

SCHOOLS FORUM - 15 November 2018

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| Title of paper: | Schools Block Transfer Proposals 2019/20 |
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| Summary | |
| Following a deferral of the vote at the meeting of 9 October 2018 at the request for further information, this paper incorporates the requests of Schools Forum (SF) to enable approval of the 0.5% schools block transfer for 2019/20. | |
| Recommendation(s): | |
| 1 | Approve a schools block transfer for 2019/20 of 0.5%, to be implemented subject to the Local Authority (LA) receiving the permission from the Secretary of State (SoS) for a differential MFG% for secondary schools. |
| 2 | Note that this proposal is for 2019/20 only. Any impact to 2020/21 will be subject to a separate consultation process which will factor in the updated position on exclusions and the funding allocated from Education and Skills Funding Agency (ESFA). |
| 3 | Note, the block transfer does not entirely fund the full budget gap in permanent exclusions as per Table 4 for 2019/20. |

1 REASONS FOR RECOMMENDATIONS

- 1.1 The need for a schools block transfer is driven by the high rate of permanent exclusions predominantly in the secondary phase.

These high levels of exclusions have generated a significant budget shortfall in the High Needs (HN) budget and one off reserve funding has been used to manage this since 2015/16. **This position is not sustainable.**

- 1.2 At the SF meeting on 9 October 2018 a proposal was presented for approval to transfer 0.5% of the Schools budget to HN; this proposal had been consulted on and it carried a majority vote.
- 1.3 Since the consultation the proposal has been adjusted slightly (in schools favour) and was presented to SF. The consultation highlighted the strong feeling in the primary sector that a schools block transfer driven by the rate of secondary exclusions should not impact on primary school budgets.
- 1.4 If SF do not approve the 2019/20 block transfer proposal, this could increase the likelihood of the LA needing to pursue a block transfer affecting schools in both phases in 2020/21.

- 1.5 To support SF in approving the proposal, further detailed modelling has been undertaken showing the potential costs of provision for permanently excluded pupils over five years (as summarised later in this report). In the LA's view, this further supports the case for the block transfer to protect future levels of provision for HN pupils.

2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)

- 2.1 At the October meeting, there was a lengthy debate about the schools block transfer proposals. Members voted in support of the application to the SoS to allow a differential Minimum Funding Guarantee (MFG) % for secondary schools in 2019/20, this enabled the LA's submission to achieve the correct Government timelines for a decision to be given in December. However, members deferred the vote on the 0.5% schools block transfer proposals to this exceptional meeting to allow further discussion and presentation of additional information.

- 2.2 As a result, this report covers the following supplementary information:

- Clear comparison of the difference between consultation proposal A and the proposal the LA is now seeking approval for, see **Table 1**.
- Clarification about the methodology underpinning the Special Education Needs (SEN)/Alternative Provision (AP) split in the national HN funding formula, see section 2.4.
- Modelling showing the impact of a continuing trend of 20% annual decreases in secondary permanent exclusions, see section 2.5.
- Modelling covering a 5 year time-frame, see section 2.6.
- Information about re-integrations, see section 2.7.
- Clarification regarding the LA's options depending on the outcomes of SF and SoS decisions, see **Table 3**.

- 2.3 ESFA's operational guidance states in paragraph 132.4 that:

“local authorities wishing to make a transfer should consult with all local maintained schools and academies, and the schools forum should take into account the views of the schools responding before giving their approval.”

The minutes of the last meeting stated:

Forum members expressed that they were uncomfortable voting on the schools block transfer as secondary members were clearly unhappy with the proposals. They asked to defer their decision until they have received more information and clarity on impact, or a revised proposal.

The consultation had proposal A receiving an overall majority support (61%) of schools that responded. **Table 1** below shows a comparison of Proposal A and the final proposal.

| TABLE 1: COMPARISON OF CONSULTATION AND FINAL PROPOSAL | | | |
|--------------------------------------------------------------------------------------------------------------|--------------------------------|-----------------------|---------------------------------------------------------------------------------------------------------|
| | Consultation Proposal A | Final Proposal | Rationale for change |
| % Block Transfer | 0.79% | 0.50% | Possibility of a block transfer in 2020/21 as well as 2019/20 following announced delay of “hard” NFF. |
| Anticipated MFG% for secondary schools | -1.50% | -0.75% | This is the level of funding reduction for secondaries estimated to equate to 0.5% of the schools block |
| Estimated average funding impact per secondary pupil | £113 | £71 | |
| Estimated average secondary school total funding impact (before reimbursements to AP devolved model schools) | £88k reduction | £60k reduction | |
| % reimbursement for schools signed up to devolved AP model | 35% | 35% | No change |
| Estimated funding generated after reimbursement to AP schools | £1.265m | £0.800m | Reduced amount as a result of the % block transfer change. |

As demonstrated in **Table 1**, the final proposal **reduces the impact on schools** and therefore would not have impacted on the consultation outcome as no school who responded indicated that they felt the proposal did not go far enough in its scope.

A further suggestion was made at the last SF meeting about modifying the proposals to withhold the 35% reimbursement to schools signed up to the devolved AP model. Contrary to the above, this change would move the proposal away from the principles consulted on. **61% of schools that responded specifically agreed with the statement that it was fair to seek to differentiate through the proposals between schools that have or have not signed up.** It is not possible to know whether an overall majority would still have voted in support of block transfer proposal if it did not contain the 35% reimbursement element.

2.4 SEN/AP split

It was highlighted in the last report and presentation that **nationally 10% of the HN block is notionally deemed to be for AP**, with 90% for SEN.

Nottingham is currently forecasting to spend c.19.5% of the HN budget on provision at the Pupil Referral Units (PRU) and devolved AP allocations which is nearly double the national rate.

The methodology for the SEN/AP split was queried at the October meeting.

The 90:10 split was based on the national total of local authorities' planned expenditure as per the 2016/17 S251 budget statements included in publication: *The HN national funding formula and other reforms – Government response and new proposals for consultation – stage 2 page 32 footnote 12.*

2.5 Projections based on 20% annual reductions in secondary exclusions

As presented at the previous meeting, the projections for exclusions were based on the level of permanent exclusions going forward which aligned to the last 12 calendar months.

However, as overall City permanent exclusions decreased by 20% between the academic years (AY) 2016/17 and 2017/18 it was suggested that the projections should be revisited based on a continuation of the trend of 20% annual year on year reductions in exclusions.

A five-year model based on further 20% reductions in AY18/19 and AY19/20 has been completed and the financial results of this are presented in paragraph 5.5 **Table 5.**

Additional information is that after further analysis, the 20% decline was the total for both phases combined; **the secondary element is actually only a 16% reduction** and was generated by schools by those schools that have subsequently signed up to the devolved AP model.

The overall position for schools that are outside of the devolved AP model was a consistent level of permanent exclusions between AY 2016/17 and 2017/18.

In summary, whilst it is feasible that these schools will start to reduce permanent exclusions by 20% year on year, **this is not a prudent assumption to make based on the information above for 2019/20.**

2.6 Modelling covering a 5 year time-frame

Modelling has been produced showing how the LA anticipates bringing the HN budget back into balance within anticipated funding levels in the medium term. If permanent exclusions at schools not participating in the devolved AP model remain at the level of the 2017/18 academic year, this will require:

- £0.3m annual increase in the amount of Dedicated Schools Grant budgeted for the PRU (representing around one third of the 3% high needs block gains anticipated each year).
- Retaining/re-approving the £0.8m block transfer in 2020/21.
- Full use of the £3m uncommitted reserve balance over a 7 year period at which point the high needs budget would be balanced.

A summary of the modelling results are provided in paragraph 5.3 **Table 4.**

2.7 Re-integrations

Re-integration is at the discretion of the schools and additional information requested at the last meeting is set out below.

Reintegration is based on pupils returning from the PRU back into mainstream schools.

Pupils are identified for reintegration by a number of factors including attendance, attitude and engagement in lessons and behaviour incidents must be reduced to zero for at least a period of six weeks.

Once a pupil is identified for reintegration and all the paperwork is completed including parent nomination of their preferred school, then the case is submitted to the monthly Fair Access panel. During reintegration, the pupil is supported by a PRU reintegration officer for two weeks full time in school, two weeks part-time with drop in sessions at identified hot spots, two weeks on the phone support. The pupil is often taken on roll 4 weeks after this 6-week support period.

Due to the requirement for full time support of a staff member in the first two weeks of a re-integration there is a limit to the number of pupils that can be put forward for reintegration at each Fair Access panel.

On the basis of a business case put forward by the PRU, an additional reintegration support post was agreed to be funded from the HN budget on a temporary basis from October 2017 to July 2019, subject to re-integrations increasing by at least 6 pupils compared to the previous year.

Successful re-integration's are set out in **Table 2** below:

| TABLE 2: RE-INTEGRATION | | |
|--------------------------------|------------|-----------|
| | 2016/17 AY | 2017/18 |
| Primary | 7 | 8 |
| Secondary | 11 | 16 |
| TOTAL | 18 | 24 |

2.8 Scenarios

There are various potential scenarios based on upon whether Sf and the SoS the requests.

The LA is committed to finding the right Education budget solution for Nottingham ensuring the integrity and longevity of the Education budget and both the financial and non-financial statutory requirements of the LA.

The recommendation of the 0.5% block transfer is because:

- a. The uncommitted reserve, which has been funding the historic increases of exclusions, is not a sustainable solution for the future.
- b. This approach is the last resort to ensure financial sustainability of the Education budget after a number of other options have not delivered the right outcome.
- c. If the budget gap remains unfunded, the next option is a budget cut to other areas of HN which includes Special Education Needs and Disability, however this would impact on the statutory requirements.

If SF do not support the 2019/20 proposals, despite the majority support from schools, the anticipation of support in 2020/21 would seem either so putting off the problem for a further year would not be prudent.

The proposed block transfer affecting secondary schools only and giving recognition to the schools that have signed up to the devolved AP model is the most appropriate proposal to fund the increased costs associated with exclusions in the HN block over the medium term.

It is uncertain if the SoS would approve the 0.5% block transfer and whether permission for the submitted MFG variation request would be impacted by a lack of schools forum support for the block transfer itself however last financial year 8 Councils applied to move 0.5% or less without SF approval and of these 4 received permission from the SoS to do so.

Table 3 below shows the outcome under each potential scenario depending on SF and SoS approval:

| TABLE 3: SCENERIO MODELLING | | | | |
|------------------------------------|---------------------------------|--------------------------------------------------|--------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| Scenario | SF vote on 0.5% transfer | SoS decision on differential MFG proposal | SoS decision on 0.5% block transfer | Outcome |
| 1 | Yes | Yes | Not required | LA proceeds with proposal |
| 2 | Yes | No | Not required | LA will not proceed with a block transfer for 2019/20 but will need to pursue a block transfer affecting all schools in 2020/21 |
| 3 | No | Yes | Yes (LA will apply to the Sos by 30 Nov) | LA will proceed with proposal. |
| 4 | No | Yes | No | LA is unable to proceed |
| 5 | No | No | Yes | LA will not proceed in 2019/20 as approval has not been given for a differential MFG |
| 6 | No | No | No | LA is unable to proceed |

3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

- 3.1 Proceeding with the original consultation proposals, but this would not reflect the concerns expressed by those schools that responded.
- 3.2 Doing nothing, but this places future SEN provision at risk due to the unsustainability of relying on reserves when these are being fast depleted.

4 OUTCOMES/DELIVERABLES

- 4.1 A £0.8m reduction in the high needs budget shortfall for 2019/20.

5 **FINANCE COLLEAGUE COMMENTS (INCLUDING IMPLICATIONS AND VALUE FOR MONEY/VAT)**

- 5.1 It is anticipated that the 0.5% schools block transfer will equate to just over £1m. However, the proposed 35% reimbursement to secondary schools participating in the AP devolved model will be c. £0.2m.

This means that the revised proposals will generate approximately £0.8m to support the cost of exclusions in excess of the level assumed in the devolved AP funding model.

This funding does not entirely support the full budget gap and would still require a call on reserves of £0.469m in 2019/20 however, what this does demonstrate is that the proposals over the next 2 years would make the HN budget financially sustainable.

- 5.2 Modelling based on 2018/19 data indicates that a 0.5% block transfer implemented through a reduction in funding for secondary pupils will equate to about a -0.75% cut in funding per secondary pupil.

On average this amounts to a £42 per pupil reduction. Without a schools block transfer, secondary schools could otherwise expect a funding increase in 2019/20 of around 0.5%. Taking this into account, the real impact is on average £71 per pupil however schools participating in the devolved AP model will have this mitigated by 35% through additional devolved AP payments in 2019/20.

- 5.3 The ESFA expect the evidence presented in support of a schools block transfer proposal to include *“a strategic financial plan setting out how the local authority intends to bring high needs expenditure to levels that can be sustained within anticipated future funding levels”* as stated in the Pre-16 Schools Revenue Funding Operational Guide 2019 to 2020 paragraph 138.

- 5.4 **Table 4** shows how the LA plans to achieve this, assuming exclusions continue at the same level as in AY 2017/18 for schools not signed up to the devolved AP model.

| TABLE 4: MEDIUM TERM FINANCIAL PROEJCTIONS | | | | | | | |
|---------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
| | £m | £m | £m | £m | £m | £m | £m |
| PRU costs | 5.531 | 5.072 | 4.780 | 4.609 | 4.684 | | |
| Devolved AP | 1.184 | 1.184 | 1.184 | 1.184 | 1.184 | | |
| TOTAL COST | 6.715 | 6.256 | 5.963 | 5.793 | 5.868 | 5.868 | 5.868 |
| FUNDED BY: | | | | | | | |
| HN DSG | 3.978 | 4.278 | 4.578 | 4.878 | 5.178 | 5.478 | 5.778 |
| Planned Reserves | 2.859 | 0.709 | | | | | |
| Block transfer | | 0.800 | 0.800 | | | | |
| Further reserve request | -0.122 | 0.469 | 0.585 | 0.915 | 0.690 | 0.390 | 0.090 |
| TOTAL | 6.715 | 6.256 | 5.963 | 5.793 | 5.868 | 5.868 | 5.868 |
| Cumulative additional reserves required | -0.122 | 0.347 | 0.932 | 1.847 | 2.537 | 2.927 | 3.016 |

This shows the additional reserve requirement that would be required in each year from the current un-committed DSG reserve balance, with a cumulative total requirement to 2024/25 of £3.016m.

The uncommitted balance as at the 2017/18 outturn report was £3.138m. Therefore, it would be prudent to ring-fence £3m of the uncommitted balance to cover the projected PRU funding gap.

Detailed modelling has been carried out up to and including 2022/23. Projected PRU costs fall year on year until 2021/22 and then stabilise. Based on the above projections the amount budgeted from the HN in-year allocation covers the anticipated costs at the point that the reserve balance is exhausted.

5.4 Without the above assumed £1.6m total block transfers in 2019/20 and 2020/21 £2.532m of the £3.138m uncommitted balance could be used up as quickly as 2020/21.

5.5 This is a significant risk for the DSG and does not align to financial good practice or the Medium Term Financial Strategy which refers to the need for reserves of between 3-5% of the budget.

However, if schools not currently participating in the devolved AP model **do reduce their** permanent exclusions by 20% year on year in both AY 2018/19 and 2019/20

this would potentially reduce PRU costs and the subsequent call on additional reserves as per **Table 5**:

| TABLE 5: IMPACT OF YEAR ON YEAR DECLINE IN EXCLUSIONS BY 20% | | | | | |
|-------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2018/19 £m | 2019/20 £m | 2020/21 £m | 2021/22 £m | 2022/23 £m |
| Reduction to PRU costs | 0.002 | 0.170 | 0.408 | 0.387 | 0.672 |
| Revised cumulative additional reserves required | -0.122 | 0.174 | 0.351 | 0.879 | 0.896 |
| Reduction from reserves required in Table 4 | | (0.295) | (0.234) | (0.036) | (0.206) |

Under this scenario the reserve requirement could reduce from £3m to under £1m. Forecasts will need to be frequently reviewed based on actual permanent exclusion numbers.

Kathryn Stevenson, Senior Commercial Business Partner, 6 November 2018

6 LEGAL AND PROCUREMENT COLLEAGUE COMMENTS (INCLUDING RISK MANAGEMENT ISSUES, AND LEGAL, CRIME AND DISORDER ACT AND PROCUREMENT IMPLICATIONS)

6.1 See 9 October report

7 HR COLLEAGUE COMMENTS

7.1 See 9 October report

8 EQUALITY IMPACT ASSESSMENT

8.1 See 9 October report

9 LIST OF BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING CONFIDENTIAL OR EXEMPT INFORMATION

9.1 None

10 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

10.1 ESFA Schools Revenue Funding 2019 to 2020 Operational Guide – July 2018

10.2 “Consultation with all City Schools – Schools Block Transfer 2019/20” published at <http://www.nottinghamschools.org.uk/business-management-support/schools-funding/consultations/>

10.3 Schools Block Transfer 2019/20 Proposal tabled at 9 October meeting published at <http://committee.nottinghamcity.gov.uk/ieListDocuments.aspx?MId=7086&x=1>