

<b>MEETING:</b>	<b>SCHOOLS FORUM</b>
<b>MEETING DATE:</b>	<b>11 JULY 2014</b>
<b>TITLE OF REPORT:</b>	<b>REPORT OF THE BUDGET WORKING GROUP</b>
<b>REPORT BY:</b>	<b>SCHOOL FINANCE MANAGER</b>

## **Classification**

Open

## **Key Decision**

This is not an executive decision.

## **Wards Affected**

County-wide.

## **Purpose**

To consider the report of the Budget Working Group (BWG) on the following matters: Whitecross Private Finance Initiative, National Funding Formula proposals for 2015/16 and high needs tariff funding. Forum will be updated verbally on any changes resulting from the BWG on 7<sup>th</sup> July.

## **Recommendation(s)**

**THAT:**

- 1. Schools Forum comments on the Budget Working Group's budget strategy preparations prior to the drafting of the schools budget consultation paper over the summer; and in particular to approve:**
  - (a) Funding Model C, the continuation of the current approved budget strategy, with an increase in funding for English as an Additional Language provision (Model D), should form the basis of the recommended budget strategy; and**
  - (b) options be modelled for moving some funding from deprivation to prior attainment in line with the direction of Model F, proposing that a greater sum should be transferred in the secondary sector than in the primary sector.**

**2. The final high needs tariff top-ups be approved for implementation from September 2014 as recommended by the Budget Working Group as follows;**

**(a) based on a -5% reduction on the original proposals to balance the budget and allow for expected future “tariff creep” as shown below;**

	<b>Original Tariff</b>	<b>Recommended Tariff (option A)</b>
A	1,350	1,280
B	3,500	3,150
C	5,500	5,225
D	8,500	8,075
E	12,000	11,400
F	16,000	15,200

**(b) that high needs top-up tariff protection based on the Minimum Funding Guarantee be approved for Brookfield and Westfield on the basis that gains of Barrs Court and Blackmarston are capped until 2016/17 and thereafter the residual protection cost is met by the high needs block directly;**

**(c) the DSG underspend for 2013/14 of £554k be retained in the High Needs Block to support the financial risk from implementing the new tariff scheme and budget pressures in the high needs block; and**

**(d) Schools Forum receive a report on a post implementation review in Summer 2015.**

## **Alternative Options**

- 1 There are a number of possible alternative options. The alternatives were considered in detail by the Budget Working Group (BWG) and are listed in this report. Other alternatives can be included the autumn funding consultation with schools. The Private Finance Initiative is also included as a full item on this agenda. Other options to balance the high needs budget were rejected by both the BWG and the Top Up Tariff Development Group.

## Reasons for Recommendations

- 2 Local authorities are required to submit provisional 2015-16 school budget formula and funding values to the EFA by 31st October 2014. This report provides an opportunity for Schools Forum to comment on the BWG's budget strategy preparations prior to the drafting of the budget consultation paper over the summer. The final recommendations of the Budget Working Group and the Top up Tariff Development Group for the final high needs tariff are also presented for approval. The Budget Working Group's consideration of the Whitecross PFI contract is also presented for information.

## Key Considerations

- 3 The BWG met on 8 May and 12 June 2014 to begin planning the 2015/16 schools budget including the additional £2.6m fairer funding allocation and any changes to the current budget strategy. The schools budget strategy and proposals for the national funding values are subject to consultation with schools in the autumn prior to submission to the Education Funding Agency (EFA) at the end of October. There is scheduled a further meeting of the BWG on 7<sup>th</sup> July and Schools Forum will be updated verbally on 11<sup>th</sup> July.

### WHITECROSS PFI

- 4 The BWG was advised that discussions had been held with the original PFI project financial advisors, Ernst and Young, which had identified 17 aspects of the PFI contract worthy of further investigation. However, following further work it had been concluded that 13 of these could not be changed without incurring significant cost or breaking the contract. This left four areas to be explored.
- 5 One of these was the inflation index. The PFI contractors had agreed to change from the use of the Retail Price Index excluding mortgage interest (RPIX) to the Consumer Price Index. It was re-iterated that the council had to address the shortfall in the contract payments as it would be irresponsible not to do so, would not be permitted by the council's auditors and could not be countenanced by the Council's Chief Finance Officer.

### NATIONAL FUNDING FORMULA 2015/16

- 6 The BWG was advised that as a consequence of the Fairer Funding announcement and the additional funding given to some low funded authorities the DfE planned to review the inter-relationship between the Schools and High Needs Block funding. It would be useful for BWG to do the same prior to finalising the schools budget proposals and particularly in light of the increased funding requirement of the proposed high needs tariff model and the continued growth in pupils increasing complex needs. In particular;
  - The Dedicated Schools Grant (DSG) in 2013/14 was underspent by £554,000; virtually all resulting from the high needs block.
  - School balances (excluding academies) had increased from £5.5m to £6.3m at the end of 2013/14
  - The High Needs Block funding is considered by BWG in July prior to considering the basis for the autumn schools budget consultation.

7 A number of funding models were discussed in detail by the BWG as follows;

A Model A: 2014/15 baseline

8 The actual 2014/15 allocations to schools, both pre-Minimum Funding Guarantee (MFG) and post-MFG, were set out so that all proposed budget changes could be referenced back to the current year.

B Model B: DfE Minimum Funding Values (MFV)

9 The model set out the implications of funding Herefordshire schools at the Minimum Funding Values used by the DfE to determine the additional £2.6m funding allocation set out in the DfE's Fairer Funding proposals for 2015/16. Overall the DfE's Minimum Funding Values transferred funding from the primary to secondary sector, from deprivation to low prior attainment and from the largest to the smallest primary schools. The primary secondary funding ratio would increase to 1:1.25, which is higher than the 1.23 target agreed by Schools Forum under the present budget strategy.

10 The average school budget increase would be 1.8% but 26 schools would be losers. The five schools with the highest deprivation would all lose in excess of -5% - which was consistent with the transfer of funding from deprivation to low prior attainment which is implicit within the MFV. The very smallest schools with less than 60 on roll would all gain in excess of 10% as a result of the increased lump sums (primary £108,580 and secondary £119,689). All the schools losing funding would be primary schools where more than 20% of pupils qualified for free school meals.

Model C – Continuation of currently Approved Budget Strategy

11 Model C continued with the current budget strategy of reducing the primary lump sum by £6,000. Of this reduction, £2,000 would be used to increase the secondary lump sum by £13,750, £2,000 to fund an increase in sparsity payments to qualifying schools which would offset the primary lump sum reduction and the final £2,000 would fund an increase in primary pupil funding by £13 per pupil.

12 In addition, the extra Fairer Funding money would be used to increase all per pupil allocations by the same 2.9% as the fairer funding % increase.

13 Overall this provided for a primary secondary ratio of 1.22 – in line with the strategy and for a base increase of 2.9% in overall secondary funding and 1.6% in primary funding. Only two small schools would receive less funding than in 2014/15 due to the reduction in primary lump sum and no sparsity payment (the reductions would be 0.2% and 0.8%).

Model D – Increase English as an Additional Language (EAL) funding

14 Model D was incremental with Model C and would increase the EAL funding from £104k in 2014/15 to £160k in 15/16. The model continued to allocate EAL funding for the first year only. Of those schools gaining, most would receive an extra 0.1% to their budget although Whitecross would receive an extra £13,000 worth 0.3%.

15 If the EAL 3 year indicator were chosen in line with the Minimum Funding Value to give funding for the first three years in school (rather than only the first year) then a further £240k would be allocated which would more than double the proposed

allocations. This could be spread over three years but would need reductions elsewhere in the budget to balance. This could be included as part of a three year implementation of low prior attainment changes. Model D (EAL) had no impact on the primary secondary ratio.

#### Model E increase Low Prior Attainment (LPA) funding over 1 year

- 16 Model E provided for a transfer of £2.8m funding from deprivation to low prior attainment. This was consistent with the DfE's MFV and also the comparative graphs which show that Herefordshire allocates significantly more on deprivation/free school meals and significantly less on low prior attainment than virtually all other authorities nationally.
- 17 Typically it is the schools with high FSM % that lose funding although the larger schools make up with funding gains elsewhere. Overall 14 primary schools lose with 8 schools losing less than 1% before MFG protection.
- 18 The additional funding from fairer funding would also minimise the cost of the Minimum Funding Guarantee (MFG) if the one year option is chosen as funding gains elsewhere in the budget will reduce the overall MFG cost – which in turn benefits the majority of schools.
- 19 The overall cumulative impact of models C, D and E would be an increase for high schools of 3.3% and primary schools of 1.5%.

#### Model F increase Low Prior Attainment funding over 3 years

- 20 Phasing the low prior attainment changes in over 3 years would reduce the number of primary schools losing funding to 5 schools only – and all would lose less than 0.7%. The primary secondary ratio would be 1.21/1.22 in line with the other models.

#### Additional Modelling – re-instatement of primary lump sums

- 21 The BWG had requested the option of using the additional fairer funding monies to re-instate the past reduction in primary lump sums. Setting the primary lump sum to £105,000 and the secondary to £132,000 and adding a 2% increase to per pupil funding would provide for a primary secondary ratio of 1.20. This would not move towards the 1:1.23 comparable family average agreed by Schools Forum and as such was discounted for detailed budget modelling.

#### Discussion points

- 22 In discussion the BWG made the following principal points:
  - The principal discussion was about whether Model D (EAL) or Model F (Low Prior Attainment) or some combination of both should be the preferred model.
  - The SFM noted that 80% of schools the percentage of pupils with lower prior attainment was higher than the percentage of pupils receiving Free School Meals, which was the opposite of the current funding allocation.

- The report had stated that low prior attainment was calculated for primary schools as the number of pupils not achieving 78 points in the Early Years Foundation Stage Profile.
- For secondary schools it was calculated as the number of pupils not achieving KS2 in English or maths.
- Deprivation data was provided by the number of Ever-6 Free School Meal pupils and the IDACI deprivation index percentages of pupils for each level of deprivation, although IDACI is not used in Herefordshire.
- Some concern was expressed about the basis for calculating low prior attainment in Primary Schools. It was suggested that this had the potential to provide an incentive to reward failure. By keeping early years results low schools would receive more funding.
- The budget model should be set on the basis of principles for allocating funding, rather than focussing on winners and losers.
- The DfE was to change the basis of calculating low prior attainment for 2015/16 or 2016/17 as the Early Years Foundation Stage Profile had been discontinued for new pupil intakes. Likewise the assessment of free school meals would change with the introduction of universal benefits. It was questioned whether it would be better to await the outcome of the indicative national changes before considering any transfer from funding deprivation to funding low prior attainment.
- Consideration needed to be given to the adverse funding implications for schools with nursery provision that would be penalised for their success in tackling low prior attainment.
- The benefit of investment in early years provision was widely recognised. However, the external moderation of early years was not robust. There was a degree of subjective interpretation by schools of what constituted low prior attainment
- The availability of additional funding in the budget for 2015/16 made it easier to introduce a change in the funding balance between deprivation and low prior attainment.
- There was a clear need to fund those pupils who needed additional assistance to make progress. It was felt by secondary representatives that it was important to address this change now, but there could be different models for primary and secondary sectors.
- The SFM commented that the original reason for directing funding to the deprivation factor rather than the low prior attainment factor had been to minimise the numbers of winners and losers as a result of the change to the national funding formula, with protection being provided by the Minimum Funding Guarantee.

- 23 The BWG consensus was that there were two principal options:
- To recommend Model E (mindful that the DfE has to change the basis of calculating low prior attainment)
  - To recommend a hybrid of models E and F moving some way to address the extent to which the authority was out of step with other authorities in the comparative allocation of funding for deprivation and prior attainment.
- 24 There was discussion of how much of a transfer of funding would be needed to bring the authority more into line with other authorities' expenditure on deprivation and prior attainment. It was suggested that a transfer of £200 per pupil could be a sufficient start for primary schools and options around larger sums such as £500 and £1,000 per pupil would give a greater choice for secondary schools in line with the direction of Model F.
- 25 In conclusion it was suggested that options be modelled for moving some funding from deprivation to prior attainment, proposing that a greater sum should be transferred in the secondary sector than in the primary sector. A report setting out the options could then be made to the BWG in July prior to the Forum's consideration of the matter.

#### **Other issues**

- 26 There was no support in the BWG for using additional fairer funding monies to reinstate the past reduction in primary lump sums. This approach would not move towards the 1:1.23 comparable family average agreed by Schools Forum and should be discounted for detailed budget modelling

#### **AGREED: Schools Forum is recommended that:**

- (a) Model C, continuation of the current approved budget strategy, with an increase in funding for English as an Additional Language provision (Model D), should form the basis of the recommended budget strategy; and**
- (b) options be modelled for moving some funding from deprivation to prior attainment in line with the direction of Model F, proposing that a greater sum should be transferred in the secondary sector than in the primary sector and reported to the BWG in July.**

#### **HIGH NEEDS TARIFFS**

- 27 The BWG supported the recommendations of the tariff development group and in particular the proposal to reduce the original tariff values by 5% in order to ensure that the expenditure going forward was consistent with existing budgets. The BWG agreed with the tariff development group that options to cut the tariffs for the high and more complex need tariff bands were not acceptable.
- 28 It was made clear to BWG that every effort had been made to make the eligibility criteria for each tariff band clear. However, there had to be an element of judgment. Additionally, there had always been a tendency for increasing expenditure due to "tariff creep", increasing numbers in the higher need tariffs and the continued funding

pressure due to increasing complexity of need. This supported both the 5% reduction in tariff rates and the proposal that the DSG underspend for 2013/14 of £554k be retained to support the High Needs Block

- 29 The BWG supported the top-up development group's proposals to provide Minimum Funding Guarantee protection to both Brookfield and Westfield schools on a fixed basis and that the cost of this protection should be met by capping the gains of the other two special schools in accordance with the principles applied to the mainstream national school funding formula. The gains cap to be shared to pro-rata to the gains until 2018/19 as set out in the table in paragraph 30 below.
- 30 The protection proposals are based on the -1.5% MFG which is equivalent to £126 per pupil per year as follows

	Brookfield MFG	Westfield MFG	Barrs Court Gains Cap (79%)	Blackmarston Gains Cap (21%)
2014/15	£24,500 (part year only)	£35,000	-£47,500	-£12,500
2015/16	£34,200	£17,500	-£40,850	-£10,850
2016/17	£25,700	£0	-£18,000	-£7,000
2017/18	£17,200	£0	-£13,600	-£3,600
2018/19	£8,600	£0	-£6,800	-£1,800
2019/20	£0	£0	£0	£0

- 31 The Westfield protection proposals are based on a confirmed 46 place funding for 2014/15.
- 32 The BWG supported the retention of the DSG underspend for 2013/14 of £554k to support the High Needs Block to reduce risk, noting that virtually all the underspend had resulted from the high needs block.
- 33 It was noted that the funding of the Pupil Referral Unit would be subject to a separate review to bring it in line with the new tariffs. The same tariff rates would also be adopted in early years.
- 34 It has previously been reported to Schools Forum in April 2014 that a post implementation review is planned for the Spring term 2015 and will be reported to Schools Forum when complete.
- 35 Copies of the slides on the high needs tariff proposals considered by the top up development and Budget Working Groups are attached as an appendix.



- 36 The final tariff assessment matrix is attached for information and will be published in September 2014 with full supporting guidance on the Herefordshire Council website as part of the local offer and SEN reforms. Implementation will be as follows;
- All pupils in special schools and local authority specialist provision have been assessed on the new high needs matrix and the new tariff payments will start from September 2014
  - All pupils in mainstream schools will automatically be transferred to the new tariffs from September 2014 and funding changes will be considered as part of the statutory annual review process
  - Post-16 FE providers (excluding residential) will be assessed using the new high needs matrix from September 2014 onwards
  - Early Years have successfully trialled the use of a simplified high needs assessment matrix and will pay the new tariff rates (pro-rata) from September 2014
  - PRUs – proposals will be developed for implementation from April 2015 in line with the high needs assessment matrix used in schools and colleges. This may require some adjustments to PRU charges paid by schools. Consultation with schools is planned for the autumn term
  - Other sources of financial support for SEN pupils will be brought into line with the principles of the new high needs tariff assessment and that the initial £6,000 of funding is already included in school budgets. Proposals will be brought forward for consultation in the autumn.

## **Community Impact**

- 37 There is no significant community impact. The school funding formula must meet the national requirements of the Department for Education. Within these national funding guidelines the funding is targeted to support the achievement of improved outcomes for all Herefordshire pupils in accordance with a carefully considered strategy that is subject to annual consultation with schools and governors. The governing bodies of schools are responsible for decisions to commit expenditure according to meet pupils' individual needs.

## **Equality and Human Rights**

- 38 The application of the High Needs Matrix will ensure that pupils are funded based on their level of need. This brings an equity of funding to all pupils irrespective of the setting where the education is provided.

## **Financial Implications**

- 39 The recommendations, if agreed, are required to ensure that expenditure on school budgets does not exceed the funding available within the Dedicated Schools Grant. The proposed funding changes will pass directly between school budgets and be contained within DSG.

## **Legal Implications**

- 40 To ensure Legal compliance with Schools Forum Regulations 2012. School Forums

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Further information on the subject of this report is available from  
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generally have a consultative role. However, there are situations in which they have decision-making powers. Regulations state that the Local Authority must consult the Schools Forum annually in connection with amendments to the school funding formula, for which voting is restricted by the exclusion of non-schools members except for PVI representatives.

- 41 The decision-making powers of Schools Forum are limited as follows
- to decide on the central spend and criteria for growth fund and falling rolls fund for outstanding schools
  - De-delegation
  - Central spend on equal pay back-pay, earlyyears expenditure, significant pre-16 growth
  - Central spend on admission and schools forum upto the 2013-14 level
  - Central spend on some other items up to the 2013/14 level – which is zero
- 42 In all other cases the final decision will be referred on for decision by the Cabinet Member.

## **Risk Management**

- 43 The BWG reviews proposals in detail prior to making recommendations to the Schools Forum. This two stage process helps to ensure greater scrutiny of budget proposals and mitigate against any risks that may be identified.

## **Consultees**

- 44 All maintained schools, FE providers, academies and free schools in Herefordshire will be consulted on the final budget proposals for 2015/16. All schools and FE providers were consulted on the high needs tariff proposals in autumn 2014.

## **Appendices**

High needs tariff slides as presented to the BWG and Top Up Tariff Development Group.

## **Background Papers**

None identified.