

**Manchester City Council
Report for Information**

Report to: Executive – 8 February 2017
Resources and Governance Scrutiny - 20 February 2017

Subject: Schools Budget and Dedicated Schools Grant

Report of: Director of Education and Skills

Purpose of Report:

The Schools Budget is funded by the Dedicated Schools Grant (DSG). The DSG is a ring-fenced grant and may only be applied to meet costs that fall within the budget. Any under or over spend of grant from one year must be carried forward and applied to the Schools' Budget in future years. The Government provides the DSG to local authorities and each local authority distributes the grant to the local educational establishments based on the local funding formula.

This report provides a summary of the DSG settlement for 2017/18 and a breakdown of the Schools Block (5-16 year olds), Early Years Block and High Needs Block grant allocations.

The Department for Education (DfE) announced the second part of the National Funding Formula (NFF) consultation on the 14 December 2016, it plans to deliver a NFF from 2018/19. The consultation sets out the detail of the proposed formulae (e.g. the weightings of the factors to be included in the funding formula) and to illustrate the impact on schools. A consultation on the introduction of a high needs formula for children and young people with special educational needs (SEN) is running in parallel. The DfE announced the outcome of Early Years National Funding reform on the 1 December 2016.

The impact of the proposed reforms is significant on Manchester schools. This report highlights potential future funding risks to Manchester schools and the City Council for centrally retained DSG budgets.

Recommendations:

The recommendations below were approved by the Executive 11 January 2017 and the report is presented for reference as part of the suite of budget reports.

Final school budgets will be issued to schools by the end February 2017.

Executive has previously agreed to:

1. Note the anticipated level of Dedicated Schools Grant (DSG) funding in 2017/18;
2. Note the statutory requirement for the Council to distribute school budgets by the end of February 2017;

3. Note the proposed allocation of the Schools' Budget between the funding delegated to schools, known as the Individual Schools Budget (ISB), and the centrally retained schools budget (RSB);
4. Delegate the decision on the final allocation of the DSG to the Director of Education and Skills and the City Treasurer in consultation with the Executive Member for Children's Services and the Executive Member for Finance and Human Resources;
5. Delegate the decision on revisions to the Early Years funding formula to the Director of Education and Skills and the City Treasurer in consultation with the Executive Member for Children's Services and the Executive Member for Finance and Human Resources.

Wards affected: All

Our Manchester Strategy Outcomes	Summary of the Contribution to the Strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	Supporting the Corporate Core in driving forward the growth agenda with a particular focus on integrated commissioning and delivery which will focus on utilising available resources effectively and developing a diversity of providers including entrepreneurs and social enterprises. This will provide opportunities for local jobs
A highly skilled city: world class and home grown talent sustaining the city's economic success	Integrated commissioning will focus on utilising available resources to connect local people to education and employment opportunities, promoting independence and reducing worklessness. Working with schools and further education providers to ensure children and young people achieve their potential and develop skills which will enable them to access future employment opportunities arising from economic growth in the city. Working with schools to engage and support our communities.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	The focus is on changing behaviours to promote independence, early intervention and prevention, the development of evidence-based interventions to inform new delivery models integration with partners where appropriate.
A liveable and low carbon city: a destination of choice to live, visit and work.	Development of integrated health and social care models that connect services and evidence-based interventions to local people and enable families and staff to influence

Our Manchester Strategy Outcomes	Summary of the Contribution to the Strategy
	commissioning decisions aligned to locally identified needs. Schools as community hubs playing an essential role in delivering high quality education as well as reaching out to communities and leading early intervention and prevention approaches at a local level
A connected city: world class infrastructure and connectivity to drive growth	

Implications for:

Equal Opportunities

Yes

Risk Management

Yes

Legal Considerations

Yes

Financial Consequences for the Capital and Revenue Budgets

The proposals set out in this report form part of the revenue budget submitted to the Executive on 8 February 2017.

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Glossary of Terms and Acronyms

Academies	Publicly funded independent schools that are outside of local authority control. Other freedoms include setting their own pay and conditions for staff, freedoms concerning the delivery of the curriculum, and the ability to change the length of their terms and school days.
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De-delegation	Under the new school funding arrangements it is the Government's intention to achieve maximum delegation of funding to schools, meaning that only in exceptional circumstances should funding be held centrally by the LA for the provision of central education services. In addition, schools can agree to return funding delegated to them to provide some services centrally; this is termed de-delegation. De-delegation takes place after calculation of the formula but before the budget has been provided to the school. It has the effect of giving money back to the LA to provide for some services centrally.
Dedicated Schools Grant (DSG)	The ring-fenced specific grant paid by the Department to local authorities from April 2006 in support of the Schools Budget. The money has either to be delegated to schools or used for centrally managed provision for pupils. It can only be spent on other children's services with the approval of the schools forum and where an educational benefit can be justified.
Department for Education (DfE)	UK government department with responsibility for infant, primary and secondary education.
Education Funding Agency (EFA)	A new DfE executive agency that, from April 2012, will be responsible for capital and revenue funding for 3-19 education and training. The EFA will directly fund Academies, Free Schools, and 16-19 providers; it will fund local authorities for maintained primary and secondary schools; and it will be responsible for the distribution of capital funding and advice on capital projects.
Early Years Block	<p>The new funding formula to be introduced in 2013/14 contains three funding blocks (Early Years, Schools and High Needs). The Early Years block will now fund all factors relating to 3 and 4 years olds in nurseries, PVIs and maintained schools.</p> <p>The funding consists of:</p> <ul style="list-style-type: none"> • An hourly rate based on provider type • IDACI deprivation funding (by each child's postcode) • FSM eligibility • Mainstream grants (only applicable to Nurseries)
Education Services Grant (ESG)	<p>The Education Services Grant (ESG) is paid to local authorities and academies and is intended to provide various education services.</p> <p>In 2016/17, Manchester City Council received an ESG allocation of £5m.</p>
Growth Fund	The total increase in primary numbers requires additional DSG as temporary provision is required in order to build capacity in schools. On 28th June DfE announced that LAs can create a growth fund within centrally retained DSG. Any underspend needs to be allocated through the formula in the following financial year. Once the requirement for this growth fund has been determined it will need to be created by a reduction to the delegated element of the schools block.

Headroom	Amount of funding which remains after school budgets shares and centrally held DSG budgets have been allocated. In 2016/17 it is estimated that this budget will be £2.3m.
High Needs Block	<p>The High Needs Block is the funding the Local authority (LA) will receive from the Education Funding Agency (EFA). It comprises of:</p> <ul style="list-style-type: none">• Special school budgets• Centrally funded LA provision for individual children• Special Educational Needs (SEN) Support Services• Support for Inclusion (outreach)• Independent school fees• Inter authority recoupment• Pupil referral units• Education out of school• Delegated allocations relating to individual children• Delegated allocations to special units and specialist resourced provision• All post 16 SEN expenditure, including provision for 16-25 year olds in Further Education colleges and independent providers that the Authority is currently not responsible for• High Needs expenditure on under 5's

1. INTRODUCTION

- 1.1 The Schools' Budget is funded by the Dedicated Schools Grant (DSG). It is a ring-fenced grant and may only be applied to meet costs that fall within the Council's Schools' Budget. It comprises of three blocks, namely schools, early years and high needs funding blocks. Any under or over spend of grant from one year must be carried forward and applied to the Schools' Budget in future years. The Government provides the DSG to local authorities and currently each local authority calculates the grant to schools based on the local funding formula.
- 1.2 This report sets out the 2017/18 DSG allocation. The DfE has also launched the second stage of the consultation on its proposed National Funding Formula to be implemented from 201/19. The consultation provides a breakdown of indicative gains and losses for each local authority in England, Manchester is in the top ten local authorities facing the largest reductions.

2. DEDICATED SCHOOLS GRANT 2017/18

- 2.1 DSG funding is allocated in two stages: first, the Government provides the grant to Councils, and then Councils calculate the distribution of the grant to schools and private, independent and voluntary early years establishments.

Manchester's Grant Allocation

- 2.2 In 2017/18 it is estimated Manchester will receive a DSG of £497.3m:
- Schools Block - £386.8m – £5,281 for each of the 73,243 compulsory school aged pupils in a mainstream school based on the October 2016 school census;
 - Early Years Block - £30.6m for early learning and related services for children aged 3-4 and £9m for the provision of early learning for targeted 2 year olds. The early years allocations in December's settlement are provisional and will be updated based on January 2017 and January 2018 data; and
 - High Needs Block - £70.9m for children and young learners with high level of needs.
- 2.3 Table one below shows the movement in the DSG between 2016/17 and 2017/18:

Table one – DSG Movements 2016/17 - 2017/18

Dedicated Schools Grant	£m
2016/17 DSG	472.4
Changes to LA Responsibilities	
High Needs transfer of place funding for places in colleges and post-16 providers.	1.7
Education Service General Grant Transfer to DSG	1.2
Demographic changes	
Schools block	13.2
High needs block	1.6
National Funding Reforms to Early Years	
Early Years full time entitlement for working parents from September 2017	3.2
Early Years – increase in Early Years rate	4.0
2017/18 Estimated DSG allocation	497.3

Changes to Local Authority Responsibilities

- 2.4 The 2017/18 grant includes a transfer of place funding for high needs places in further education colleges and post-16 charitable and commercial providers and the Education Services Grant (ESG) funds for retained duties. The ESG retained duties will enable the Local Authority to fulfil statutory duties that they retain for pupils in both maintained schools and academies, and to provide education services to maintained schools. Academies also receive ESG to provide the equivalent services for themselves. The DfE have confirmed a transfer of £1.2m ESG retained duties into DSG.

Demographic Changes

- 2.5 Manchester has been funded for an additional 2,537 pupils in primary and secondary schools, representing the increase in the school population between October 2016 and October 2017, the additional pupil led funding will mostly go out to schools in their individual budget shares.
- 2.6 The High Needs Block grant allocation is a lump sum and has been more static than the other blocks. The grant allocation for pupils with special educational needs (SEN), known as the High Needs Block, increased by £1.8m in 2014/15, £0.97m in 2015/16, £0.8m in 2016/17 in recognition of demographic changes in the 2 to 19 year old population. In 2017/18 Manchester has received an additional £1.6m of the £129.1m additional funding allocated nationally by the DfE. The High Needs Block adjustments do not adequately reflect Manchester's growth in pupil numbers.

National Funding Reforms to Early Years Block

- 2.7 The significant changes for 2017/18 relate to early years funding. The Government published a national review on the cost of providing childcare in November 2015, with the objective of implementing a new national funding formula for early years funding from April 2017. On the 1st December 2017 the DfE published the outcome to their recent consultation on Early Years funding.

In order to comply with the recently announced DfE requirements, the Council needs to review and consult early years providers on potential changes to the local early years (3 and 4 year olds) formula. The new formula has led to a £4m increase in early years funding for 3 and 4 year olds in Manchester for 2017/18.

- 2.8 Currently the national free early education entitlement is for children to receive 15 hours of free nursery education (in a school or other setting in the PVI sector) from the term after they turn three years of age. The Government will be introducing 30 hours of free early education and childcare to working parents from September 2017, in line with eligibility criteria. Manchester's allocation for the 15 hours above the current entitlement for the period 1 September 2017 to 31 March 2018 is £3.158m, based on DfE estimates of 1,138 three and four year olds of working parents being eligible. In Manchester the majority of maintained primary schools choose to provide full time nursery education places which are funded from the main school budget.
- 2.9 Alongside the publication of funding allocations for 2017/18, the DfE has also confirmed the outcome to their recent consultation on Early Years funding. In light of the Early Years funding reforms, the Council will need to revise the local early years funding formula. The Council funding consultation with its early years providers will end mid-January. In order to consult providers and set the early years formula in the required timescales, it is recommended the decisions on the final details of the local early years formula are delegated to the Director of Education and Skills and the City Treasurer in consultation with the Executive Member for Children's Services and the Executive Member for Finance and Human Resources.

Manchester's DSG Budget to Schools and other Education Providers

- 2.10 The DfE requires notification of individual school budgets for 2017/18 by the deadline of 20th January 2017. Final school budgets need to be issued to schools by the end of February 2017. Schools Forum will be provided with the Schools' Budget on 16th January 2017.
- 2.11 There are no plans to change Manchester's primary, secondary schools and special schools funding formulae next year. Individual school budget shares will be calculated and reflect updated school and pupil characteristics information, e.g. pupil numbers, prior attainments and levels of deprivation. The data required to update the formula was provided to the Local Authority on 19th December 2017. The Special school formula has also been updated to reflect the planned additional 85 places required across 4 special schools.
- 2.12 The Council needs to consult with early year's providers and schools during January 2017 on revisions to the local formula for 2017/18. The reforms will significantly impact on Manchester's two nursery schools; transitional arrangements are currently being developed.
- 2.13 The DSG is split across the Individual Schools Budget (ISB) which is delegated to schools via the agreed local formulae and the Retained Schools

Budget (RSB) which is managed by the Local Authority on behalf of schools. This consists of a range of services to schools and pupils. Most of the DSG is paid to schools and other education providers, such as private nurseries. Individual school budgets are calculated through a simplified formula which is now required to comply with strict national guidelines, and this formula applies to all primary and secondary schools regardless of whether they are maintained or academy schools.

- 2.14 Approximately £457.2m of the grant will be allocated out to schools and other providers and the balance will be retained by the Council. 44% of the £40.1m planned to be retained by the Council will be further allocated or spent on schools and other education providers during 2017/18.
- 2.15 Table two below sets out the breakdown of DSG blocks. The table provides a summary of the split between individual school budgets (ISB) and those budgets retained centrally by the Council (RSB) across each of the blocks in 2016/17 and 2017/18. Schools Forum made a number of decisions on the amount of DSG to be centrally retained by the Council in 2017/18 for specified purposes at their meeting on 19th December 2016.

Table two – Indicative Dedicated School Grant across blocks, school budgets and central services

	Schools £m	Early Years £m	High Needs £m	Total £m
Individual Schools Budget	362.4	30.0	42.3	434.7
Retained Schools Budget	10.0	2.4	25.3	37.7
Total 2016/17	372.4	32.4	67.6	472.4
DSG Provisional 2017/18	386.8	39.6	70.9	497.3
Retained Schools Budget	11.4	2.0	26.7	40.1
Balance available for Individual Schools Budget	375.4	37.6	44.2	457.2

- 2.16 The table above reflects the planned allocation of grant funding across the three blocks and funding for school budget shares after retained school budgets have been accounted for. In the 2016/17, after school formula budgets shares and the retained school budget had been determined, headroom of £1.8m remained in the Schools Block. Due to pressures in the High Needs Block it was agreed that £1.8m would transfer from the School Block to the High Needs Block. The transfer enabled the Council to address unfunded pressures in the High Needs Block, for example there has been a significant increase in the number of Statements/Education Health and Care plans in 2016/17.
- 2.17 Individual budget shares for 2017/18 are currently being calculated. Initial work indicates that it is highly likely that there will again be headroom in the School Block and budget pressures in the High Needs Block. Due to the need to finalise schools block by the 20th January, the Executive is requested to delegate decision on the allocation of headroom to the Director of Education

and Skills and the City Treasurer in consultation with the Executive Member for Children's Services and the Executive Member for Finance and Human Resources.

3. National Funding Reforms to Schools and High Needs Block

- 3.1 From 2018/19 the DfE is planning to introduce a new National Funding Formula for schools. A consultation was launched on the 14th December which provides an illustrative impact of National Funding Formula on individual schools and councils. A consultation on the introduction of a High Needs formula for children with special educational needs (SEN) is running in parallel. Both consultations run until the 22 March 2017.
- 3.2 DfE has stated that the formula aims to address wide gaps in school funding between different geographical areas by using a new method to distribute cash. This is the second stage of the consultation. The first stage concluded in April 2016 and consulted on the principles that underpin the formula, the pupil characteristics and school factors to be included in the formula.
- 3.3 The reforms will impact on both the allocation from central government to local authorities and the local distribution formulae to education providers and local authority education services funded from the DSG. Overall 71% of local authority areas gain funding and 29% lose funding and the change will see 10,740 schools gain and 9,128 schools lose funding. Manchester has been ranked 7th as one of the most significant losers and losing the most outside of London as set out in the table below. This suggests that Manchester's long term funding is likely to be significantly below the protected floor and when transitional protection is removed, there will be a significant loss in funding.

Table three - Top Ten Losses

Council	% Change*	Rank
Hackney	-1.39%	1
Camden	-1.39%	2
Lambeth	-1.39%	3
Lewisham	-1.39%	4
Haringey	-1.38%	5
Newham	-1.36%	6
Manchester	-1.36%	7
Southwark	-1.36%	8
Tower Hamlets	-1.35%	9
Hammersmith and Fulham	-1.35%	10

* rounded to two decimal places.

- 3.4 Officers are working through the consultations and will be preparing a response in consultation with Schools Forum.
- 3.5 The National Audit Office has also recently reported that schools nationally are facing a 8% real terms funding reduction due to cost pressures arising from increases in pension contributions, national insurance contributions and introduction of the apprenticeship levy. Many schools have started to report

budget pressures and combined with prospect of future funding reductions, it is a risk that there will be more schools unable to balance their budget.

- 3.6 The Consultation on funding reforms is a key development and has significant implications for schools in Manchester.