

MEETING:	SCHOOLS FORUM
DATE:	23 SEPTEMBER 2011
TITLE OF REPORT:	SCHOOL FUNDING REFORM
OFFICER:	SCHOOLS FINANCE MANAGER

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To inform Schools Forum of the consultation on the national school funding reform and to seek comments on the proposed consultation response prior to submission.

Recommendation

THAT: Schools Forum comments on the draft response to the consultation paper as appropriate and approves for submission to the Department for Education.

Key Points Summary

The consultation paper sets out the Department for Education's (DfE) proposals for school funding from 2013/14 in the following broad headings

- The national funding system
- The schools block system
- The Formula
- Central services and defining responsibilities
- Future Arrangements for Local Authority Central Services Equivalent Grant (LACSEG)
- Children and young people requiring high levels of support
- Constructing the High Needs Block for local authorities
- Early Years

Further information on the subject of this report is available from
Malcolm Green, Schools Finance Manager (01432) 260818

- Pupil Premium
- Timing for Implementation

Alternative Options

1. No alternative options or projects have been identified at this stage. Further consultation is expected prior to implementation.

Reasons for Recommendations

2. The recommendations ensure that the views of Herefordshire are considered by the DfE as the schools funding reforms are developed.

Introduction and Background

3. On 13 April 2011 the DfE published their *Consultation on School Funding Reform: Rationale and Principles* document, outlining the reasons why change is needed – not least the lack of transparency and complexity of the current system. This second consultation was launched on 19 July 2011 and can be found on the website. The closing date for responses is 11 October 2011.
4. The DfE want a system where the funding is transparent, where funding follows pupils and where pupils with additional needs attract additional funding. The aim is that similar schools with similar pupil needs should be funded in broadly the same way.
5. Changes will mean that funding moves between areas and schools so there will be some transitional measures in place to ensure stability. The current system will remain in place for 2012/13 [at least] to give Academies, schools and local authorities time to plan. There will, however, be a “shadow 2012/13 settlement” showing the potential impact of the reforms.
6. The new funding formula will be in the format of:
 - A basic amount per pupil;
 - Additional funding for deprivation;
 - Additional funding for small schools;
 - An area cost adjustment; and
 - Possibly additional funding for pupils for who have English as an additional language (EAL).
7. This formula will distribute money to the local authority, who will then, with the Schools Forum distribute it amongst the area’s schools. The formula could also be used when funding Academies – it is a Government principle that Academies are funded fairly in relation to maintained schools. Schools wishing to convert to Academy status should neither be incentivised nor put off by the financial implications
8. The consultation also examines:
 - Whether the formula should use school-level or local authority-level data
 - The possibility of restricting the elements of the local formulae;
 - Improving the role of the Schools Forum;
 - Changing the way that Academies’ budgets are calculated;

- How Free Schools, University Technical Colleges (UTCs) and Studio Schools should be funded until all schools can be funded on the same methodology;
- Funding for high needs pupils;
- Early Years funding; and
- Keeping the Pupil Premium separate for at least this SR period and extending it to include pupils eligible for Free Schools Meals (FSMs).

Key Considerations

9. A short summary of the DfE consultation paper has been prepared by the Society of County Treasurers and is set out below as an alternative to reading the full DfE consultation which including annexes runs to 84 pages. Full details of the consultation are available on the DfE's website as follows

<http://www.education.gov.uk/consultations/index.cfm?action=consultationDetails&consultationId=1765&external=no&menu=1>

The national funding system

10. DSG currently covers funding for schools, early years provision, high need pupils and central services – the funding is all grouped together under the Guaranteed Unit of Funding (GUF) per pupil. The future DSG will fund the following four blocks (although later in the consultation paper a 5th block is introduced covering funding which comes from the DCLG):
- Early Years;
 - Schools;
 - High Need Pupils; and
 - Services which are not suitable for delegation.
11. DSG will continue to be ring-fenced, but not the four blocks within it. There will be the following two restrictions:
- Money retained centrally, including for high need pupils, must not increase faster than the schools' budget, without approval from the Forum; and
 - The minimum funding guarantee.
12. Over time the DfE want to move towards a formulaic approach to calculating each block but the starting position will be authorities' 2012/13 budgets.
13. There are two ways in which the DfE are considering allocating the schools block – either based on the schools in the area and the pupils within those schools (“school level”) or based solely on the pupils within the area (“local authority-level”).
- Under the “school level” option, DfE would calculate a notional budget for each school and authorities would receive the sum of the schools in their area. Schools would be able to see their notional allocation, although the authority and Forum could choose to calculate a different allocation.
 - Under the “local authority level” option, DfE would simply calculate a budget for the entire area based on the pupils within it.

14. Any formula for the Early Years will be based on the numbers receiving free early education. A formula for High Need Pupils will be based on resident pupils within the authority.

The schools block – system

15. Currently local authorities are able to allocate money between schools on the basis of:
- A basic amount per pupil;
 - Deprivation;
 - Special Educational Needs (SEN);
 - Underperforming Ethnic Groups;
 - English as an Additional Language (EAL);
 - Poor attainment;
 - Turnover of pupils;
 - Admission arrangements;
 - Premises and grounds;
 - Rates, tax and insurance;
 - Teacher salaries;
 - Gifted and talented;
 - School size;
 - Special Facilities; and
 - PFI
16. To achieve their aim of a comparable funding system the DfE want to rationalise this list, providing greater consistency in funding across the country. The DfE would limit the degree to which local authorities can diverge from the national formula. The local formulae could include:
- Basic amount per pupil
 - Funding for additional educational needs (deprivation, SEN)
 - Rates
 - Exception site factors (e.g. split sites, PFI, Rent)
 - Lump sums for schools
17. The DfE are also planning to consult (in the future) about ways to limit the amounts of cash going through different parts of the formula.
18. Currently local authorities are able to vary the weight of funding between primary and secondary pupils but the consultation paper proposes removing this freedom and fixing the ratio of primary to secondary funding. However, the DfE recognise the turbulence this would cause so instead are proposing to allow authorities to set their own ratios within a certain limit.
19. The DfE are also proposing to require each local authority to complete a pro-forma which will set out how much funding has been distributed through each of the factors, listed above.

Academies

20. Even though Academies receive their funding from Central Government they still receive the amount that they would have got under local authority control. There are two options being discussed:
- i) Authorities calculate budgets for all schools in the area and then tell the Education Funding Agency (EFA) how much Academies should be paid.

- ii) Using the pro-forma (described above) the EFA calculate the Academy's budget – this is more inline with the current method where the Young People's Learning Agency (YPLA) calculate budgets.
21. Currently the local formula is developed by the local authority in consultation with the Schools Forum, but the Forum has no power to either approve or disapprove a system. In reality the authority will usually go with the majority vote – but this could be ignoring the interests of minorities, who may not be members of the Forum. Therefore the DfE are considering:
- Whether the three groups on the Forum: primary maintained, secondary maintained and Academies each need to approve the formulae separately.
 - Whether the Forum should have decision-making powers to approve or disapprove formula/allocations.
22. The DfE also want the EFA to provide “*scrutiny and challenge at a national level*” by fulfilling two roles:
- 1) Checking compliance of the formulae
 - 2) A review body to examine decisions taken by the local authority that schools and Academies feel were unfair.
23. These may need primary legislation, so may be introduced informally in 2013-14 and made statutory later.
24. Although eventually DfE would like to see Free Schools funded in the same way as Academies, for the remainder of the Spending Review period they propose to keep the current Free Schools formula.
25. New University Technical Colleges and studio schools will be funded as Free Schools. As is the case for sixth forms, their pre and post 16 provision will be funded separately. Free Schools will also receive LACSEG (Local Authority Central Services Equivalent Grant).
26. The exception to this is when a Studio School is within another institution such as a maintained school. In this case, the Studio School will need to be funded from within the institution's budget.

The Formula

27. The DfE openly admit that a national formula cannot recognise every possible need in an individual school; instead it should include factors which reflect the main costs faced by schools.
28. The DfE are proposing a formula consisting of:
- A basic per-pupil entitlement;
 - Additional funding for deprived pupils;
 - Protection for small schools; and
 - Area Cost Adjustment (ACA)
29. The department are also considering whether to include additional funding for 'English as an Additional Language' (EAL) pupils. There are no proposals to reflect specific school factors

(split sites, PFI etc...). It will be up to local authorities and their Schools Forum to decide how to allocate funding between schools.

The Basic Entitlement

30. The amount will vary by age (secondary pupils will receive more funding than primary pupils) but the amounts will only be decided once the balance between all the formula elements has been agreed. There are no proposals to use Activity-Led Funding (ALF).

Deprivation

31. The new system not only needs to reflect the current resources in the system for deprived pupils but also the Pupil Premium. The new system will distribute the deprivation funding already in the system in a fair and transparent way. The Pupil Premium will be in addition to this.
32. The DfE will examine how much funding is currently allocated on deprivation and use this to inform future decisions as the more funding is distributed to deprivation the less there will be for the basic amount.
33. The longer term aim is to distribute all deprivation funding through the Pupil Premium (using a Free School Meals indicator), but until that time the paper examines the potential indicators which could be used. Schools Forums are free to use their own measures of deprivation in their area.

Options include:

- **Free School Meals (FSM)**
 - **Ever FSM** – pupils who have claimed FSM in the last three years/six years (Ever3/Ever6);
 - **Benefits data** – an area based deprivation measure; or
 - **Income deprivation affecting children** – each Lower Super Output Area (LSOA) (LSOA = approx 1500 people) is given a score showing the percentage of children aged 16 or less in deprived families.
34. The DfE will also examine the possible use of the Universal Credit.
 35. The paper highlights the fact that small schools often face higher unit costs. The Government want to protect these primary schools against closure (there will be no protection for small secondary schools) and ask whether the protection should be calculated at a school or local authority level. The options are either:
 - Fixed lump sum (for school-level or local authority-level formula); or
 - A sparsity measure (LA Level formula only)
 36. The fixed lump sum (possibly £95,000) would be paid to all primary schools – but for a small school it would represent a bigger portion of their budget.
 37. If the decision was made to use sparsity then the DfE are proposing that rather than use Census data they would instead use the Schools Census to give a 'sparsity of pupils' measure. The paper also proposes to use Middle Super Output Areas (MSOA) and not wards.
 38. There is also a proposal to narrow the bands for which authorities become eligible for the sparsity funding. The band could be narrowed from over 1 million pupils now to around 300,000 and around 1/3 of local authorities.

The Area Cost Adjustment (ACA)

39. The formula underlying the DSG uses an ACA derived using the General Labour Market (GLM) approach but this has resulted in greater funding being allocated to London and the M4 corridor. However, since teachers have a national pay scale, their salaries are not entirely market-driven.
40. There is another option of using a Specific Cost approach – using the actual cost of recruiting and employing staff. However, data can be patchy and insufficient.
41. The third option is to use Specific Costs for funding spent on teachers and the GLM approach for the proportion spent on other staff.

English as an Additional Language and Underperforming Ethnic Groups

42. Most pupils who require additional support are covered in the deprivation funding.
43. Analysis of underachievement shows that sometimes pupils who cannot initially speak English require some additional support until they become familiar with the language. Since this support is generally only required for a few years the DfE are proposing limiting the funding so it covers either the first three or five years

Transitional Arrangements

44. The DfE have already applied a Minimum Funding Guarantee (MFG) for the financial year – meaning no school will receive a drop of more than 1.5% per pupil. If this were to continue then progress to a new formula would be very slow. The proposal is to reduce the MFG so that schools move towards the new funding formula more quickly.

Central services and defining responsibilities

45. The paper has already highlighted the four blocks that future DSG will fund (Schools, Early Years, High Needs and Central Services). In addition to these there will be the funding from DCLG – making up block 5. Further information about the responsibilities of each of these blocks can be found in Chapter 4 of the Consultation Paper.
46. In the schools block there are proposals that some school services could be retained centrally, for maintained schools.
47. Block 5(a) represents the DCLG funding for services which must be done or paid for by the local authority. These are services which remain local authority responsibilities for Academies and schools and the pupils in them. For example: Home to School Transport. This funding will not be delegated to schools or Academies.
48. Block 5(b) represents services which must be done by the local authority for the maintained schools, but would be within Academies' budgets. The functions are broadly equivalent to those covered by the LACSEG budget element.
49. The cost of each block would be calculated from Section 251 statements. In cases where budget lines cover two or more blocks the DfE will consult with local authorities as to how this should be calculated. So in 2013-14 the blocks would be costed using the 2012-13 Section 251 statements and constrained to fit the national total resources for schools in 2013-14.

Future Arrangements for Local Authority Central Services Equivalent Grant (LACSEG)

50. LACSEG currently has two elements – the Schools Budget and the local authority budget. The

DfE want to treat these two parts separately in the future.

51. The DfE want to move away from having a Schools Budget LACSEG, instead funding would be delegated to schools and Academies as part of their local or national schools budget share. They also want Academies to receive a fair proportion of the funding for contingencies and schools in financial difficulties.
52. If we were to move toward the “school-level formula” for DSG then the Schools budget LACSEG funding would be included within the national total to be allocated. Local de-delegation could still be an option or local authorities could offer a buy-back service instead.
53. Under the “local authority-level formula” the DfE would require local authorities to calculate a formula allocation for all services which are currently centrally funded. Academies would then receive this allocation as part of their delegated school budget. Maintained schools would be able to collectively opt for de-delegation.
54. With regard to the local authority budget element of LACSEG, the consultation paper proposes distributing this funding to Academies on a formulaic basis, rather than using section 251 returns. The current maintained schools element (which is distributed through Formula Grant) has a formula with per-pupil amount, deprivation and ACA. The funding for Academies could, but wouldn’t have to, mirror this method. For example, it could just have a simple per-pupil amount with deprivation.
55. In the current 2011-12 and 2012-13 settlements the LACSEG transfer for new Academies has already been made¹, but has been calculated pro-rata to total Formula Grant as the pattern of Academies opening was unpredictable. This method provided certainty but it would be possible to have a fairer system in place which would be at the expense of certainty. This new system would involve more regular and variable transfers following the pattern of actual numbers, location and size of Academies.

Children and young people requiring high levels of support

56. These children and young people are a subset of children with SEN, post-school learners with learning difficulties and disabilities (LD/D) and those requiring Alternative Provision (AP). The consultation paper is concerned with those where the costs exceed £10,000 per annum. Pre-16, there are 22,000 of them and on average they cost four to five times the amount of a mainstream pupil. This review is only concerned with the pre-16 pupils.
57. Where the consultation refers to the commissioning body, that would, in most cases be the local authority, but it could also be individuals holding a budget – as this is one option for SEN being examined in the Green Paper.
58. Principles for funding children and young people with high needs can be found in full on page 29 of the consultation but can be summarised as follows:
 - Funding should meet the needs of the child/YP as well as being used efficiently and to best effect;
 - Where possible the parents’ preferences should be followed when placing the child/YP, with some protection offered to institutions where not all places are filled.
 - Funding will be reviewed and will change with need;

¹ Although, this is being consulted on alongside this paper.

- Contributions should also be made from other services where the child/YP has health or social care needs, but the commissioning body should meet the cost of education provision.
- The system of allocating resources should be open and transparent and the outcomes should be monitored for effectiveness.
- Pupil Premium and Post-16 disadvantage funding is additional to all other sums allocated.

59. It is Government's aim to switch the role of local authorities from provider to commissioner of high needs services. The current system creates incentives for local authorities to place high need pupils in one provider rather than with another. For example:

- There will be minimal costs for placing a pupil within maintained school or Pupil Referral Unit (PRU) as it may already be funding the empty place;
- Placing a child in a mainstream school means that the school has to contribute to the costs from its own existing budget;
- Costs will be highest when placing a pupil within a non-maintained special school or one maintained by another authority;
- Placing pupils at a post-16 Specialist Provider means that the YPLA (Young People's Learning Agency) fund the provision.

60. To remove these incentives the DfE want to enable high need institutions to be given a basic sum per place or per pupil with top-up funding from the commissioner for individual pupils.

61. In any future funding system there will be a distinction at the national level between mainstream funding for schools and the High Needs Pupils block. To do this, the DfE will need to make a general assumption about the notional funding for low cost SEN within mainstream funding blocks and therefore the level beyond which the local authority would be expected to make additional funding available to schools and other providers. Despite this national threshold there will still be the freedom for local authorities to vary the way in which they operated.

62. It is proposed that the threshold be set at £10,000 - £4,000 for basic pupil amount plus £6,000 for additional needs. To avoid the incentive for local authorities to place all children in maintained schools the DfE are proposing to give special schools and units base funding to reflect this additional £6,000. The consultation paper says that they believe that all special schools are funded to at least this level now but that the same is not true of AP.

63. Funding above the £10,000 base level would be determined on a basis of pupil needs and paid to the institution providing the place. This would create a level playing field for all institutions.

64. There is currently a divide between pre and post-16 with three pots of funding available post-16, each with different rules attached. Learners will experience different levels of funding for the same need depending on where they live.

65. The Young Peoples' Learning Agency (YPLA) is working towards providing local authorities for a single budget for high needs learners with SEN or LD/D up to the age of 25 from 2013-14 onwards. The suggestion is that the YPLA develop three "building blocks" to pay for places for high needs learners:

1. Post-16 revised national funding formula to cover learners attracting lower level support. To be paid by the local authority to maintained providers, and by the EFA to non-maintained providers.
2. A baseline budget of £10,000 for high needs students paid directly to providers.

3. High level costs (above £10,000) to be transferred from the EFA to local authorities who then pay the providers (or the EFA could be directed to pay by the local authority).

Funding by places or pupil numbers

66. Traditionally institutions providing for high need pupils have been funded on planned places. The DfE want to consult on whether this should continue or funding should be per-pupil instead.
67. The argument for funding based on places is that provision of this cost and complexity cannot be switched off and on. Institutions are often expected to work to a tolerance above the planned number without additional funding, in return for being “over funded” when places are empty.
68. Funding by pupil numbers would give schools more incentive to fill their places but there is a risk that a school could get into financial difficulty if places remain empty.
69. The paper lays out four options:
 - a) Continue funding places in the short term but declare an aim of moving to fund actual numbers over time.
 - b) Fund according to places, but reduce the number of funded places if there are a high proportion of unfilled places over a certain period.
 - c) Fund large providers on pupil numbers and small schools on a planned place basis.
 - d) Give the base funding of £10,000 per place while only giving additional funding for actual pupils

Funding special and AP Academies and Free Schools

70. The consultation paper looks at the funding for the short-term (2011-12 and 2012-13).
71. **Short-term:** For Special Academies (opening in Sept 2011) funding will be based on the budget they already had from their local authority for 2011-12 plus the additional funding they require as an Academy. The Local Authority will need to continue to recoup the money from other authorities who send their pupils to the Academy and the Department will recoup the whole budget from the authority where the Academy is located.
72. Funding for Special Free Schools, AP Academies and AP Free Schools (from Sept 2012) will be more difficult to calculate. The DfE propose to deal with this by getting a group of experts together to consider the costing in Free School proposals.
73. **Longer-term:** The DfE see three routes by which funding could reach Special and AP Academies and Free Schools:
 - a) Entirely through the EFA (as with most funding for mainstream Academies and Free Schools)
 - b) Entirely from the commissioner (in most cases the local authority but for some AP could be a school)
 - c) A combination of the two – with EFA paying for the £10,000 basic and the commissioner paying the top-up.

74. The DfE favour option C.

Constructing the High Needs Block for local authorities

75. As mentioned earlier in the paper the DfE will create a 5-block model, with one block used to determine funding for High Need pupils. Previous formulae have used resident child population with deprivation top-up measures. Since then spending on High Needs Pupils has grown rapidly so the new block will need to be considerably bigger.

76. Recent research has indicated that the link with high needs and deprivation no longer stands as the pattern of high need pupils appears to be more random now. Investigative work has shown that DLA claimants aged under 16 and population aged 3-15 are now better indicators, although the DfE's paper does suggest that a small deprivation measure could remain in the formula.

77. Pupils in Pupil Referral Units (PRUs) are best predicted by the youth population size and deprivation. In both cases the analysis has compared the indicators with local authorities' 2010-11 spend on high need pupils.

78. Therefore the DfE suggest a formula which uses the relevant population age group, and the rate of DLA claimants under 16. Once 2011-12 data is available this analysis will be revisited.

79. The paper goes on to say that because of the random distribution of high need pupils it will be unlikely that the formula will provide a close match with current spending. Because of this the DfE are proposing to damp allocations to avoid instability.

80. The paper moves on to look at the issue of post-16 funding. In principle this funding should go to the local authority whose responsibility it is to ensure provision for these young people. However, authorities are concerned that there will not be adequate funding, whilst providers are concerned that they will see a reduction in placements because of the costs involved for the local authority. Because of this the DfE are considering transitional arrangements.

Early Years

81. Currently the free entitlement of 15 hours a week early years education for three and four year olds comes via the Early Years Single Funding Formula (EYSFF) as part of the DSG. The EYSFF was intended to be simple but many providers have said they struggle to understand their allocations. This is down to the authorities operating supplements for deprivation, flexibility and quality of provision in addition to banding. Hence, the DfE would like to make EYSFF simpler.

82. Authorities are required to operate a deprivation supplement in the EYSFF to tackle disadvantage, however the paper states that there is considerable variation in how the supplement operates. The DfE are examining a number of options:

- Identify centrally the value of the deprivation supplement
- Seek greater consistency in setting the eligibility criteria
- Focus resources at a setting-level rather than pupil-level.

83. The DfE's paper is also concerned with the distribution of Early Years funding to authorities and suggests the use of a formula, rather than a spend-plus model. Again they are proposing damping to reduce turbulence.

84. The introduction of the EYSFF has been a major advance in transparency – allowing providers to see how their allocations are calculated and comparing them with other authorities. The DfE are looking at ways they can make the EYSFF more transparent by:
- Making the information available on their website;
 - Benchmarking EYSFF rates; and
 - Developing a pro-forma for authorities to complete and publish, explaining their formula and how supplements are set.

Pupil Premium

85. From 2012-13 the amount and the number of pupils who will attract the premium will increase. Currently FSM is used as the only pupil-level measure of deprivation, but it is generally accepted to under-report deprivation levels. The option to extend the coverage of the Pupil Premium is to either use:
- Pupils eligible for FSM in one of the last 3 years (“Ever 3”); or
 - Pupils eligible for FSM in one of the last 6 years (“Ever 6”)
86. The current Pupil Premium is a flat rate across the country with no ACA adjustment; the paper asks whether this should remain the case or whether adjustments should be made to reflect the differences already in the system.

Timing for Implementation

87. The current system will remain in 2012-13 but the DfE plans to issue a “shadow settlement” in spring 2012 to illustrate the potential allocations under the new arrangements. The new system could come into place in 2013-14 or could wait until the next Spending Review period in 2015-16.
88. If we wait until the next SR period, then the DfE will need to consider what to do in the short-term. For example:
- Improving the transparency of the calculation of schools’ budgets by restricting allowable factors;
 - Requiring local authorities to publish their formulae in the pro-forma;
 - Funding Academies through the EFA, using the pro-forma.
 - Amending the School Finance Regulation to allow certain services to be delegated to schools.
 - Make changes to the calculation of the local authority LACSEG
 - Introduce a number of the proposals around high need pupils, e.g. The base unit of funding

Community Impact

89. No direct impact from this consultation

Financial Implications

90. Depending on the transitional arrangements eventually chosen by the DfE there could be significant impact on the budgets of all schools as the new formula is implemented.

Legal Implications

91. These proposals comply with the Council's legal duties.

Risk Management

92. Further consultation papers will be received from the DfE as the implementation of the national funding formula progresses.

Appendices

Draft response to the consultation paper

Background Papers

None