

Chapter 5: Our proposals for the central school services block

- 5.1 Local authorities have an important role in supporting the provision of excellent education for all children of compulsory school age. They do this by ensuring every child has a school place; ensuring the needs of vulnerable pupils are met; and acting as champions for all parents and families.
- 5.2 In the first stage of consultation, we proposed creating a central schools block within the dedicated schools grant (DSG) to reflect the ongoing local authority role in education. We are renaming this the **central school services block** to distinguish it more clearly from the schools block. We proposed to create this from 2 different government funding streams: the schools block funding that is currently held centrally by local authorities and the retained duties element of the Education Services Grant (ESG), and to distribute it on a simple formulaic basis. 64% of respondents agreed with our proposal.
- 5.3 This chapter confirms that we will proceed with the creation of the central school services block as planned, and sets out the proposed formula for its allocation from 2018-19 onwards. It also sets out our proposals for transition from current arrangements. Illustrative examples of central school services block funding allocations are included in the [step-by-step table](#).
- 5.4 The central school services block will include funding for responsibilities previously included within ESG and responsibilities previously funded through centrally retained DSG. We will make the necessary changes to the financial regulations and conditions of grant in order to make this possible. Further detail on the functions funded through the central school services block is included in annex 1.
- 5.5 In addition to the responsibilities that will be funded through the central school services block, local authorities have other responsibilities in respect of education, for which they use funding from other sources. These responsibilities include the provision of home to school transport, assessing pupils with SEN, and planning for and supply of sufficient school places. The funding for these responsibilities is not within the scope of this consultation.

5.6 In the first consultation, we stated that we expected local authorities to step back from running school improvement from the end of the 2016/17 academic year and would therefore not require funding for this role. While we are still committed to a school-led system, we recognise that it is not fully mature and we need to take pragmatic steps to support an effective transition. We have recently announced a number of measures to fund school improvement⁴³, none of which are in scope of this consultation.

Formula for allocating the central school services block

5.7 The central school services block will be created from two existing funding streams: the DSG funding that is held centrally by the local authority for central services⁴⁴, and the retained duties element of the ESG⁴⁵. Funding will cover two distinct elements which will be handled separately within the formula: **ongoing responsibilities** such as asset management and admissions and **historic commitments**.

Ongoing responsibilities

5.8 The total amount of funding that will be distributed through this block for ongoing responsibilities will be calculated by adding the funding available for ESG retained duties and the centrally held DSG spent on ongoing responsibilities. Further detail on the calculation of the total funding available in the central school services block is set out in the [technical note](#).

5.9 We propose to distribute funding to local authorities using a simple formula which distributes an element of funding according to a per-pupil factor and an element according to a deprivation factor. Both elements will be adjusted for area costs.

5.10 We are proposing that the largest factor should be simple per-pupil funding which means that each local authority will receive an amount for every pupil in the schools block. In the first stage of the consultation, 64% of respondents agreed with our proposal to distribute funding on a per-pupil basis.

5.11 The indicative per-pupil rate will be £28.64. The rate has been calculated so that – once the ACA has been applied – 90% of the total funding for the central school services block will be allocated according to pupil numbers.

⁴³ Further detail on our school improvement strategy can be found at www.gov.uk/government/news/new-funding-for-school-improvement--2

⁴⁴ As defined in Schedule 2, Part 1 of *The School and Early Years Finance (England) Regulations 2015* (Statutory Instrument 2015 No.2033)

⁴⁵ In 2017-18 the retained duties rate of ESG will be paid through the DSG

Our new proposal to include a deprivation factor for ongoing responsibilities

- 5.12 We are proposing to include a deprivation factor to allocate funding for ongoing responsibilities. This is to recognise the importance of particular central services for schools, such as education welfare services, in areas with high levels of socio-economic deprivation. We are proposing to use Ever6 FSM⁴⁶ as our deprivation measure to reflect the number of pupils who have some history of socio-economic deprivation.
- 5.13 We know there is a cost to delivering education welfare services everywhere, so it would not be appropriate to suggest that the entire spend on education welfare services is spent on deprived pupils. We are therefore proposing to weight the deprivation factor at 10% of the total funding for ongoing responsibilities. This results in a national per-pupil top-up for deprived pupils of £11.62.
- 5.14 In the first stage of consultation, we proposed using the same area cost adjustment that had been proposed for the schools formula, which is the 'hybrid area cost adjustment' methodology. The hybrid area cost adjustment consists of two elements: teachers' pay costs and non-teaching staff costs. We have reflected further on this proposal and given that the central school services block is not affected by teachers' pay, we do not believe it is reasonable to use an area cost adjustment which contains a teachers' pay cost element. Therefore, we intend to use the general labour market (GLM) methodology. The GLM measure reflects differences in labour costs between different areas, but does not include the added element of teachers' pay costs.
- 5.15 Further detail on the calculation of funding in the central school services block for ongoing responsibilities is included in annex 1.

Historic commitments

- 5.16 Centrally retained DSG is also currently used to fund a number of historic commitments. These commitments are listed in full at annex 1, and include combined budgets contributing to wider children's services, staff redundancy costs relating to decisions taken before 2013, and the back pay associated with equal pay legislation.
- 5.17 In the first stage of consultation, we proposed to provide funding for historic commitments through the central school services block if they were entered into before April 2013, with the expectation that these costs will unwind over time. 67% of

⁴⁶ Pupils eligible for free school meals at any point in the last 6 years

respondents agreed with this approach. We proposed to allocate funding for these based on evidence.

5.18 We remain convinced that this is the fairest and most appropriate way to provide funding for historic commitments. In keeping with current policy, no new commitments will be allowed.

5.19 Earlier this year, the Education Funding Agency (EFA) collected evidence from local authorities about their historic commitments, and the ongoing costs. The EFA reviewed all returns and produced guidance which will enable local authorities and their schools forums to ensure that the appropriate evidence is in place for each historic commitment and that they meet the criteria set out in the first stage of the consultation⁴⁷.

5.20 Now the historic commitments data received from local authorities has been assessed, we know the baseline total spend for historic commitments in the central schools services block formula. We expect local authorities to use the guidance to ensure that only eligible historic commitments are funded in 2017-18 and to reflect these when completing the Section 251 returns for 2017-18. Funding for historic commitments will then be allocated on this basis.

5.21 We expect that historic commitments will unwind over time, for example because a contract has reached its end point. Where this is the case, we would expect local authorities to reflect this in Section 251 returns. The EFA will monitor historic spend year-on-year and will challenge Section 251 returns where spend is not reducing as expected.

5.22 In 2018-19, we would expect local authorities to recycle money that is no longer needed for historic commitments into schools, high needs or early years. We will set out our long-term intention for funding released from historic commitments at a later point.

5.23 Further detail on historic commitments funding in the central school services block is included in annex 1.

Transition

5.24 Moving to a national formula for allocating funding for these central functions is likely to result in local authorities receiving a different allocation to what they currently spend on these functions. The extremely wide range in current expenditure for ongoing responsibilities (the lowest planned expenditure for one local authority in

⁴⁷ EFA Schools funding arrangements 2017 to 2018, www.gov.uk/government/publications/schools-funding-arrangements-2017-to-2018, November 2016

2016-17 was £19 per pupil, with the highest being £222 per pupil) means that we need to balance the rate of change against the need to make progress towards the formula. It is also important that we move towards this formulaic distribution at a pace that allows local authorities to plan for and accommodate any savings that might be required.

- 5.25 The transition to the formula for ongoing responsibilities will be gradual. We are proposing to put in place a protection that minimises reductions to 2.5% per pupil in 2018-19 and 2019-20. This will ensure that the rate of transition is manageable for all local authorities and no local authority will lose more than 5% per pupil in this Parliament.
- 5.26 In order to afford the protection, we are proposing to allow gains of up to 2.4% per pupil in 2018-19. The level of gains will be set annually and will depend on the precise composition of the central school services block in each year. Further detail on the calculation of gains and reductions can be found in the [technical note](#).
- 5.27 Funding for historic commitments will be based on the actual cost of the commitment. Funding will reduce as commitments cease. There will therefore be no protection for historic commitments in the central school services block.
- 5.28 Where local authorities face considerable gains, we would expect them to have a transparent and fair discussion with their schools forum to decide how any surplus funding should be used. Local authorities will have flexibility to move funding between the central school services block, high needs block and early years block. They will also be able to move funding into the schools block.

Impact of the central school services block

- 5.29 This section describes the impact of the proposed central school services block formula for local authorities, as illustrated in the tables published alongside this consultation. They show what would happen under the proposed formula if pupil numbers, deprivation levels and historic commitments stayed exactly as they were in 2016-17 and the formula was implemented in full. They will not represent the actual budgets local authorities will receive, for 4 reasons:
- The formula for 2018-19 and beyond is **subject to this consultation** and will not be finalised until the consultation response in 2017
 - As described in the transition section above, we will need to adjust the levels of gains to afford the protection that **no local authority's budget will reduce by more than 2.5% per pupil in 2018-19 and 2019-20** until the end of the spending period
 - The level of **funding allocated for historic commitments will reduce over time**, as historic commitments themselves unwind

- Local authorities' actual allocations in 2018-19 will be confirmed in the December before the start of the financial year, taking into account the **latest pupil numbers and FSM eligibility from the October census and Section 251 data on historic commitments. These will vary year on year**

5.30 Nonetheless, the figures we are publishing give local authorities a good illustration of the overall impact of the proposed formula on their allocation in future years. We have also published a detailed technical explanation of the methodology and calculations we have undertaken to produce these illustrative allocations. This can be found in the [technical note](#).

5.31 Under the proposed formula, 84 local authority areas would see their funding increase.

5.32 The formula would likely reduce the gap between the highest and lowest spending local authorities, according to spend on ongoing responsibilities, by £189 per pupil. Under the current system, per-pupil spend on ongoing responsibilities varies from £19 per pupil in Walsall to £222 in Kingston upon Thames.

5.33 The central school services block increases funding for many of the local authorities who currently spend the least on education services. A combination of national and local decisions going back over a decade have led to a significant imbalance in spend. The central school services block formula now recognises local authorities' needs on an equal basis across the country.

5.34 The gaining areas are all in different regions and have made different decisions about how to fund central services. The top three gainers are Walsall, Wigan and South Tyneside. However, the amount of money that is spent in these areas is significantly lower than similar local authorities in other areas of the country, which is why on average they are gaining. As set out above, gains will be limited year on year in order to be affordable.

5.35 Local authorities who have been spending considerably more than the central school services block allocates will see reductions in funding. As a result of our proposal for no local authority to face a reduction more than 2.5% per pupil in 2018-19 and 2019-20, progress towards the formula will be gradual.

5.36 Section 251 data shows that local authorities with similar characteristics spend very different amounts delivering the same services⁴⁸. We believe that higher spending local authorities should be able to adjust their spend to bring them in line with other local authorities that spend less delivering the same services.

⁴⁸ Education Funding Agency, [Section 251: 2016 to 2017](#), February 2016

Implementation of the central school services block

5.37 The proposals set out in this chapter will create a fairer, more transparent funding system for local authority central spend on schools. We will update regulations and provide detailed operational guidance next year. We have also set out below the high level detail of how this block will work in practice.

Funding allocation timetable for 2018-19

5.38 The funding allocation timetable in 2018-19 will be similar to 2017-18. The Government's response to this consultation in 2017 will confirm final policy decisions and therefore the funding formula that will be used to determine local authorities' allocations for the central school services block in 2018-19.

5.39 In summer 2017 we will publish local authorities' indicative central school services block funding levels for 2018-19 (indicative because they will be updated with the latest pupil numbers from the October School Census and the latest historic commitments spend later in the year).

5.40 We propose that 2018-19 funding levels will include gains of up to 2.4% per pupil for any local authority due to gain under the formula, and funding to protect any local authority due a reduction, in line with the 2.5% per pupil limit proposed in the previous section.

5.41 Local authorities will be responsible for consulting their schools forums on how to allocate their central school services block funding and complying with the EFA's Authority Pro forma Tool process. Restrictions on how to spend their allocations will be detailed in the School Finance and Early Years Regulations for 2018-19. The EFA will publish operational guidance detailing the Authority Pro forma Tool process for 2018-19 next year.

5.42 Local authorities will have the flexibility to move money from the central school services block into other blocks. Further guidance on this will be set out in the 2018-19 guidance which we will publish next year.

5.43 In December 2017, we will confirm local authorities' final central school services block allocations for 2018-19, by applying the central school services block formula to the latest pupil numbers from the October census.

Funding arrangements in 2019-20 and beyond

5.44 The total amount of funding in the central school services block is based on the current duties held by local authorities. If we make changes to local authorities' legal obligations in future, the total amount of funding for the central school services block will need to change to reflect this.

5.45 We will also consider how to treat funding released from the historic commitments element of the central school services block and will confirm our approach at a later date.

Consultation questions

16. Do you agree that we should allocate 10% of funding through a deprivation factor in the central school services block?
17. Do you support our proposal to limit reductions on local authorities' central school services block funding to 2.5% per pupil in 2018-19 and in 2019-20?
18. Are there further considerations we should be taking into account about the proposed central school services block formula?

Annex 1: Shape and content of the central school services block

The table below shows the responsibilities that will be funded from the central school services block.

Allocation route	Previously funded from centrally retained DSG	Previously funded from ESG
Central school services block per pupil rate	School admissions Servicing of schools forums Fees to independent schools for pupils without SEN	Education welfare services Asset management Statutory and regulatory duties
Central school services block historic commitments funding	Contribution to combined budgets: costs of providing combined education and children's services Termination of employment costs: premature retirement or dismissal costs for maintained school staff Equal pay – back pay: costs of meeting equal pay commitments in schools Capital expenditure from revenue (CERA): where the authority uses revenue funding to meet capital costs Prudential borrowing costs: for repayment of some authority loans Exceptions agreed by the Secretary of State: centrally retained schools budget expenditure that has been approved by application to the Secretary of State	

