

**FINANCE UPDATE**

**REPORT OF THE COUNTY TREASURER AND CHIEF OFFICER FOR CHILDREN'S SERVICES**

**RECOMMENDED that DEF:**

- a) Notes the DSG Draft Outturn position (subject to Statement of Accounts sign off) as set out in Section 1
- b) Agrees the allocation of the carry forwards from 2016/17 as set out in Section 2 **Voting as set out in Table 5, Section 2**
- c) Notes the year-end Mutual Fund position as set out in Section 3
- d) Specifically approve the proposal for the 2017-18 Early Years Funding Formula as set out in Section 4 and Appendix A and make recommendation to Cabinet.  
**All to vote**

**DSG and Schools Funding Outturn 2016/17**

**1. DSG 2016/17 outturn**

The DSG outturn position is £19.13millions under spent of which £18.4millions is the school's carry forward balance which, as it is a ring-fenced grant, will be carried forward to 2017/18.

**Table 1: Dedicated Schools Grant and Schools Funding DRAFT 2016/17 Outturn**

Brackets in the budget and spend columns represent income; brackets in the net variance column represent an under spend.

	<b>Final Approved Net Budget £'000</b>	<b>Net Spend £'000</b>	<b>Net Variance £'000</b>	<b>Note ref</b>
DSG	(300,179)	(300,171)	8	1.1
Pupil Premium	(15,756)	(15,756)	0	
Early Years – Disadvantaged 2 year olds	(4,833)	(4,887)	(54)	
Other Schools Grants	(8,220)	(8,219)	0	
Post 16 Funding (mainstream)	(5,226)	(5,226)	0	
<b>Total Schools Grant Funding</b>	<b>(334,214)</b>	<b>(334,259)</b>	<b>(46)</b>	
Schools delegated budget, including maintained nursery units	261,019	243,763	(17,256)	1.1
De-delegated budgets	5,816	3,852	(1,964)	1.2
Central Provision within schools block	6,435	3,968	(2,467)	1.3

High Needs block, including maintained special schools	60,869	63,647	2,778	1.4
Early Years block	29,199	29,023	(176)	1.5
<b>Overall net DSG and School funding</b>	<b>29,124</b>	<b>9,994</b>	<b>(19,131)</b>	

## Explanation of main variances

### 1.1 Schools

The 2016/17 DSG schools block budget is based upon pupil numbers as at the October 2015 census, and is adjusted in year for existing and convertor Academies as well as deductions for high needs places that are directly funded by the EFA (to academies and non-maintained special schools).

Based on final pupil numbers and High Needs Place adjustments, the total initial DSG allocation including 2 year old funding for Devon 2016/17 is £471millions. The final budget of £305millions is after in year adjustments for existing and convertor Academies and Early Years census. Pupil Premium Grant is £15.7millions; School Sixth Form Post 16 funding £5.2millions and other Schools Grant £8.2millions.

The schools carry forward balance of £18.4millions (£17.3millions maintained mainstream schools and £1.1millions special schools) compares with £22.3millions from 12 months ago on a like for like basis; that is to say after adjusting for in year convertors.

**Table 2: Schools carry forward balances**

	2016/17		2015/16	
		£'000		£'000
B/fwd balance		<b>23,161,905</b>		<b>20,931,476</b>
Adj Early Years CC		0		0
Schools converted to academies	23	(858,803)	8	(303,422)
Schools closed	2	6,395	0	0
Schools with decreasing balances	76 39%	(6,196,561)	80 35.5%	(4,174,666)
Schools with increasing balances	119 61%	2,270,394	145 64.5%	6,708,516
Carry forward		<b>18,388,330</b>		<b>23,161,905</b>

### 1.2 De-delegated budgets

De-delegated budgets are forecasting an underspend of £1.96millions due to savings against a range of services; £1.35millions due to delay in redundancy costs for Schools (these payments are expected to occur during 2017/18), £137,000 for Copyright, £274,000 for Maternity (due to average numbers being below budgeted) and £126,000 on the trade unions and facilitation budget. Budgets are subject to change during the year as schools convert to academies.

### 1.3 Central Provision within Schools

Phase Associations have underspent by £218,000. £88,000 relates to DAPH (relating to in year income generation), £122,000 for DASH funding and Schools Forum £6,000.

The Growth Fund has under spent by £2.04millions which is part of the planned strategy to provide sufficient revenue funding to meet the expected demand for additional school places over the next 4 to 5 years.

During 2016/17 36 schools received a total of £1.175millions from the growth fund. This was in relation to falling roll (£136,000), one off classrooms (£200,000), growth general (£364,000) and for new schools (£474,000).

Support and Other DSG Services have underspent by £210,000 which predominantly relates to changes in service recharges and Money Following Excluded Pupils.

#### 1.4 High Needs

Overall the high needs budget has overspent by £2.8millions. It should be noted however that this includes a ring-fenced grant of £1.1millions relating to maintained special schools surplus balances and will be proposed to be carried forward.

The net effect is an in-year reported overspend of £3.9m.

The Schools Finance Group have considered the cost, numbers and overspending occurring in the services within High Needs. The discussion included the ability of the Council to control spend in light of recent tribunal decisions. An example of a recent tribunal is shown below.

#### Recent Tribunal – post 19 education provision

A 3-day education provision had been agreed and was in place with an Independent Provider who was also a witness for the LA. The parent wanted 5-day, despite already having 2-day adult care provision in place. When asked by the Judge, the provider gave evidence that 5-day provision was needed. The LA was subsequently ordered to provide 5-day education at that Independent Provider. Fees are set by the provider.

**Table 3: High Needs Budget Position for 2016/17**

	Final Approved Budget £'000	Net Spend £'000	Net Variance £'000
Alternative Provision inc Hospital school	2,165	2,552	387
LDP Inclusion & Safeguarding	3,365	3,267	(98)
Nursery Plus	1,179	1,179	0
SEN Mainstream	12,273	11,882	(391)
SEN Services	1,219	1,220	1
Independent Special Schools & Recoupment	12,343	15,121	2,778
Maintained Special Schools	25,386	26,559	1,173
Maintained Special Schools (Ring-fenced carry forward)	0	0	(1,087)
Early Help and Behaviour Support	467	315	(152)
Support Centres and PSP's	2,472	2,639	167
<b>TOTAL</b>	<b>60,869</b>	<b>63,647</b>	<b>2,778</b>

#### Alternative Provision: £387,000 o/s

The Top Up rate was increased during 2016/17 after consultation with the provider and Devon now has to fund placements previously assumed to be funded by OLA. The number on role is continuing to increase and medical numbers are higher than planned (a one-off payment of £195,000 has been paid to the provider to cover this increase in demand).

The Hospital School has a planned underspend of £57,000 and this has been ring-fenced to be carry forward into 2017/18.

LDP Inclusion & Safeguarding: £98,000 u/s

This is a combination of savings in the LDP contract around hearing impairment delivery and Elective Home Education & Children Missing Education and an underspend within the Incidental costs budget for Looked After Children In Care.

SEN Mainstream: £391,000 u/s

The overall underspend represents 3.2% of the budget. However there were overspends of £800,000 on Element 3 and £278,000 on Element 2 due to both volume and cost increases during the year. To mitigate these pressures there was £892,000 planned underspend of the 2015/16 carry forward and £846,000 in year Management Action.

Independent Special Schools: £2.78m o/s

Actual spend will vary between maintained and independent settings year on year as there are many variables in determining the most appropriate placement. There is a pressure in both settings caused by increasing numbers, length of stay of Post 16/18 placements and the cost of placements.

Maintained Special Schools: £86,000 o/s

Differences in the amount budgeted for place funding and top ups result in an over spend of £1.173millions due to the planned increase in placement numbers within our maintained special schools. Including schools' surplus balances of £1.087millions (which is a reduction of £800,000 from 2015/16), the budget for maintained special schools is £86,000 over spent.

Early Help: £152,000 u/s

The budget (which includes a carry forward from 2015/16 of £231,000) covers the strategic development, training and school lead 'pump prime' provision for SEN and should see future savings in demand on other SEN budgets. The £152,000 underspend relates to some expenditure being delayed until 2017/18.

Support Centres and PSP's: £167,000 o/s

The overspend of £167,000 is due to the expectation that only 75% of support centre funding would be paid from September 2016. This did not happen.

### 1.5 Early Years

The final settlement reflects pupil numbers for the spring term which has seen a drop in funding expected to be received and estimated for year end.

Overall, including nursery units in maintained schools, the Early Years under spend is £176,000.

**Table 4: Analysis of Early Years outturn variances**

	<b>£'000</b>
Lump sum protection and contingency funding for settings under the new EYSFF	(41)
Over spend against budgeted take-up of 3 & 4 year old places	88
Trajectory funding for 2 year old capacity building	13
Over spend against budgeted take up of 2 year old places	149
Early Years transitional funding	(230)
Pupil Premium for PVI	(159)

Early Years Free School Meals	(9)
Other minor variances over several budget lines	13
<b>Total under spend</b>	<b>(176)</b>

Taking into account ring fenced amounts for carry forward to 2017/8 of £159,000 Pupil Premium grant for PVI's and £20,000 over spend on Tressilian (which they will recover in 2017/8) the budget is £37,000 underspent

### 1.6 Summary

Overall in 2016/17, as was the case in 2015/16, the DSG has seen an increase in demand for Special Educational Needs which has put pressure on all budgets. More complex needs, rising costs, stronger regulatory checks and the declining market are driving up costs. Early Years has seen an increase in take up of 2 year funding with the introduction of the Golden Ticket.

The National Funding Formula consultation and the impact this will have on Schools and the Local Authority is still unknown.

## 2. Allocation of carry forward from 2016/17

**2.1** The current outturn is subject to the sign off of the Council's Statement of Accounts. Final proposals for the allocation of carry forwards will be brought to a future meeting. The Schools and Early Years Finance Regulations do not allow for in-year distributions to schools. Any redistribution of funding must go through the school funding formula in the following funding period (in this case 2018/19 financial year), whereby the LA may request through the Secretary of State that this additional funding is excluded from the MFG calculation. The LA must consult with the Schools Forum regarding any such proposal and has responsibility for the final decision.

There are some elements of the carry forward that Schools Forum is asked to agree in principle now in order to allow for early allocation in 2017/18. It is requested that from the total DSG underspend of £19.131millions, the carry forward requests in Table 5 are noted or approved. These total £20.555millions.

**Table 5: Carry Forward from 2016/17**

Budget Line	Amount £'000	Notes	Recommendation
Mainstream School balances	17,308	Automatically carried forward in Individual School budgets	2.2 All to note
<b>Total School balances</b>	<b>17,308</b>		
De-delegated budgets	1,964	Roll forward 2016/17 underspend into 2017/18	2.3 All to note
<b>Total de-delegated budgets</b>	<b>1,964</b>		
Special School Balances	1,087	These are school's balances and are automatically carried forward	2.4 All to note
Hospital Education	57	Specialised training for hospital staff and additional support in North Devon	2.5 All to note
<b>Total High Needs</b>	<b>1,144</b>		
Early Years Pupil Premium	159	2016/17 Ring fenced grant – DfE have confirmed can be spent in 2017/18	2.6 All to vote
Tresillian Nursery	(20)	Nursery deficit balance to be met from 2017/18 budget	2.7 All to vote
<b>Total Early Years</b>	<b>139</b>		
<b>Total Carry forward requested</b>	<b>20,555</b>		

### **3. Mutual Fund Update**

**3.1** The Schools Mutual Fund is a scheme that provides cover for absence for subscribing schools for teaching and support staff. The Fund is administered by a Board comprising the members of Schools Finance Group whose schools are members of the fund, to include representatives from DAPH, DASH and SHAD, together with an officer from Devon Finance Services. The Board meets at least twice a year (usually to coincide with a normal Schools Finance Group meeting) to review the financial status of the Fund, to set premiums and establish the Fund's protocols for the following financial year.

The Fund will continue to operate only if the numbers are considered sufficient to justify the continued operation of the fund.

**3.2** The Mutual Fund Board at their meeting of 6 January 2017 agreed the following:-

- i) That premiums remain unchanged from 2016/17
- ii) That any school(s) or academy within Devon's authority or linked to a school in Devon's authority is allowed to join the scheme. New schools wishing to join the scheme will incur a one off joining fee of 7% on top of the cost of their premium. There will be no joining fee for those schools that are currently members of the fund.
- iii) That claims are paid at 50% of the total amount at the time of submission
- iv) That the balance of claims is not released until the end of the financial year when the full costs are known. If the value of claims exceeds the value of the premiums collected, the claims will be abated pro-rata to ensure financial balance is achieved. If the value of the claims is significantly less than the premium collected, the Board will consider if a rebate shall be made.

**3.3** At the end of the 2016/17 financial year, the value of premiums collected exceeded the value of the claims paid out by £483,000.

### **3.4 Recommendation**

That DEF note the Mutual Fund update

**All to Note**

## **4. EARLY YEARS CONSULTATION**

### **4.1 Background**

In December 2016 the Department for Education (DFE) released details of the Early Years National Funding Formula with new funding allocations from April 2017. The new funding allowed for an increase in the hourly rate from £3.70 to £3.98 to be implemented from April 2017. This will apply to the 15 hour entitlement and the extended 30 hour entitlement from September 2017. The DFE have advised that the funding is fixed until 2020 and therefore, any further changes to funding will have to be found locally within the formula.

There is growing concern from providers that without an increase over the next three years the funding rate will not enable settings to be sustainable, especially at a time of rising costs in relation to living wage and national insurance. The main opportunity to enable sustainability is to review the funding supplements to enable the hourly rate to be increased. There has been increasing pressure from providers to undertake this review.

An Early Years Funding Review Group was set up to consider different options and then consult with providers. The Review Group agreed the proposals which then went out to consultation on the 11th May 2017 and ran until May 31st. Four consultation events were held across the County with 121 delegates representing all of the provider sectors. The consultation was available on the schools finance website, the Early Years website, Facebook and the Early Years portal and was publicised through the schools information digest and circulated through DAG.

The following overarching principles have been applied to the funding review:

- To increase the hourly rate to providers
- To achieve equity across all group providers
- To enable providers to plan for and meet the needs of children in a timely way
- To set an affordable and sustainable funding formula

## 4.2 Funding formula proposals

### i) Deprivation funding for 3 & 4 year olds

It has been recognised that the process for allocating the deprivation supplement needed to be changed so that providers could receive this at the beginning of the year enabling them to plan to meet the needs of the children within the budget they have.

The proposal agreed by the Review Group was:

- To reduce the targeted deprivation by 17% using the existing IMD index of deprivation calculation.
- Providers that qualify for targeted deprivation funding to have an annual allocation using previous years data so they can plan how to best meet the needs of the children across the year.
- To give a 2p increase in the hourly rate for a Universal Deprivation Supplement to acknowledge that all settings may need to support children experiencing some disadvantage or vulnerability requiring early help.

### ii) Lump Sum Funding for Qualifications

The lump sum is a locally determined supplement to acknowledge higher level qualifications for staff (although it excludes childminders). When the formula was introduced in 2010, a local decision was made to include lump sum funding for qualified teachers in schools so both sectors were accessing the funding.

The consultation asked whether providers agreed with the lump sum being changed and if so whether the lump sum should be removed, reduced or phased out.

### iii) SEND Support Funding

Following the DFE Early Years Funding review one of the expectations was for Local Authorities to establish an inclusion fund. Devon County Council already provide an inclusion fund through the SEND support funding process, however feedback has identified that the application process for this is burdensome and bureaucratic and does not allow settings to manage inclusion effectively or meet the needs of children quickly or responsibly. The consultation proposal is aimed to enable settings to be empowered to make decisions regarding the day to day running of their setting, including meeting the needs of children with SEND and other additional needs.

The proposals consulted on were to move to a funding approach which would:

- Provide a universal funding increase to the hourly rate for all three and four year olds in receipt of early years funding to support settings to meet the needs of children with low level or emerging need (universal inclusion fund).
- To provide targeted funding that will be paid to settings within their annual funding allocation based on the percentage of children who are disadvantaged (based on EYPP and funded 2 year olds triggers) in recognition that children who live in poverty are more likely to have SEND and additional needs (targeted inclusion funding).
- To retain a budget to provide a termly lump sum to settings to meet the specific needs of children who need individualised approaches to support and inclusion (individual inclusion funding).

## 4.3 Consultation

In consulting with providers we asked six questions:

- 1) Do you agree with the proposal of a reduced targeted deprivation supplement to allow for universal deprivation supplement (2p per hour) to support vulnerable children requiring early help?

- 2) Do you agree with the principal of having an annual allocation of targeted deprivation using previous year's data?
- 3) Do you agree with the proposal to make changes to the lump sum funding from 2018/2019?
- 4) If yes, do you think the lump sum should be; removed, reduced or phased out?
- 5) Do you agree with the principal of paying money from the SEND support funding budget direct to settings through the hourly rate to support inclusion?
- 6) If yes, in order of priority which element of the new SEND funding enables providers to best meet the needs of the children? (Universal, targeted, individual).

Discussion and feedback at all of the Consultation events indicated overall support for these proposals. This was also reflected in the consultation returns, set out in Appendix A.

#### **4.4 Recommendation to cabinet that the early years formula proposals as set out below.**

##### **i) Deprivation Funding**

- Reduce targeted deprivation funding by 17% and give a 2p increase in the hourly rate for a universal deprivation supplement.
- Give an annual allocation to each setting based on previous year's data.

##### **ii) Lump Sum Funding**

- To remove the Lump Sum Funding and to use the savings to provide a 4p hourly rate increase.

##### **iii) SEND Support Funding.**

- To implement a universal hourly rate of 4p to meet the needs of all children with low level or emerging needs.
- To provide targeted funding where settings have higher levels of 2 year olds and EYPP (Early Years Pupil Premium).
- To provide a termly lump sum to settings to meet the specific needs of children who need individualised approaches to support and inclusion – allocated through application to a centrally retained budget.  
Implementation from September 2017.

#### **4.5 Timescales for implementation of these changes are as follows:**

- SEND Support Funding – September 2017
- Lump Sum Funding – April 2018
- Deprivation Funding – September 2018

Implementation of all of these proposals will provide an additional 10p to the hourly rate by September 2018

#### **4.6 Recommendation**

That DEF approve the proposal for the 2017-18 Early Years Funding Formula

**All to Vote**

**MARY DAVIS**  
County Treasurer

**JO OLSSON**  
Chief Officer for Children's Services

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**Early Years Funding Consultation  
6th June 2017**

**Early Years Funding Review Consultation Responses**

The Early Years Funding consultation ended on the 31st May 2017. Providers were asked to respond to six questions with the option to add comments. 74 responses were received. Split across the sectors as follows:

33 Pre-Schools, 28 Private Day Nurseries, 5 Childminders, 3 Maintained Schools, 3 Governor Run Provision, 2 Academies.

**Consultation Question 1**

Do you agree with the proposal of a reduced targeted deprivation supplement to allow for a universal deprivation supplement (2p per hour) to support vulnerable children requiring Early Help? 58 Y 9 N 7 Unsure

**Consultation Question 2**

Do you agree with the principle of having an annual allocation of Targeted Deprivation using previous year's data? 43 Y 22 N 8 Unsure

**Consultation Question 3**

Do you agree with the proposal to make changes to the lump sum funding from 2018/19? 46 Y 18 N 9 Unsure

**Consultation Question 4**

If yes, do you think the lump sum should be: 55 Removed 5 Reduced 10 Phased out

**Consultation Question 5**

Do you agree with the principle of paying money from the SEND Support Funding budget direct to settings through the hourly rate to support inclusion? 61 Y 7 N 5 Unsure

**Consultation Question 6**

If yes, in order of priority, with 1 being the highest, which element of the new SEND funding enables providers to best meet the needs of children? (See table with options)

	Highest Priority	Average Priority	Least Priority
Universal	47	9	15
Targeted	17	34	20
Individual	30	22	19