

# **Durham County Council Schools Forum Meeting, 10 July 2024, Item No 7, Options for Transfer to High Needs Block**

## **Report of Rob Davisworth, Head of Corporate Finance and Commercial Services**

### **Table of Contents**

Durham County Council Schools Forum Meeting, 10 July 2024, Item No 7, Options for Transfer to High Needs Block.....	1
Purpose of the Report.....	1
Voting.....	2
Executive Summary .....	2
Recommendations.....	3
Background.....	4
Transfers between DSG blocks .....	5
Timetable .....	6
Effect of a transfer on SEND .....	6
Modelling of Transfers from Schools Block .....	7
Options modelled using the 2024/25 formula .....	9
Outcome of modelling with 2024/25 formula .....	10
Transfer options – Early Years Block .....	15
Transfer options – Central School Services Block .....	15
Conclusion .....	16
Contact .....	16

### **Purpose of the Report**

- 1 This report is an initial report detailing the council’s considerations around requesting a transfer of funding from the Schools Block to the High Needs Block in 2025/26 and follows informal focus groups in the week before this meeting.

- 2 The council anticipates formally asking the Forum to give its support to a transfer at its meeting in September. This report sets out the context of the request and gives indicative figures showing how this would have affected mainstream primary and secondary funding, had there been a transfer for the 2024/25 formula.
- 3 The report also notes that the council is considering making a transfer from the retained element of the Early Years Block.

## **Voting**

- 4 Voting on the recommendations in this report is open to all members.

## **Executive Summary**

- 5 The High Needs Block (HNB) of the Dedicated Schools Grant (DSG) provides funding to support children and young people who have Special Education Needs and Disabilities (SEND) and inclusion needs.
- 6 There is significant cost pressure on the HNB and the council has a cumulative deficit which is forecast to reach £65 million by 2027/28.
- 7 The council has taken steps to increase financial sustainability and is now considering making transfers from other DSG blocks.
- 8 Transfers from the Schools Block, which funds mainstream primary and secondary schools, must be agreed by either the Schools Forum or the Secretary of State.
- 9 Most local authorities in the region have had transfers agreed for the current year. The council has not requested a transfer for several years.
- 10 A transfer would affect schools from the 2025/26 formula, which would take effect for maintained schools from 1 April 2025 and from 1 September 2025 for academies.
- 11 This report is an initial report to advise members of this issue and will be followed by a further report in September. Any request to the Secretary of State would need to be submitted by mid-November.
- 12 A transfer would help to reduce some of the current and forecast overspend on the HNB.

- 13 A transfer would reduce the funding to be distributed to mainstream primary and secondary schools through the funding formula.
- 14 The council is not yet in a position to model the effect of a transfer on the 2025/26 formula but has modelled how transfers would have affected funding for the 2024/25 formula if there had been a transfer. Four different transfer percentages were modelled, from 0.25% of the Schools Block to 1.0%.
- 15 This modelling has highlighted the extent to which the effect of transfers varies between individual schools and has provided an indication of the limits on how much can be transferred whilst maintaining protection through the Minimum Funding Guarantee (MFG).
- 16 The modelling has shown that primary schools experience larger reductions as a percentage of funding than secondary schools.
- 17 Schools in receipt of protection in the 2024/25 formula do not see a reduction in funding, because they continue to be protected. MFG protection affects other schools, because it is funded by capping increases in funding per pupil for other schools.
- 18 The outcomes of modelling for individual schools are shown in appendices to this report.
- 19 The report notes the possibility of a transfer from the Early Years Block, and that the council will consult further about this in September.
- 20 The council does not propose to make a transfer from the Central School Services Block.

## **Recommendations**

- 21 Forum members are recommended to:
  - (a) Note the report.
  - (b) Provide feedback on the issues raised.

## Background

- 22 The High Needs Block (HNB) of the Dedicated Schools Grant (DSG) provides funding to support children and young people in County Durham who have SEND and inclusion needs.
- 23 There are significant spending pressures on the HNB because of increasing numbers of children and young people with additional needs, and the impact of high inflation on costs. Indications that future increases to grant allocations will be lower than in recent years are a major concern locally and nationally.
- 24 Forecasts for the medium term indicate significant and growing in-year deficits, resulting in a forecast cumulative HNB deficit of circa £65 million by 2027/28.
- 25 In response, the council has taken initial steps to move towards financial sustainability. These include:
- (a) Reduction of budget allocations
  - (b) Freeze of budget allocations
  - (c) Introduction of charges
- 26 These measures have been introduced in response to the lower level of HNB grant increase next year but have a relatively small impact in relation to the size of the projected deficit. The HNB allocation for 2024/25 is £94 million, and the forecast in-year deficit for 2024/25 reported to Cabinet in December 2023 was £7.8 million. Following a review and taking action to reduce spending, the forecast deficit has reduced by £1.3 million to £6.5 million.
- 27 Planning is now underway for more significant changes in advance of the 2025/26 HNB budget setting and this includes consideration of transfers of funding from other DSG blocks to supplement the High Needs DSG. Options for this are discussed in this report.
- 28 Currently, local authorities are not allowed to fund HNB deficits from their own resources and must carry forward deficits from year-to-year.

## Transfers between DSG blocks

- 29 The DSG is notionally split into blocks, but funding can be transferred in some circumstances. The ESFA's operational guides for School Funding and High Needs describe the position with regard to transfers between DSG blocks and links to these guides are provided below:
- (a) Schools Operational Guide
  - (b) High Needs Operational Guide
- 30 Decisions about transferring funding from the Schools Block are made by either the Schools Forum or the Secretary of State. The council is not empowered to make a decision to transfer funding out of the Schools Block.
- 31 Councils can make transfers from the Early Years Block (EYB), but the transfer cannot exceed 5% of the total EYB. Grant conditions mean that no less than 95% of the Early Years Block must be passed on to Early Years providers.
- 32 There are no restrictions on transfers from the Central School Services Block (CSSB).
- 33 Transfers from the EYB and CSSB are discussed later in this report.
- 34 The Schools Forum must be consulted on all transfers between blocks and can agree to a transfer from the Schools Block of up to 0.5%.
- 35 Permission from the Secretary of State (a disapplication of the DSG conditions of grant) is required for transfers out of the Schools Block of more than 0.5%. The Secretary of State can also decide to override a Forum decision not to agree to a transfer of up to 0.5%, if the local authority appeals the decision.
- 36 Local authorities should also consult with local maintained schools and academies; the schools forum should take these views into account before making their decision.
- 37 Special schools and other specialist providers should be able to contribute to discussions at the Schools Forum.

- 38 Of the 12 local authorities in the North East region, 9 effected transfers from the Schools Blocks into the HNB in 2024/25, largely with the support of their Schools Forum.
- 39 In Durham, the last request to transfer funding was made in the autumn of 2018. This request was rejected by the Forum and the council has not made a request since then.

### **Timetable**

- 40 Any transfer of the Schools Block for 2025/26 would affect maintained schools and academies at different times: The dates from when the 2025/26 formula would determine budgets are:
- Maintained schools from 1 April 2025
  - Academies from 1 September 2025
- 41 If the request is for a transfer of up to 0.5% of the Schools Block, this could be approved by the Forum at its meeting in September 2024.
- 42 If the Forum refused to approve a transfer request in September, or the council wished to transfer more than 0.5%, this would need the approval of the Secretary of State and a request would need to be submitted in November 2024.
- 43 The council will be publishing a consultation document for schools after this meeting and will update the Forum on the outcome of the consultation at the Forum meeting in September.
- 44 The council will report to Cabinet in October 2024 and if it is necessary to do so, Cabinet will be asked to formally endorse the decision to apply to the Secretary of State.

### **Effect of a transfer on SEND**

- 45 A transfer would help to reduce some of the current and forecast overspend on the HNB.
- 46 The transfer would support the continuation of areas of funding valued by schools which provide wider support to children with SEND and additional needs and underpins the graduated offer in Durham, including:

- Top up funding for SEN support plans
- Targeted support funding for schools with higher numbers of SEN pupils
- Support to behaviour and inclusion panels.

47 These provisions support many schools with challenging cohorts of young people at a time of rising demand and increasing financial challenges for schools. A large proportion of schools facing financial difficulties have high proportions of high needs learners on roll.

48 These provisions demonstrate the local partnership approach to seeking to use resources across the system to meet local needs.

49 They may also prevent future DfE intervention or direction on the statutory 'must do's' with the funding allocated.

### **Modelling of Transfers from Schools Block**

50 A transfer from the Schools Block means that there is less funding for the mainstream primary and secondary funding formula.

51 The same formula applies to both maintained schools and academies, and the operation of the formula does not differ between them. For the remainder of this report, references to schools should be taken to refer to both maintained schools and academies.

52 At present there is insufficient information available to model how transfers might affect funding for 2025/26. The council hopes to be able to provide an estimate for the September meeting of the Forum.

53 In the meantime, the council has modelled how transfers would have affected formula allocations had there been a transfer in 2024/25. The effects on individual schools may not be representative of how these schools would be affected by a transfer in 2025/26 but has highlighted the extent to which the effect of transfers varies between individual schools, and the limits on how much can be transferred.

54 Although the same formula is used for all schools, the effect of the change in the formula is not a consistent reduction in funding across all schools. The effect of a transfer on individual schools varies for a number of reasons:

- (a) A transfer reduces the pupil-led factors in the formula, but not the school-led factors and the proportion of funding that is school-led varies between schools.
  - (b) Protections through the Minimum Per Pupil Level (MPPL) and Minimum Funding Guarantee (MFG) affect some schools and offset the effect of transfers. For some schools these protections mean that a transfer has no effect on their funding.
  - (c) The MFG has a consequential effect on capping, which results in an additional reduction in funding for affected schools.
- 55 The other significant outcome from modelling using the 2024/25 formula is that there is a limit on how much can be transferred whilst maintaining protection through the MFG.
- 56 MFG is a guaranteed increase in funding per pupil and must be in the range of 0.0% to 0.5%, (i.e., funding per pupil cannot reduce from year-to-year, and schools can be guaranteed an increase up to 0.5%). The council's usual practice is to set MFG protection at the same percentage as is used in the National Funding Formula's funding floor, which is the equivalent of MFG. For 2024/25 this was 0.5%.
- 57 MFG is paid for by capping the increases in formula funding per pupil for other schools, using a ceiling, which is a maximum increase in funding per pupil. The ceiling is set so that the amount recovered through capping is equal to the amount required for MFG. For 2024/25 this was 4.81%.
- 58 Transfers to the HNB reduce the amounts provided through the formula and this leads to more schools requiring MFG funding and hence requires more to be recovered through capping, which means that the ceiling has to be reduced. The ceiling percentage cannot be less than the MFG percentage and there is a maximum amount that can be transferred before the ceiling is equal to the MFG.
- 59 Modelling of transfers using the 2024/25 formula indicates that the maximum amount that could be transferred whilst maintaining MFG protection at 0.5% is just under 1.2%. The maximum amount that could be transferred would be around 1.6%. At this level, no school would see a change in funding per pupil from the previous year.



## Options modelled using the 2024/25 formula

- 60 Four options for transfer from the Schools Block to the HNB have been modelled, from transferring 0.25% of the Schools Block to transferring 1.0%.
- 61 The Schools Block of the DSG for Durham in 2024/25 is £389.860 million and the table below summarises options for transfer of between 0% and 1.0% based on the 2024/25 funding and formula.
- 62 The approach to modelling transfers is the same as that used to set the actual formula, which involves adjusting the £/pupil values for pupil-led factors to make the formula allocations match the funding envelope. The table shows the reductions in these values for the options compared to the actual formula.
- 63 The table also shows the effect of transfers on the amount of protection provided through the MPPL and the ceiling percentage that would be used to cap increases in order to pay for the MFG at 0.5%, which was the level of protection in the 2024/25 formula:

<b>Transfer to HNB</b>	<b>Amount transferred £</b>	<b>Reduction in pupil-led formula values</b>	<b>Amount allocated through MPPL £</b>	<b>Ceiling on increases in funding per pupil</b>
0.00%	-	-	262,000	4.81%
0.25%	975,000	0.29%	308,000	3.87%
0.50%	1,949,000	0.59%	358,000	2.97%
0.75%	2,924,000	0.89%	439,000	2.03%
1.00%	3,899,000	1.20%	523,000	1.13%

- 64 There was no transfer in 2024/25, so the 0.00% line shows the amounts allocated through MPPL allocation and the ceiling from the actual 2024/25 formula.
- 65 As the transfer increases the amount of protection required increases. For MPPL, the increase is funded by reducing factor values in the formula. For MFG, the increase is funded by increasing the amount recovered through capping, which means that the ceiling reduces.

## Outcome of modelling with 2024/25 formula

66 The tables below summarise the effects on schools of transfers.

67 The table below is for primary schools and shows the maximum changes in funding, the upper and lower quartiles and the median.

	Reduction with <b>0.25%</b> transfer £	Reduction with <b>0.5%</b> transfer £	Reduction with <b>0.75%</b> transfer £	Reduction with <b>1.0%</b> transfer £
Primary maximum	15,000	30,000	45,000	60,000
Primary upper quartile	3,000	7,000	10,000	15,000
Primary Median	2,000	4,000	7,000	8,000
Primary lower quartile	1,000	2,000	2,000	2,000

68 The table below is for secondary schools and shows the maximum changes in funding, the upper and lower quartiles and the median.

	Reduction with <b>0.25%</b> transfer £	Reduction with <b>0.5%</b> transfer £	Reduction with <b>0.75%</b> transfer £	Reduction with <b>1.0%</b> transfer £
Secondary maximum	27,000	55,000	79,000	95,000
Secondary upper quartile	21,000	40,000	59,000	73,000
Secondary Median	18,000	35,000	46,000	56,000
Secondary lower quartile	14,000	24,000	36,000	37,000

69 The table below is for primary schools and shows the maximum percentage changes in funding, the upper and lower quartiles and the median.

	Reduction in funding with <b>0.25%</b> transfer	Reduction in funding with <b>0.5%</b> transfer	Reduction in funding with <b>0.75%</b> transfer	Reduction in funding with <b>1.0%</b> transfer
Primary maximum	0.83%	1.63%	2.46%	3.26%
Primary upper quartile	0.26%	0.54%	1.07%	1.74%

	Reduction in funding with <b>0.25%</b> transfer	Reduction in funding with <b>0.5%</b> transfer	Reduction in funding with <b>0.75%</b> transfer	Reduction in funding with <b>1.0%</b> transfer
Primary Median	0.25%	0.50%	0.76%	1.04%
Primary lower quartile	0.20%	0.35%	0.37%	0.37%

70 The table below is for secondary schools and shows the maximum percentage changes in funding, the upper and lower quartiles and the median.

	Reduction in funding with <b>0.25%</b> transfer	Reduction in funding with <b>0.5%</b> transfer	Reduction in funding with <b>0.75%</b> transfer	Reduction in funding with <b>1.0%</b> transfer
Secondary maximum	0.29%	0.58%	0.87%	1.54%
Secondary upper quartile	0.29%	0.57%	0.87%	1.16%
Secondary Median	0.28%	0.57%	0.83%	0.88%
Secondary lower quartile	0.28%	0.54%	0.63%	0.63%

71 The tables do not show minimum values, because the minimum always zero, because there is no change in funding for schools that were received MPPL or MFG funding in the actual 2024/25 formula; these schools continue to be protected at the same level of funding per pupil, or increase in funding per pupil, as in the actual 2024/25 formula.

72 The reductions in values are larger for secondary schools, but the percentage reductions are larger for primary schools. Much of this is due to the operation of MFG and capping, which adversely affects primary schools more than secondary schools, because proportionately more secondary schools than primary schools receive MFG funding and proportionately fewer secondary schools have their funding capped.

73 The table overleaf is for primary schools and shows the numbers of schools affected by MFG and capping.

	24-25 formula	With <b>0.25%</b> transfer	With <b>0.5%</b> transfer	With <b>0.75%</b> transfer	With <b>1.0%</b> transfer
Primary schools with MFG	28	34	46	59	66
Primary schools with no MFG or capping	161	143	111	80	43
Primary schools with capping	22	34	54	72	102
<b>Total primary schools</b>	<b>211</b>	<b>211</b>	<b>211</b>	<b>211</b>	<b>211</b>

74 The table below is for secondary schools and shows the numbers of schools affected by MFG and capping.

	24-25 formula	With <b>0.25%</b> transfer	With <b>0.5%</b> transfer	With <b>0.75%</b> transfer	With <b>1.0%</b> transfer
Secondary schools with MFG	2	3	7	15	19
Secondary schools with no MFG or capping	28	27	23	15	6
Secondary schools with capping	-	-	-	-	5
<b>Total secondary schools</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>

75 The table below is for primary schools and show the percentage of schools affected by MFG and capping.

	24-25 actuals	With <b>0.25%</b> transfer	With <b>0.5%</b> transfer	With <b>0.75%</b> transfer	With <b>1.0%</b> transfer
Primary schools with MFG	13%	16%	22%	28%	31%
Primary schools with no MFG or capping	76%	68%	53%	38%	20%
Primary schools with capping	10%	16%	26%	34%	48%

76 The table below is for secondary schools and shows the percentage of schools affected by MFG and capping.

	24-25 actuals	With <b>0.25%</b> transfer	With <b>0.5%</b> transfer	With <b>0.75%</b> transfer	With <b>1.0%</b> transfer
Secondary schools with MFG	7%	10%	23%	50%	63%
Secondary schools with no MFG or capping	93%	90%	77%	50%	20%
Secondary schools with capping	0%	0%	0%	0%	17%

- 77 Note that whilst the number of primary schools receiving MFG funding doubles from the 2024/25 formula to the 1.0% transfer model, the number of secondary schools receiving MFG increases ninefold.
- 78 In respect of capping, 10% of primary schools had their funding capped in 2024/25, and the number increases as the transfer increases. None of the secondary schools had their budgets capped in 2024/25 and none would be capped until the transfer reached 1.0%. Even then, only 17% of secondary schools have their funding capped, whereas 48% of primary schools have their funding capped.
- 79 The table below shows for primary schools the maximum changes in MFG and capping, the upper and lower quartiles and the median.

	24-25 formula £	With <b>0.25%</b> transfer £	With <b>0.5%</b> transfer £	With <b>0.75%</b> transfer £	With <b>1.0%</b> transfer £
Primary max MFG	24,600	28,000	31,300	34,800	38,300
Primary upper quartile	-	-	-	400	2,600
Primary Median	-	-	-	-	-
Primary lower quartile	-	-	(200)	(3,200)	(7,800)
Primary max capping	(31,600)	(31,900)	(32,200)	(37,700)	(47,400)

- 80 The table below shows for secondary schools the maximum changes in MFG and capping, the upper and lower quartiles and the median.

	24-25 formula £	With <b>0.25%</b> transfer £	With <b>0.5%</b> transfer £	With <b>0.75%</b> transfer £	With <b>1.0%</b> transfer £
Secondary max MFG	47,600	61,300	75,000	89,200	103,500
Secondary upper quartile	-	-	-	9,900	30,400
Secondary Median	-	-	-	1,300	13,000
Secondary lower quartile	-	-	-	-	-
Secondary max capping	-	-	-	-	(21,100)

- 81 As already noted, the highest percentage reductions in funding are for primary schools, and regardless of the amount transferred, the same

five primary schools have the highest percentage reductions in funding  
These are shown in the table below.

No.	School	Pupils	24-25 Formula funding £	Reduction with <b>0.25%</b> transfer	Reduction with <b>0.5%</b> transfer	Reduction with <b>0.75%</b> transfer	Reduction with <b>1.0%</b> transfer
2531	Wingate	351	1,833,000	0.83%	1.63%	2.46%	3.26%
2536	Shotton	242	1,412,000	0.81%	1.59%	2.40%	3.18%
2259	Leadgate	168	1,065,000	0.79%	1.53%	2.32%	3.07%
2401	Etherley Lane	223	1,205,000	0.78%	1.54%	2.33%	3.10%
2126	Woodlea	189	972,000	0.78%	1.51%	2.29%	3.03%

82 The table below shows the actual reductions in funding for the schools with the highest percentage reductions in funding.

		Pupils	24-25 Formula funding £	Reduction with <b>0.25%</b> transfer £	Reduction with <b>0.5%</b> transfer £	Reduction with <b>0.75%</b> transfer £	Reduction with <b>1.0%</b> transfer £
2531	Wingate	351	1,833,000	15,000	30,000	45,000	60,000
2536	Shotton	242	1,412,000	11,000	22,000	34,000	45,000
2259	Leadgate	168	1,065,000	8,000	16,000	25,000	33,000
2401	Etherley Lane	223	1,205,000	9,000	19,000	28,000	37,000
2126	Woodlea	189	972,000	8,000	15,000	22,000	29,000

83 Much of the reduction in funding for these schools is due to the reduction in the ceiling. These schools were all near the ceiling in the actual formula, and the reductions in the maximum increase as the transfer increases means that the amount of funding that they lose through the ceiling increases significantly. For a 1.0% transfer, the ceiling reduces from 4.81% to 1.13%.

84 Appendices A to F to this report (provided as separate files), show the 2024/25 funding and the reductions for the four options:

- Appendices A (primary) and B (secondary) show changes in funding
- Appendices C (primary) and D (secondary) show percentage changes in funding

- Appendices E (primary) and F (secondary) show rankings of percentage changes, where 1 equals the highest percentage reduction in funding.
- Appendix G, which is an Excel file, allowing filtering to select individual schools.

85 Schools in the appendices where there is no change in funding are protected through either MPPL or MFG. The figures in the tables exclude NNDR funding. NNDR funding is excluded because it is fully funded at actual cost. Percentage changes are changes in funding compared to funding excluding NNDR.

### **Transfer options – Early Years Block**

86 Movement from the Early Years Block (EYB) can be made in compliance with the early years pass through rate conditions, and in consultation with the schools forum.

87 For 2024/25, the current EYB allocation is £56.650 million and 95% of this must be passed through to providers. Transfers of similar percentages to those modelled above would generate the following amounts:

<b>Transfer</b>	<b>£</b>
0.25%	142,000
0.50%	283,000
0.75%	425,000
1.00%	567,000

88 The council will consult further on this option in September.

### **Transfer options – Central School Services Block**

89 This block is used to fund services provided to schools and academies by the local authority, and a historic commitment for prudential borrowing. The total allocation for 2024/25 is £2.891 million. This is a contribution to the costs of services and does not cover their full cost, and further consideration of a transfer from this block is not proposed.

## **Conclusion**

- 90 This report is an initial report in advance of a request to the Forum to transfer part of the 2025/26 funding envelope for the mainstream primary and secondary funding formula to the High Needs Block (HNB). The HNB is used to fund provision of SEND services, and is currently in deficit, with the deficit forecast to rise to £65 million by 2027/28.
- 91 A transfer would reduce funding for mainstream primary and secondary schools and needs to be agreed by either the Schools Forum or the Secretary of State. The council expects to make a request to the Forum to agree to a transfer at its meeting in September.
- 92 The effect of a transfer is likely to vary between schools, because of the way that the formula works, particularly the protection elements built into the formula.

## **Contact**

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