic curriculum has resulted in increased challenges for schools to include children and young people with the most complex needs in mainstream schools
 - Nottinghamshire special schools being full, which has led to an increase in the number of externally commissioned places in specialist education provision (EOTAS and INM). Whilst Nottinghamshire has committed to investing in the rebuild of Newark Orchard Special School and 57 additional special school places are currently being created in other special schools across the County, these additional places are insufficient to meet projected demand in the next 3 – 5 years.
18. The meeting was particularly difficult because the financial situation had worsened since the September 2017 report with the projected overspend being £3.7m in 2017-18, £5.3m, and £6.3m in 2018-19 and 2019-20 respectively. This meant that even if the 0.5% transfer was agreed, other budget control measures would still have to be implemented in order to balance the budget in 2018-19.
19. During the discussion that took place, Forum members posed a number of questions and raised concerns. One of the recommendations in the report was for the Forum to consider retaking the vote regarding the 0.5% transfer which they did and agreed, via a vote, to revote. A further vote was then taken. The result of the second vote was 5 votes against, 5 votes in favour and 1 abstention. This reflected the discussion, concerns and split of opinion expressed by Forum members as to how this issue should be dealt with, resulting in the need for the Chair to take the casting vote. The Chair took the casting vote and voted for the 0.5% transfer.
20. Although the 0.5% transfer was therefore agreed, this still leaves a significant budget pressure on the High Needs Block for 2018-19 and some difficult decisions will need to be made now to set a balanced budget by 1st April 2018. This will be extremely challenging as the number of budgets which could be reduced are limited and any reduction will provide even greater challenge to schools. However, given the extent of

the budget pressures on the High Needs Block, schools overall will see a potential reduction of £3.0m from the High Needs Block funding routes.

21. The 0.5% transfer of funding means that the overall funding quantum for schools needs to be reduced by 0.5%. Instead of reducing the funding quantum to be distributed via the funding formula a request was made to the Secretary of State to make the reduction outside of the funding formula on a per pupil basis. This meant that the reduction for each school would be based on the school phase, primary or secondary and their pupil numbers. This request was rejected by the Secretary of State and means that the reduction has to be made via the funding formula.
22. A summary of the factors as they were for 2017-18, and the recommendation of the Schools Forum on how these should be applied in 2018-19, is shown in **Appendix 2**.
23. The funding formula was submitted to the Education & Skills Funding Agency (ESFA) by their deadline of 19 January 2018 indicating that it still requires political approval. The ESFA has confirmed that the formula complies with the School and Early Years Finance (England) Regulations 2018.

Minimum Funding Guarantee (MFG) and Gains Cap Transitional Protection

24. To minimise the impact of changes to school budgets caused by the changes to the local funding formula required by Government, and to allow schools time to plan for any changes in the level of funding they receive, a national minimum funding guarantee (MFG) operates at a value of minus 1.5% per pupil in 2017-18. This is to ensure that no school loses more than 1.5% per pupil in delegated pupil led funding in comparison to the previous financial year's budget.
25. The NFF introduced a 0.5% cash increase per pupil in 2018-19 and 2019-20 to provide every school with an increase in funding compared to their 2017-18 baseline. In order to mirror this in the LFF the consultation proposal was to set a positive MFG of between 0% and 0.5%. The final value for this has now been set at a positive 0.25%.
26. Local authorities are able to apply a gains cap so that schools cannot gain more than a certain amount per pupil to fund the MFG. A gains cap works on the same principles as the MFG; however, instead of providing a 'top-up' to the formula budget it makes a reduction on any per pupil gains over a certain level. The current LFF does not contain a gains cap.
27. The NFF included a gains cap of 3% per pupil in 2018-19 and a further 3% per pupil in 2019-20 for schools which are due to gain significantly. Adopting the NFF in full would be unaffordable and it will be necessary to cap some schools' gains; this mirrors the basis on which the schools block funding will be calculated. In order to reflect this in the LFF the consultation proposal was to set a gains cap of between 2.5% - 3%. The final value for this has now been set at 2.75%.

De-delegated Funds

28. The Department for Education continues to require that any funding that was subject to de-delegation in 2017-18 should be re-approved by the Schools Forum if the de-

delegation is to continue in 2018-19, along with any new items. Maintained schools in each phase agreed collectively, through the Schools Forum, to de-delegate funding to the local authority to meet the permitted categories of expenditure listed below, centrally. The rationale for de-delegation is to achieve economies of scale and to pool risk across schools for these costs. For 2018-19 the Forum recommends that the following items are covered by de-delegated funds:

- Free School Meals eligibility assessment
- support to underperforming ethnic minority groups & bilingual learners
- contingency for crisis communications.

Primary Pupil Growth Fund

29. The growth fund must be agreed by the Schools Forum and is deducted from the Schools Block before calculating budget shares. In 2017-18, the growth fund was set at £1.0m with £0.8m to support the maintenance of infant class sizes and £0.2m to support basic need provision. No changes were proposed to this for 2018-19 so it will, therefore, remain at the 2017-18 level.

Other Options Considered

30. Options were considered by a working group of the Schools Forum before the proposed formula was considered as part of the consultation.
31. Options were also considered if the 0.5% funding transfer, as outlined in **paragraphs 19 - 26**, was not agreed.

Reason for the Recommendations

32. The Local Authority is required to decide upon the redistribution of the Schools Budget through a funding formula which complies with current regulations and must have regard to the consultation with schools, early years providers and the recommendations of the Schools Forum.

Statutory and Policy Implications

33. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

34. The 2018-19 DSG schools block funding for Nottinghamshire is £16.4m more than that received in 2017-18. This is a consequence of the NFF and higher pupil numbers. The transfer of 0.5% to the High Needs Block will mean that £14.1m of this will actually be

passed directly to schools. The resultant quantum of funding amounting to £466.8m distributed to schools overall is then unaffected by changes in the formula. There are financial implications for individual schools, however the effect of these has been minimised where possible.

35. The indicative High Needs Block funding allocation for 2018-19 and 2019-20 would see Nottinghamshire receiving an additional £2.7m and £1.8m respectively. It is anticipated that this will not be sufficient to cover the projected budget pressure for each of those financial years.
36. Work is being undertaken to review all the budgets within the High Needs Block to identify areas for potential efficiency savings and budget reductions to fund the balance of the budget pressure in 2018-19 and beyond. Local and national feedback would suggest that efficiencies alone will not address the current and projected funding pressures from 1st April 2018. The local authority will need to work in partnership with schools and other key stakeholders, including families with children who have SEND, to develop new ways of working in order to contain spend within Nottinghamshire's High Needs Block funding allocation from central Government.

RECOMMENDATIONS

That the Committee:

- 1) approves the recommendations of the Schools Forum, as outlined in **Appendix 2**, to distribute available funding between Nottinghamshire schools, academies and early years providers in 2018-19
- 2) acknowledges the significant budget pressures within the High Needs Block and the challenges that poses to address them.

Councillor Philip Owen
Chairman of the Children and Young People's Committee

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Constitutional Comments (LM 18/01/18)

37. The Policy Committee is the appropriate body to consider the contents of the report.

Financial Comments (SAS 26/01/18)

38. The financial implications are set out in paragraphs 34, 35 and 36 and throughout the report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

The School Forum papers are available via the links below:

www.nottinghamshire.gov.uk/education/information-for-schools/schools-forum

School & Early Years Local Funding Formula 2018-19 Consultation

Appendix A Illustrative allocations under the NFF and LFF

Appendix B Impact of transferring 0.5% of schools block funding to the High Needs Block

Appendix C impact of not transferring 0.5% of schools block funding to the High Needs Block

Appendix D Reduction in 2, 3, & 4 year old hourly rate to create the SEN Inclusion Fund

www.nottinghamshire.gov.uk/education/information-for-schools/schools-forum/schools-forum-meetings/19-september-2017

Agenda Item 5b Independent Non Maintained Special Schools and Alternative Provision Budget Pressure

<http://www.nottinghamshire.gov.uk/education/information-for-schools/schools-forum/schools-forum-meetings/7-december-2017>

7 December 2017 School Forum Meeting

Agenda Item 4b Agreement of Local Funding Formula for 2018-19

Agenda Item 4b Appendix F Consultation Responses

<http://www.nottinghamshire.gov.uk/education/information-for-schools/schools-forum/schools-forum-meetings/10-january-2018>

10 January 2018 School Forum Meeting

Agenda Item 2 Update on High Needs Block Budget Pressures

Appendix 1 Agenda Item 4d High Needs Block pressures 2017-18 (June 2017 report)

Appendix 2 Agenda Item 5b Independent Non Maintained Special Schools and Alternative Provision Budget Pressure (September 2017 report)

Appendix 3 7 December 2017 Draft minutes (not considered at the meeting)

Appendix 4 HNB funding shortfall projections

Appendix 5 High needs review proposal

Appendix 6 strategic review of high needs provision action plan
Appendix 7 Illustrative Financial Modelling of budget reductions
Appendix 8 Effect of reducing primary and secondary partnership funding by £2.985m
Appendix 9 Effect of reducing AFN & FNF funding by £2.985m.

Electoral Division(s) and Member(s) Affected

All.

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