

**Open Report on behalf of the Executive Director Adults and Children's**

Report to:	<b>Children and Young People Scrutiny Committee</b>
Date:	<b>9 September 2011</b>
Subject:	<b>Department for Education's consultation on school funding reform: proposals for a fairer system</b>

**Summary:**

This report outlines the key aspects from the Department for Education's (DfE) consultation on school funding reform and considers the key issues from the Local Authority's perspective.

**Actions Required:**

To consider and comment upon the DfE's proposals.

**1. Background**

**Introduction**

On the 19 July 2011, the Secretary of State made a number of announcements relating to funding arrangements for schools. One related to the launch of the second consultation on the Government's review of school funding. It seeks views on proposals for a new, fairer and more transparent school funding system. The 55 page document can be found at:

<http://www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsrevenuefunding>

It sets out:

- proposals for the mechanics of a new funding system;
- the contents of a new national formula;
- future funding arrangements for the Pupil Premium, early years provision and High Need Pupils; and
- the responsibilities of local authorities, schools and Academies in relation to central services.

The announcement confirms that the current funding system will continue for 2012-13.

The consultation runs for twelve weeks and closes on 11 October 2011.

47 questions are posed. The answers to those will be compiled over the remainder of the consultation period and after further clarification is sought from the DfE on a number of points. Therefore, this report does not seek to propose answers to those questions. Instead, it outlines the key aspects from the consultation and highlights a number of key points from Lincolnshire's perspective that have emerged so far.

### **Key aspects from the DfE's consultation**

The key aspects from the consultation can be summarised as follows:

1. The current system has many problems: it results in similar schools in different areas receiving very different levels of funding; it does not respond well to different characteristics of pupils, and; it is difficult to understand and explain. Consequently, it does not support the objective of raising the aspirations and attainment of all pupils.
2. The intention is to introduce a new formula that will provide funding to local authorities, schools and academies on a fair and transparent basis.
3. The proposed system will enable local circumstances to be taken in to account.
4. It will require funding to be moved between schools and areas, but that will take some time, as stability in school funding remains a key objective.
5. The new formula will ensure additional resource is targeted towards pupils with additional needs, including children from deprived backgrounds.
6. The formula will include: a basic amount per pupil; an element for deprivation; funding to protect small schools; an adjustment for areas with high labour costs, and, possibly; additional funding for pupils with English as an additional language.
7. The formula will determine the level of resource available to each local authority. Local authorities, working with their Schools Forums, will then agree a formula to distribute the funding between schools and, possibly, academies.
8. The rules around the local formula will be simplified to ensure greater consistency between areas; the DfE's preferred option is to restrict the number and scale of local formula factors that can be used.
9. The consultation considers two options for determining the funding for local authorities. One option involves creating a formula that calculates a sum at individual school level. This approach would enable schools to see how much had been attributed to their local authority, even though the locally applied formula may deliver a different sum to each school.
10. It is proposed that academies are funded at the same level as maintained schools, with more transparency over those calculations and reduced bureaucracy.
11. The long term aim is to fund free schools using the same methodology.
12. Local authorities will continue to be responsible for funding both high needs pupils, and early years provision across all sectors using a single funding formula.
13. Three main blocks will be used to fund local authorities: schools, high pupil needs and early years. However, there will be a fourth block for non-delegated items within the Schools Budget. Movement between the blocks will be possible, subject to various restrictions and processes.

14. The pupil premium will remain separate from the local formula for the next three years, but changes may be made to how it is distributed. The amounts paid will increase.

### **Key points from Lincolnshire's perspective**

The key points to note from the Lincolnshire's perspective are:

15. The local authority will continue to have a significant role in school funding which will be similar to now.
16. Although the DfE is proposing to distribute the funding to local authorities in a different way, this is not a 'national funding formula' in the way that this term is commonly used and understood. The local authority will continue to have a crucial role in determining how that funding is distributed locally to schools.
17. A redistribution of funds between local authorities will take place, but over time, to ensure stability. In the fullness of time, this may prove beneficial to Lincolnshire because currently, shire counties receive some of the lowest levels of funding via the Dedicated Schools Grant (DSG). This outcome is not certain however. It might be reasonable to expect some narrowing of the current funding differentials between local authorities, but more detail is needed on issues such as the area cost adjustment, protection of small schools and English as a second language. These aspects may have implications for this authority.
18. The fact that the new system won't be introduced until 2013/14 at the earliest will allow local authorities some time to plan for changes in their funding. Those local authorities that are likely to gain from the new formula may wish to see the new system introduced swiftly. However, in principle, a careful balance needs to be struck between offering a sensible degree of stability in local authority funding and not delaying the full impact for so long that the funding remains largely based on the system operating now.
19. It is important that the local formula also applies to academies, if fairness and transparency in funding is to be secured. Academies will need to receive extra funding to meet their additional responsibilities and this was the subject of one of the DfE's other recent consultation documents. In response, Lincolnshire has stressed the need for a fairer system to be used to determine the relevant sums. Currently, the extra funding given to academies appears to be significantly overstated because of the DfE's continued use of information which was not designed for that purpose.
20. Regulations on what can be allowed in local formulae will be tightened, so that there are fewer formula factors. By comparison with other local authorities, Lincolnshire has comparatively few, so there may be a very limited impact here.
21. The fact that the DfE' formula for LA funding may be calculated on an individual school basis could create difficulties. Schools may become concerned if the local formula distributes a different sum. This may prove to be an unwelcome and unnecessary distraction for schools and the local authority, and there appears to be little benefit in adopting this approach. It would seem preferable for the DfE to calculate the funding for the LA as a whole, not at individual school level.

22. LAs may be asked to calculate academies' budgets. That happens already, but the YPLA replicates the calculations. It would provide better value for money for taxpayers if the calculations were performed only once and by local authorities.
23. The possible move towards a national, early years funding formula appears unnecessary because all LAs have had to introduce a new formula in the last few years and all have worked within the guidance issued by the DfE, which aimed to deliver a significant level of consistency. However, the DfE also wishes to address inconsistencies in early years funding levels across neighbouring authorities. It is therefore contemplating developing a new formula and has indicated that significant damping arrangements would be required. This does not appear to be a major issue in Lincolnshire.
24. Transfers between the four blocks of funding (see para 13 above) will be permitted with Schools Forum approval and subject to certain restrictions. The proposed arrangements appear to be similar to the system that has been in operation for many years.
25. Eligibility for the pupil premium will widen to include those pupils that have been eligible for free school meals over the previous 3 or 6 year period. This idea has been suggested previously and has the advantage of capturing secondary age pupils that may cease to claim free schools meals due to peer pressure. Previous analysis suggests that altering the methodology would not have a material impact upon Lincolnshire's share of the funding.
26. There will continue to be ring fencing of school funding through the operation of the DSG. Whilst this offers protection to schools and some school related budgets, it also reduces the capacity of local authorities to move funds between directorates to address local priorities and needs. This has been the case since the DSG was first introduced in 2006/07.
27. The Central Expenditure Limit (CEL) will continue to operate. This prevents, without Schools Forum approval, local authorities from increasing expenditure on central DSG budgets by more than schools' delegated budgets. Historically, this has not been a problem in Lincolnshire, as the vast majority of proposals have developed with, and subsequently supported by, the Schools Forum.
28. The Minimum Funding Guarantee (MFG) will continue to apply. This mechanism prevents local authorities from altering the local school funding formula in such a way that some schools lose a considerable sum of money. Whilst the MFG provides stability, it also means that it can take a considerable amount of time for changes to funding mechanisms, which often have widespread support, to be fully implemented. Indeed, this situation may arise in Lincolnshire next year. We shall shortly be consulting on how the £67m of grants that were streamlined in to the DSG this year should, in future, be allocated. If the MFG is set tightly, so that schools can lose only, say, 1.5% per pupil in funding next year, even fairly modest proposals to redistribute those funds may take a considerable time to take full effect.
29. The proposals to restrict the number of local formula factors may not have a dramatic impact in Lincolnshire because the authority has always had relatively few and many of those are covered in the new list. Furthermore, as part of the review of streamlined grants, we are already planning to rationalise the number of factors. Further clarity will be required from the

DfE as to which factors will be permissible for in-year adjustments to school budgets.

30. The balance of funding between primary and secondary schools will have to fall between certain parameters. At this stage, it is not possible to assess whether Lincolnshire would fall outside of those, but previous work suggests that the differential locally is only slightly more generous than other LAs. How this is measured will be important.
31. At present, there appear to be no plans to require local authorities to direct a specified level of funding to schools through local deprivation factors. The recently introduced pupil premium achieves that and is scheduled to grow significantly. However, work undertaken several years ago highlighted significant differences between local authorities in the amounts they already distributed to schools via deprivation factors.
32. With regard to the government's funding of deprivation at local authority level, further work is planned. The current levels of deprivation funding will be sustained to ensure stability. However, they will need to be viewed in the context of the pupil premium. Eventually, the DfE intends to route all deprivation funding through the pupil premium.
33. The proposal to require local authorities to complete a proforma to demonstrate how they are allocating all of the funding will ensure that there is transparency and accountability. However, this is nothing new. The s.251 statement and its predecessors, have been in place since Local Management of Schools was first introduced over twenty years ago.
34. Both options presented for the funding of academies require money to pass from LAs to the EFA, and both are based on the local funding formula. The current system for funding academies has a 17 month time lag built in. This would end and it would mean that there would be one less difference in funding between maintained schools and academies, compared to now.
35. One of the options proposed is for LAs to calculate the academies' budgets and to inform the EFA. This is the situation now, except that the YPLA duplicates that work. That is unnecessary, creates waste and often errors, disputes and confusion for academies.
36. Three years budgets are planned. These have been used before, but have been of limited value to schools in terms of forward planning because they were not rolling three year budgets. Instead, they were tied to the local government settlement and therefore gave funding cycles that provided three, two and then one year settlements. This is not ideal.
37. Greater powers for the Schools Forums are proposed. The proposal that primaries, secondaries and academies should, as individual groups, approve the local funding formula could create some difficulties in some local authorities and it is not clear how disputes would be resolved. The Schools Forum could also disapprove of the formula; that has never happened before in Lincolnshire.
38. The suggestion that the EFA should check that the LA formula complies with the DfE' regulations appears to be completely unnecessary. Local authorities must be trusted to comply with the regulations, particularly when there is scrutiny by schools and the Schools Forum. Besides, schools can always appeal to the Secretary of State.
39. Likewise, the suggestion that the EFA could conduct a review over local authority decisions seems excessive and unnecessary. The consultative

- approach that Lincolnshire adopts with schools and the Schools Forum means that the local authority's proposals are invariably supported.
40. Free schools would also be funded on the new, local authority formula. The proposal to leave the current system in place throughout the current (CSR) funding period may assist them with their planning, but it could be regarded as unfair. At present, Lincolnshire does not have any free schools.
  41. The DfE believes its formula for funding local authorities should protect small schools, as they have higher unit costs, although it does not intend to apply this to secondary schools. A fixed lump sum or a sparsity factor could be used. The suggested figure is £95k. It is not clear whether a modified sparsity factor would benefit rural counties such as Lincolnshire in terms of the funding it receives from government. The local authority's current block allocation for primary schools is c.£60k and if the proposals result in changes to the *local* funding formula, with the result that much smaller schools are able to survive financially, that could adversely affect value for money and the quality of education that some children receive.
  42. The area cost adjustment affects the London boroughs and the proposals sensibly seek to address anomalies in the data that currently underpin the calculations.
  43. If English as an additional language is introduced in to the formula for funding local authorities, it will cover the child's initial years only. That is because evidence suggests that once the English language is understood, children progress as well as others. This appears sensible. Indeed, the local formula Lincolnshire introduced several years recognises exactly that point; funding for such pupils stops after two years.
  44. The DfE wishes to minimise turbulence caused by the new funding formula. We know from the CSR that apart from growth in the pupil premium, funding will remain flat. To stay within that spending envelope, and provide protection to school budgets through, say, another -1.5% MFG, means there is little scope for moving swiftly to a new formula. The consultation asks whether the DfE should continue with an MFG of -1.5% for 2013/14 and then offer a lower level of protection thereafter to enable the impact of the new formula to be introduced earlier. Such an approach would be favoured by those local authorities that are likely to gain under the new formula.
  45. The DfE plans to define more clearly what is funded from each block within and outside of the DSG. This seems sensible and will provide transparency, especially with regard to the additional funding for academies.
  46. To avoid the need for recovery of a share of certain DSG central budgets for academies, the DfE proposes that those services are delegated. Lincolnshire has for a long time delegated many services to schools. The only impact could be for some support functions and the schools contingency (the latter may not be a problem because, in principle, academies should receive in-year adjustments from the local funding formula).
  47. As indicated in the Education Bill, the plan is for PRUs to have delegated budgets. Although a formula may be suggested, the challenges may centre on admissions and their relationships with schools and academies.
  48. Outside of the DSG, a clear distinction would be made for those services that academies will and will not receive a share of. The services that academies would be funded for include school improvement, financial accounts and audit. The total costs of undertaking the last two activities for

academies may well be much greater than where a local authority completes that work on behalf of maintained schools.

49. The DfE wishes to simplify the calculation of additional funding for academies (LACSEG). This is long overdue. The current system was not designed for that purpose and it is quite widely accepted that it provides too much funding to academies. For those services within the DSG, this would be achieved by delegating all relevant services. The need for that element of LACSEG would then disappear, as the funding for those services would be included in all school and academy budgets. In Lincolnshire, the impact of this may be less than elsewhere, because traditionally, the county has delegated many services to schools. However, this approach could still create some local difficulties if some support services are needed but cannot be sustained through voluntary buy-back arrangements.
50. For the non DSG element of LACSEG, the DfE wishes to move away from using local authorities s.251 statements. Instead, it may seek to replicate elements (i.e. a basic per pupil sum and deprivation) from each LA's formula grant for application to academies. The separate DfE' consultation on academy funding may have a bearing on the outcome, but it is important that the allocations are fair and transparent. That consultation also considers how the LA formula grant should be reduced as more schools become academies. Stability and predictability in local authority funding will be very important and the amount deducted from local authority budgets needs to recognise the savings that can realistically be made. This should be the subject of a detailed, independent review.
51. LAs will retain a central role in SEN funding. Two key issues that are considered are the prospect of the control of budgets being given to parents, and the introduction of a common banding system. It is not clear how control of SEN budgets by parents will work and this could be fraught with difficulties. In 2010, Lincolnshire moved away from a common banding system for lower level SEN in mainstream schools and a move back to that would be unwelcome.
52. The DfE appears to be proposing a new system of funding for SEN and refers to £10,000 being the sum that might ordinarily be available to LAs. Costs above this are then deemed high cost. More clarity is needed to assess the aims of this. In April 2011, the local authority introduced a new special schools formula. This has been broadly welcomed, so this aspect of the consultation needs further clarification.
53. The consultation also considers whether special schools should be funded based on places or actual pupil numbers. The DfE seems to favour the latter. Through its new special schools formula, the local authority has just moved to that approach and so hopefully, no further change will be necessary.
54. In the longer term, the DfE favours funding special schools on the basis of £10,000 per place, with the commissioner (usually local authorities) paying top ups. This seems to be at odds with the notion that academy funding should be linked to the local authority funding formula. It could create complexity and unfairness and it is not clear why the DfE feels change is necessary.
55. The consultation explains the work that is being undertaken to determine how much funding should be distributed through the high needs block. A new formula is likely to need transitional arrangements because it is unlikely

to mirror current spend in each authority, which can vary for numerous reasons.

56. The funding of high needs people aged 16-25 is also being considered, but helpfully, the consultation acknowledges emerging issues, including the fact that funding may be much less than current costs in some authorities such as Lincolnshire. It suggests transitional arrangements may need to last for many years, so that is re-assuring.
57. The high needs block will also cover Alternative Provision. The document refers to the variations in cost of different types of provision and highlights pilots that will look to penalise schools that exclude pupils. It refers to pupils staying too long in such provision. Taking all of this together, it is not clear why the DfE would want to pursue the idea of delegated budgets for PRUs. For financial stability, PRUs are likely to want to hold on to pupils, rather than re-integrate them, and some schools may become reluctant to admit pupils that they consider are likely to have behavioural problems.
58. As expected, funding distributed through the pupil premium will grow. The problem with the under reporting of free school meals is acknowledged and the idea of using eligibility for pupils' eligible in the last three years, or last six years, rather than on the January count is revisited. Nationally, 17% of pupils are currently eligible for free school meals. The move to using eligibility for the last three years would increase that to 21%, and a move to using the last six years would increase it to 24%. These are not major differences. It would mean the cash sum paid per pupil would be diluted a little (albeit, it is scheduled to grow fourfold over the next three years, from £430 per pupil), but there may be little change to the distribution of this funding to each local authority. The DfE is, however, considering whether the pupil premium should remain at the same flat rate nationwide, or vary by region.
59. Although most changes arising from this consultation won't be implemented until at least 2013/14, shadow budgets will be issued for 2012/13 to help LAs to plan. Actual implementation may however be delayed until the start of the new CSR period (2015/16).

## **2. Conclusion**

The proposals in this consultation are not as radical as some commentators expected. This is not a national funding formula - local authorities will continue to receive government funding and will have a key role in determining how that is distributed to schools and academies. The proposals are much more a refinement of the current system. The DfE may revise how it funds local authorities for their schools, and shire counties may gain from that approach if the current funding differentials are to be reduced. However, many of the current arrangements are likely to remain in place (e.g. the ring fencing of the funding through the DSG; the use of the MFG to restrict the level of turbulence in individual school funding as a result of local changes to the formula; the continued operation of the Central Expenditure Limit to restrict local authorities in how budgets are split between schools and central services, and; the continued use of Schools Forum in shaping developments and holding local authorities to account. Many of the proposals may not have a significant impact in Lincolnshire, because it is already a high delegator and already operates in accordance with a number of the proposals that have been suggested.



Proposals relating to SEN need further investigation however, to understand the potential implications. Changes to the way that the government top slices local authority budgets for academies is a significant risk in Lincolnshire, but hopefully the government will respond positively to the representations that this and other local authorities have made with respect to that separate consultation exercise.

### **3. Consultation**

#### **a) Policy Proofing Actions Required**

N/a

The consultation was issued on 19 July 2011, i.e. shortly before the traditional summer holiday period. It runs for twelve weeks. The Directorate Management Team has already considered a briefing on this subject, but will be considering this in more depth and finalising its views in light of feedback from this Committee and from a special meeting of the Schools Forum which will be convened at the end of September.

### **4. Background Papers**

The following papers were used in the preparation of this report:

'Consultation on school funding reform: Proposals for a fairer system'. The 55 page document which can be found at:

<http://www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsrevenuefunding>

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