

**York Schools Forum**

**17 October 2024**

Report of the Head of Children & Education Finance

**THE SCHOOLS BUDGET AND THE DEDICATED SCHOOLS GRANT FOR 2025/26**

**Summary**

- 1 This report provides the Schools Forum with initial information on the Schools Budget and Dedicated Schools Grant (DSG) funding for the 2025/26 financial year. The report focuses on decisions that the forum will need to make or areas that the local authority (LA) will be required to consult the forum on, in order for budgets for schools, early years providers and LA maintained services to be set prior to the start of the new financial year.

**Background**

- 2 The DSG is ring-fenced for funding the provision of education or childcare for 3 to 16 year olds in all settings. As such it covers funding delegated to individual LA maintained schools, academies and PVI providers through the LMS & Early Years funding formulae, plus funding for other pupil provision which is retained centrally by the LA to support such things as Special Educational Needs and some central education services.
- 3 The DSG allocations for schools, high needs, early years and the central school services block have all been run under national funding formulae (NFF) since 2018. These arrangements are expected to broadly continue for 2025/26, although the DfE has yet to make a full announcement on it's NFF allocations. For the early years block the DfE's already announced expansion of the free entitlements will mean more material increases in funding will be required in 2025/26.

**DSG Allocations for 2025/26**

- 4 The funding LAs receive in each block is determined by a specific national funding formula (NFF). Provisional allocations are normally released in July however, due to the timing of the general election, none of the allocations for 2025/26 have been announced yet. The DfE now aim to publish notional NFF allocations for schools and all supporting documents on the NFF (including the schools, high needs and early years operational guides and NFF technical notes) for 2025/26 as soon as possible following the chancellor's budget announcement on 30 October. The DSG allocations will then be published in December.
- 5 For information, the total DSG allocation for 2024/25 was set at £174.864m, an increase of £9.802m (5.9%) from 2023/24 and broken down as follows:

DSG Funding Block	Adjusted 2023/24 £m	2024/25 £m	Increase	
			£m	%
Schools Block	123.602	125.589	1.987	1.6%
Early Years Block - Existing	11.703	12.974	1.271	10.9%
Early Years Block - Expansion	-	5.985	5.985	NA
High Needs Block	27.683	28.470	0.787	2.8%
Central School Services Block	2.074	1.846	(0.228)	(11.0%)
<b>Total DSG</b>	<b>165.062</b>	<b>174.864</b>	<b>9.802</b>	<b>5.9%</b>

## Schools Block

### School Formula Funding

- 6 The vast majority of the Schools Block DSG is used to fund the local funding formula for mainstream schools (maintained and academies). Although the DfE have delayed announcing full NFF allocations until later this year, they have published a summary policy document for the schools NFF which is attached at Annex 1. This policy document confirms that the schools NFF will use the same funding factors as in 2024/25, with the only structural changes being in respect of the PFI factor which affects three schools in York and is considered in more detail at paragraph 8.
- 7 Following a detailed consultation with all schools and the Schools Forum prior to setting the 2018/19 budget, the LA agreed to introduce the DfE's new national funding formula (NFF) at school level from April 2018. For 2025/26 the LA is again proposing to follow the NFF for schools, subject to consideration of the PFI factor discussed below.

### PFI Factor

- 8 The PFI factor is the only remaining funding element for schools that is set entirely locally by the LA and only affects three schools. Funding to support the factor is allocated to the LA via an element of the schools NFF that is not linked to individual schools. For York, the local PFI top up is calculated as the difference between the actual PFI charge for the school less a notional premises amount deemed to be included in the formula allocation.
- 9 The intention of the York PFI factor is to try and neutralise the impact of the PFI charge incurred by these schools. The PFI charge includes the costs of running and maintaining the school's premises, plus other costs built into the PFI financing model that other non-PFI schools do not incur (life cycle and financing costs, offset by the PFI grant from central government). For 2024/25 the notional premises amount is based on a lump sum of £17,795 plus an amount per pupil of £227.67. Each year these amounts are increased in the same proportions as the lump sum and AWPU increases within the NFF.
- 10 For 2025/26 the DfE has included some restrictions on how the PFI factor within the NFF is increased each year. Up until 2024/25 the DfE has increased the overall PFI funding to the LA by increasing the previous year's amount allocated to the PFI schools

by the LA by the Retail Prices Index (RPIX) measure of inflation. From 2025/26 the DfE will now only increase the NFF PFI factor with reference to the previous years NFF allocation, rather than the amount that the LA allocated to the PFI schools locally.

- 11 Over the last few years the costs associated with running school buildings have increased at a much faster rate than the general inflation rate reflected in RPIX. This means that the gap between the overall PFI charge made to each school and the notional premises amount included in York's PFI factor has grown faster than RPIX. In 2024/25 the estimated gap is £1.084m compared to a PFI funding allocation from the DfE of £1.048m. This means that the additional £36k required by the current York PFI factor has had to be funded by capping overall funding increases for all schools within the local funding formula.
- 12 Given the new restrictions being introduced by the DfE for 2025/26 there is a risk that this gap will continue to rise in future years meaning non PFI schools will increasingly be required to subsidise the PFI schools. To mitigate this it is proposed that from 2025/26 the notional premises lump sum and AWPU values are increased each year in line with the increase in the PFI charge to schools, rather than in proportion to how these factors are increased within the schools NFF.

### Growth Fund

- 13 Under the DfE's gradual transition to a hard NFF for schools, they have started to tighten up the way in which LAs are allowed to administer their growth funds. For the first time in 2024/25 LAs are required to provide growth funding where a school or academy has agreed with the LA to provide an extra class to meet basic need in the area (either as a bulge class or as an ongoing commitment). Funding, either through the growth fund, or by adjusting pupil numbers in the APT, will need to be provided regardless of whether the additional class is within or outside of the school's PAN.
- 14 As a minimum LAs now have to provide funding to a level which is compliant with the following formula:  
$$\text{Growth factor value } (\pounds 1,550) \times \text{number of pupils}$$
- 15 The growth factor value will be used as the factor value for all school. Funding for maintained schools is provided to cover the period from September to March before the lagged funding system 'catches up' from the subsequent April through the subsequent year's NFF. Since academies are funded on an academic year basis, they would receive additional funding (at a rate of an additional five-sevenths of the allocation) to cover a full year's growth funding before the system 'catches up'.
- 16 York's current growth criteria already many elements in the DfE's new requirements. However, further modelling will be required to understand whether our current arrangements can remain affordable within the growth allocation provided by the DfE. Particularly, how sustainable our current Infant Class Size Funding formula will be given there will be prescribed minimum amounts of funding for basic need growth.

### **Early Years Block**

- 17 Last year the DfE announced a significant phased expansion of the entitlement to funded childcare for 2, 3 and 4 year old provision. By September 2025, most working

families with children aged between 9 months and 4 will be eligible for 30 hours each week of early education and care.

- 18 At the time of writing this report no announcements had been made on the arrangements for Early Years for 2025/26 and how the further expansion will be funded, with Early Years DSG allocations now expected to be released in December. However, subject to the detail of any announcement, the LA would propose to continue the policy introduced in 2024/25 following extensive consultation with providers. This would mean that for 2025/26 each of the formulae (under 2s, 2 year olds and 3/4 year olds) would utilise the respective hourly rates provided by the DfE in the following way:
- 93% allocated to the base rate
  - 1.25% allocated to the deprivation rate
  - 1.25% allocated to the SEND Inclusion Fund
  - 4.5% allocated to fund LA Early Years services (centrally retained fund)
- 19 Subject to the views of the forum, the LA is not planning any further consultation with providers on this policy.

### **High Needs Block**

- 20 The high needs block DSG allocations and operational guide are also now expected to be released in December. As has been previously reported, the high needs budget is already under significant pressure due to rising demand from increased numbers of SEND pupils. For 2024/25 net in year expenditure within the high needs block is projected to be £2m higher than the core DSG funding allocated by government. However, as part of the safety valve agreement that the LA has made with the DfE, additional grant of £1.5m is due to be received by the end of the financial year. The effect of this additional grant produces a net in year high needs block deficit of £0.5m and increases the projected high needs deficit carry forward to 2025/26 to £0.8m.
- 21 Further detail on the DSG safety valve recovery plan is the subject of a separate report on this agenda. However, it should be noted that the plan agreed with the DfE was originally designed to result in a balanced high needs budget by the end of 2025/26. The plan includes a commitment from the DfE to allocate additional funding to York of £17m over the period 2021/22 to 2025/26, subject to certain conditions. Current projections suggest that a balanced position by March 2026 is now unlikely to be achieved and, once the DfE safety valve payments end, an underlying annual pressure of c£1.5m will remain for the LA to deal with.
- 22 In light of this the LA will need to consider further actions over and above those in the current deficit recovery plan to deliver a balanced high needs budget. One of those actions is expected to be to revisit the option of requesting a 0.5% transfer of resources from the schools block of the DSG to the high needs block. When this was last considered in 2022/23 it was not considered viable as the effect of the minimum per pupil funding levels (MPPFL) meant that the 0.5% reduction only impacted on 20 of 59 schools.
- 23 Since then a small number of safety valve LAs have been successful in requesting a disapplication from the MPPFL to help support their recovery plans. This option will be considered in more detail with the DfE as part of the LA's regular safety valve monitoring discussions. Any proposal to implement a top slice would need to be the

subject of a consultation with all mainstream schools and considered by the forum before submission to the DfE for approval by the Secretary of State.

### **Central School Services Block**

- 24 This funding block was created in 2019/20 from elements of the previous schools block and the former Education Services Grant (ESG). As part of the DfE's strategy to remove funding within this block that directly supports exceptional expenditure previously agreed between LAs and their Schools Forums, it is expected that a further 20% reduction in the allocation for historic commitments will be imposed in 2025/26.
- 25 The DfE is protecting any LA from having a reduction that takes their total historic commitments funding below the total value of their ongoing prudential borrowing and termination of employment costs, in recognition of the time required for these costs to unwind. Although York isn't quite at this stage yet, we will be very soon if further 20% reductions are made. At that point no further reductions are expected to be made, until actual expenditure on termination of employment or prudential borrowing costs reduces.
- 26 For 2025/26 this is likely to mean an allocation of £0.807m for historic commitments. As historic commitments currently total £1.009m in 2024/25 the LA, in consultation with the forum, will need to identify budget reductions totalling £0.202m for 2025/26. A description of the historic commitments and the background to how they were created is set out at Annex 1.
- 27 Outturn expenditure in 2023/24 for termination of employment costs and prudential borrowing totalled £0.683m and it is expected that the DfE will continue to protect the LA's historic commitments allocation at at least this level. As the LA removed all of its other remaining historic commitment budgets in 2024/25, the 2025/26 expected required reduction (£0.202m) will need to be taken from the School Improvement Commissioning budget. That means a reduction in the budget from £0.326m in 2024/25 to £0.124m in 2025/26.

### **Recommendations**

- 28 Members of the forum are asked to;
- confirm that they are content for the schools budget to continue to be allocated to schools under the formula and factors contained within the schools national funding formula (paragraph 7),
  - note that further modelling will be required around the pupil growth & infant class size funds to understand whether our current arrangements can remain affordable within the growth allocation provided by the DfE (paragraph 16),
  - agree to continue to allocate early years funding under the proportions agreed following the 2023 consultation exercise with providers, subject to the final announcement on early years funding from the DfE (paragraph 18),
  - note the expected impact on centrally retained historic commitment budgets for 2025/26 following a further 20% reduction in funding from the DfE (paragraph 24).

<b>Contact Details</b> <b>Author:</b>	<b>Chief Officers Responsible for the Report:</b>
Richard Hartle Head of Children & Education Finance email: richard.hartle@york.gov.uk	Martin Kelly Corporate Director of Children & Education  Debbie Mitchell Director of Finance

## **Annexes**

Annex 1 - Central Historic Commitment Budgets 2024/25

**Central Historic Commitment Budgets 2024/25**Termination of Employment Costs (£0.383m)

School redundancy and early retirement costs where the revenue savings achieved by the termination of employment to which they relate are greater than the costs incurred. The costs charged to this budget only relate to decisions made prior to 2013/14.

Prudential Borrowing Costs (£0.300m)

This budget is set aside to fund the repayment of loans for school building capital works where the original investment contributed towards an overall net revenue saving to the Schools Budget. Contributions to the following schemes are covered by the current budget provision:

- York High School (Merger of Lowfield and Oaklands Secondary Schools)
- Clifton with Rawcliffe Primary School (Merger of Clifton without Junior and Rawcliffe Infants Schools)
- Our Lady Queen of Martyrs Primary School (Merger of Our Lady's and English Martyrs Primary Schools)

Contribution to Combined Budgets – School Improvement Commissioning Fund (£0.326m)

Under the school finance regulations, prior to 2012/13 schools could agree (through the Schools Forum) to allow the LA to use DSG funding to support certain central services that have a wider educational benefit or generate a net overall saving to the Schools Budget.

A significant proportion of this funding relates to former standards fund grants that were mainstreamed in 2011/12. At that time a total of £12m of standards fund grants were transferred into the DSG. Of this £11m was delegated directly to schools or other settings through the school funding formula or other mechanisms. As the remaining standards fund allocations were supporting central services the Schools Forum agreed to allow this to continue. However, the only remaining element of this budget is now in respect of the School Improvement Commissioning Fund as all other budgets have had to be removed in recent years.