

<b>MEETING</b>	<b>SCHOOLS FORUM</b>
<b>DATE:</b>	<b>12 JULY 2013</b>
<b>TITLE OF REPORT:</b>	<b>REPORT OF THE BUDGET WORKING GROUP</b>
<b>REPORT BY:</b>	<b>GOVERNANCE SERVICES</b>

## 1. Classification

Open

## 2. Key Decision

This is not an executive decision.

## 3. Wards Affected

County-wide

## 4. Purpose

To consider the report of the Budget Working Group on the following matters: changes to the national funding formula, Dedicated Schools Grant Underspend 2012/13, Special Educational Needs Support Services, provision for sponsored academies deficits and the use of school balances.

## 5. Recommendation(s)

- THAT (a) consideration be given to changes to the lump sum and models worked up for further discussion by the Budget Working Group;**
- (b) a sparsity factor should be applied and models worked up, based on the principle that the primary sector should pay for the application of the sparsity factor within the primary phase and the secondary sector should pay for its application within the secondary phase;**
- (c) a strategic plan should be developed for managed incremental change, moving part way towards the average primary/secondary ratio over a few years, making provision for reviewing the position annually to permit adjustments to be made if appropriate;**

- (d) **the extent of pupil movement be investigated and, subject to the findings, consideration be given to including a section on the mobility factor in the consultation paper;**
- (e) **the extent to which changes should be considered in isolation or as part of a package of measures should be reviewed once the various funding models were presented to the Budget Working Group;**
- (f) **it should be noted that proposals were being made on the basis that funding levels would remain the same, noting that if they were to decrease further work on the various models would be needed;**
- (g) **in reviewing the financial risk assessment framework the Authority and schools should in particular consider what risk indicators it would be beneficial for Headteachers and governors to keep informed of, in order to provide the best means of governors, and where necessary the local authority, taking early preventative action to avoid deficits arising;**
- (h) **the Cabinet Member (Children's Services) be recommended that the Dedicated Schools Grant underspend of £44k for 2012/13 be transferred to the High Needs Block.**
- (i) **the Forum is asked to confirm that it is satisfied that the requirement that Forum papers, minutes and decisions are being published promptly on the Authority's website is being met; and**
- (j) **consideration be given to whether communication within the groups represented on the Forum can be improved.**

## **6. Key Points Summary**

- The Department for Education (DfE) has published: School Funding Reform: Findings from the Review of 2013/14 and Arrangements and Changes for 2014-15. The Education Funding Agency (EFA) has published 2014-15 Revenue Funding Arrangements: Operational Guidance for local authorities.
- The EFA guidance introduces a number of changes to the National Funding Formula. The main issues that the Forum is invited to consider in this report are the introduction of a sparsity factor to support rural schools, changes to the lump sum to permit differing amounts for primary and secondary schools and proposals locally to move incrementally towards the national average ratio of funding for primary to secondary school funding per pupil. Initial views of the Forum are being sought on the recommendations of the Budget Working Group (BWG) to inform the preparation of a consultation paper. The consultation paper is to be issued in September and the findings reported to the Forum on 25 October prior to the submission of draft school budget proposals to the EFA at the end of October.
- There is a modest Dedicated Schools Grant underspend of £44k for 2012/13. It is proposed that this is transferred to the High Needs Block.
- As requested by the Forum the BWG has considered the implications of future forced conversions to academies and possible approaches.

- The BWG has agreed that a report on school balances will be made to it in September.
- The Forum is invited to note that new Regulations will require a further change to its composition. It is also asked to consider some matters relating to the operation of the Forum.

## **7. Alternative Options**

- 7.1 There are a range of possible alternative options. The principal alternatives are described in the report and further options will be considered in detail by the BWG.

## **8. Reasons for Recommendations**

- 8.1 The EFA operational guidance for local authorities 2014-15 Revenue Funding Arrangements requires local authorities to gain Schools Forum/political approval for the provisional 2014-15 funding formula. Authorities are required to submit the provisional 2014-15 school budget proforma to the EFA by 31 October 2013.

## **9. Introduction and Background**

- 9.1 The BWG met on 7 June 2013 to consider changes to the national funding formula, Dedicated Schools Grant Underspend 2012/13, Special Educational Needs Support Services, provision for sponsored academies deficits and the use of school balances. A copy of the Notes of this meeting is being circulated separately to Members of the Forum.
- 9.2 A further meeting of the BWG is being held on 8 July. An update from that meeting will be provided to the Forum at its meeting on 12 July, as appropriate.
- 9.3 Following discussion with the BWG in early September, a detailed consultation paper setting out a number of options for change will be circulated to schools. The consultation paper will also include proposals for a replacement of the current banded funding system with a system of multi-tariffs which will apply for all special education needs including special schools.
- 9.4 There will be a series of briefings at the end of September to answer questions. The BWG will then meet again to consider the outcome of the consultation and make recommendations to Schools Forum on 25 October, prior to the submission of draft school budget proposals to the EFA at the end of October.

## **10. Key Considerations**

### **National Funding Formula**

- 10.1 In March the Forum submitted a response to the DfE review of 2013/14 School Funding Arrangements. The DfE has now published their findings from the review and announced the details of the changes that will be made in the 2014/15 settlement. A summary of the changes is attached at Appendix 1.
- 10.2 A copy of the document produced by the EFA: 2014-15 Revenue Funding Arrangements: operational guidance for local authorities has been previously circulated separately to Members of the Forum and is appended for ease of reference.
- 10.3 The main issues the Forum will need to consider are the introduction of the sparsity factor

to support rural schools, changes to the lump sum to permit differing amounts for primary and secondary schools; and proposals to move incrementally towards the national average ratio of funding for primary to secondary school funding per pupil.

- 10.4 The Forum is advised that there is no suggestion that the DfE will provide additional money to authorities. Any changes to one formula factor locally would have to be financed by an amendment to the provision under another of the formulae.

### **Sparsity Factor**

- 10.5 The sparsity factor allows a fixed or variable amount to be applied to small schools where the average distance to pupils' second nearest school is more than 2 miles (primary) or 3 miles (secondary). (Paragraphs 20-25 of the EFA document refer.)
- 10.6 Given the representations the Authority has made over the years seeking recognition of the rural nature of Herefordshire, the BWG recommends that the Authority should make use of the sparsity factor.
- 10.7 In the absence of additional resources the allocation of funding to recognise sparsity will have to be met from elsewhere within the DSG. The BWG considers that as a matter of principle the primary sector should pay for the application of the sparsity factor within the primary phase and the secondary sector should pay for its application within the secondary phase. This would avoid any impact on the primary/secondary ratio. Money released by reducing the lump sum, discussed in more detail below, could be one means of funding the sparsity factor as well as contributing towards a move towards the national average primary secondary ratio.
- 10.8 The DfE will notify the Authority of the sparsity values for each school and the BWG intends to consider funding models at its next meeting.
- 10.9 It is intended to produce a model proposing funding on a tapered basis (to avoid cliff edges in funding). It is also proposed that the model should be based on a sparsity lump sum of £80k for both primary and secondary schools and primary school sizes of 150, 105 and 70. For secondary schools it is proposed to prepare a model based on school sizes of 600 and 450. Previous work during schools reviews has indicated these school sizes to be most viable.

### **Primary/Secondary Ratio**

- 10.10 Paragraph 33 of the EFA document on the funding ratios between primary and secondary schools states:

*"We are not, at this stage, prescribing constraints on the primary/secondary ratio, but we have not ruled this out for future years and authorities should be aware of where they are within the range."*

- 10.11 The national average ratio of funding for primary to secondary funding per pupil is 1:1.27. Herefordshire's ratio is 1:1.18, one of the five lowest ratios in the Country.
- 10.12 A summary of primary:secondary per pupil funding ratios is set out at appendix 3.
- 10.13 The implication of a national funding formula is that the current variation in ratios will not be permitted. It was likely that a range of ratios will be allowed, but with much less degree of variance than at present. The choice therefore appears to be for the Forum to wait for an

instruction from the DfE, or to develop a strategic plan for managed incremental change. The BWG considers that a strategic approach is the best course, moving towards the average ratio over a few years, reviewing the position annually to permit adjustments to be made if appropriate.

- 10.14 The implications for primary schools are potentially significant. An immediate move to the average ratio would involve a reduction in the lump sum funding per Primary School of £25k which would be unaffordable as the Minimum Funding Guarantee would be too expensive.
- 10.15 A possible approach would be to seek to move to a ratio of 1:1.23 on the basis of a 1% change per year for 5 years. It is estimated that for each 1% change in the ratio the primary lump sum would reduce by £2,500.
- 10.16 The BWG has proposed that a series of examples should be worked up and presented to the Group's next meeting allowing the BWG to assess the impact various approaches might have.

### **Lump Sum**

- 10.17 Paragraphs 26-28 of the EFA guidance provide that a differentiated lump sum can be set for primary and secondary schools. The DfE has indicated that it does not intend to allow authorities to vary the lump sum value according to the size of the school.
- 10.18 Currently all Schools in the County receive a lump sum of £105k.
- 10.19 The EFA guidance provides that a differentiated lump sum can be set for primary and secondary schools. The DfE has indicated that it does not intend to allow authorities to vary the lump sum value according to the size of the school.
- 10.20 The DfE has clarified (paragraph 67 of the EFA guidance) that *"the main purpose of the lump sum is to provide sufficient funding to necessarily small schools which could not operate on the basis of per-pupil funding alone. The sparsity factor we are introducing in 2014-15 will enable local authorities to target funding more accurately to small schools in sparse rural areas."*
- 10.21 The DfE has also decided that in 2014/15 the maximum lump sum will be £175k. The aim is *"to put more money through the pupil-led factors so that funding genuinely follows pupils"*.
- 10.22 In the Forum's response to the DfE consultation on the national funding formula it was calculated that the fixed costs of a small primary school were approximately £70k. It is acknowledged that this does not meet the fixed costs of a larger primary school but these are offset by the additional per pupil funding they receive. Given the gap between the £70k and the current lump sum of £105k paid to all Herefordshire schools it was suggested to the BWG that one option would be to reduce the lump sum for primary schools phased over a number of years and it was proposed that this should be included in the consultation paper. The DfE had indicated that their research suggested a national average value for the primary school lump sum of £95k
- 10.23 The BWG agreed to recommend that consideration be given to changes to the lump sum indicating that it needed to see possible funding models worked up for further consideration.

### **Mobility Factor**

- 10.24 The EFA guidance (paragraph 18-19) states that funding may be targeted only at those schools experiencing pupil mobility above a 10% threshold, and funding is not provided for the first 10% of mobile pupils
- 10.25 Some Members of the BWG highlighted significant influxes of pupils, many with significant needs, including English as an additional language.
- 10.26 The BWG proposes that the extent of pupil movement be investigated and, subject to the findings, consideration be given to including a section on the mobility factor in the consultation paper.

### **Dedicated Schools Grant Underspend 2012/13**

- 10.27 The BWG has been informed that there was a modest DSG underspend of £44k for 2012/13 (equating to £2 per pupil if distributed). Given the pressure on the High Needs Block including the increasing number of special school places the BWG recommends that the underspend is transferred to the High Needs Block. A report on the DSG outturn 2012/13 is attached at Appendix 4.

### **Special Educational Needs Support Services**

- 10.28 The BWG has been presented with a report: to provide a common understanding of the SEN support services that are funded through DSG; to initiate a review of the pattern of services leading to potential recommendations for change; and to review the model of trading SEN Services and consider other options.
- 10.29 There was consensus at the BWG that further consideration needed to be given to these issues. A further report on the trading of SEN support services will be made to the Group in September.

### **Provision for Future Sponsored Academies Deficits**

- 10.30 The BWG was reminded that in May 2013 the Schools Forum had discussed the principle of making a provision for potential school deficits arising from sponsored academy conversions.
- 10.31 During that discussion it had been suggested that there would be increasing potential for further directed conversions to academies as the floor target for exam results was raised. The Forum had agreed that the Budget Working Group should consider the implications of future forced conversions to academies and possible approaches.
- 10.32 The BWG noted that very few schools were currently in deficit and there were no significant deficits that could not currently be readily managed. However, experience had shown that the situation at an individual school could change rapidly. Deficits incurred by large primary and secondary schools, or a large number of small primary schools could present a risk.
- 10.33 There was consensus at the BWG that the key was to identify warning signs and prevent a school going into deficit in the first place because, once in deficit, problems could escalate so fast, and costs could not be reduced quickly enough. It was acknowledged that predicting problems and intervening at an early stage was easier said than done. It was, however, suggested that, allied to better financial management, the risk framework could be strengthened to include factors that represented possible warning signs. For example, the departure of a headteacher and changes in pupil numbers were recognised risks. The

BWG was advised that consideration was already being given to improving the robustness of the risk assessment framework as part of the work on new models for the school improvement service. It was suggested that particular consideration could usefully be given to what risk indicators the Authority could include in the assessment.

### **Use of School Balances**

- 10.34 A number of schools retain significant sums in balances and have retained those balances for a significant period of time. These balances have in the main been funded from the Dedicated Schools Grant. Given the Forum's view on the importance of directing available funding to expenditure on pupils it was suggested to the BWG that it seemed timely to review the level of school balances held by all schools, and the length of time for which they had been held, as part of its system leadership role.
- 10.35 The BWG has agreed that that a report on school balances be made to the BWG in September 2013. Academy balances would have to be collected direct from each academy as this information was not held centrally.

### **Additional Matter (not considered by the BWG) - Operation of the Schools Forum**

- 10.36 The EFA operational guidance (paragraph 58-63) makes a number of observations on the operation of Schools Forums. The Budget Working Group did not consider these matters. However, rather than provide a separate report these observations are being included in this report for the Forum itself to consider.
- 10.37 Schools Forums will be required by new Regulations to include one elected representative from an institution (other than from a school or academy) providing education to 16-19 year olds (but may also be providing education for 14-16 year olds and/or for 20-24 year olds with high needs). This will replace the current requirement for a representative from the 14-19 partnership. Currently the Forum has 2 14-19 representatives. A report will be brought to the Forum for consideration once the new provisions are published.
- 10.38 The Guidance states that "*there is inconsistent practice across authorities in meeting the legal requirement to publish Forum papers, minutes and decisions promptly in a public area of their website. We expect authorities to review their current practice to ensure that this requirement is being met with immediate effect.*"
- 10.39 Officers consider that this requirement is being met. The Forum is invited to support this view.
- 10.40 The guidance also reiterates that, "*it is incumbent on each group of Schools Forum members to ensure that they communicate with the people or organisations they represent at least before debating major issues and again afterwards. Authorities will need to make sure that meeting papers and other information are circulated sufficiently in advance of Schools Forum meetings to allow representatives time for this communication. Authorities may be able to facilitate the communication, for example through early years networks or governor newsletters, where such channels do not currently exist. Authorities and Schools Forum members should consider whether communication within the groups represented can be improved.*"
- 10.41 Comments from the Forum are invited.

## **11. Community Impact**

11.1 There is no significant community impact.

## **12. Equality and Human Rights**

12.1 There are no implications for the public sector equality duty.

## **13. Financial Implications**

13.1 The proposals within this report can be financed from within existing budgets.

## **14. Legal Implications**

14.1 There are no legal implications.

## **15. Risk Management**

15.1 There are no significant risks associated with the proposals in this report.

## **16. Consultees**

16.1 None

## **17. Appendices**

Appendix 1 – Summary of Findings from the Review of 2013/14 School Funding Arrangements and Changes for 2014/15

Appendix 2 - Education Funding Agency: 2014-15 Revenue Funding Arrangements: operational guidance for local authorities

Appendix 3 - Summary of primary secondary per pupil funding ratios

Appendix 4 – Dedicated Schools Grant Outturn 2012/13

## **18. Background Papers**

18.1 None identified.