

**REGULATORY AND OTHER COMMITTEE REPORT**

<b>NAME OF COMMITTEE:</b>	Schools' Forum
<b>DATE OF MEETING:</b>	4 October 2011
<b>SUBJECT:</b>	<b>Government consultation on school funding</b>
<b>REPORT BY:</b>	Tony Warnock Head of Finance (Children's and Specialist Services)
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<b>IS THE REPORT EXEMPT?</b>	No
<b>IS REPORT CONFIDENTIAL?</b>	No

**SUMMARY**

On 19<sup>th</sup> July 2011, the Secretary of State announced that the 2nd consultation of the Government's review of school funding 'A Consultation on School Funding Reform: Proposals for a Fairer System' had been launched. This seeks views on proposals for a new, fairer and more transparent school funding system. The document 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 confirmed that the current funding system will continue for 2012-13.

The purpose of this report is to seek the Schools Forum's views prior to a response being submitted on its behalf.

## DISCUSSION

A copy of the DfE's consultation document can be accessed via:

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

The covering article states:

*'This is the second stage of consulting on reform of the funding system. It follows our earlier consultation in April on the high level principles of school funding reform. The consultation will run for twelve weeks, closing on Tuesday 11 October 2011.*

*The proposals in the consultation deal with the historic inequalities which have meant that similar schools in different areas receive very different levels of funding. The proposals also aim to ensure that the funding system for schools and academies is fair, simple and transparent.*

*The consultation document sets out proposals to reform the system so that it is simpler and more transparent. This includes proposals to introduce a new national formula so that money is allocated more consistently across the country and to expand the eligibility criteria of the Pupil Premium. The consultation also includes proposals for funding high need pupils and early education.*

*In order to allow sufficient time for consultation and to ensure that schools and local authorities have sufficient time to plan for possible changes, we are consulting on whether we should implement these reforms from 2013-14 or wait until a later spending period. We will maintain the current funding system for maintained schools for 2012-13.*

*The consultation will run for 12 weeks and will close on 11 October 2011. The consultation document and its response form can be found on the consultation section of the website.'*

A copy of the 55 page document is available at:

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

A draft response is attached at Appendix 1.

## RECOMMENDATIONS

The Schools' Forum is asked to:

1. Note the content of this report and the consultation document.
2. Decide whether to respond to the consultation and, if so, to outline its views on the draft response.

**BACKGROUND PAPERS**

The following report was relied upon in the writing of this report.

<b>PAPER TYPE</b>	<b>TITLE</b>	<b>DATE</b>	<b>ACCESSIBILITY</b>
DfE's document	<b>A Consultation on School Funding Reform: Proposals for a Fairer System'</b>	19 July 2011	<a href="http://www.education.gov.uk/consultations/index.cfm?action=consultationDetails&amp;consultationId=1765&amp;external=no&amp;menu=1">http://www.education.gov.uk/consultations/index.cfm?action=consultationDetails&amp;consultationId=1765&amp;external=no&amp;menu=1</a>

**APPENDICES**

Appendix 1: Draft response to the consultation

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**DRAFT**

e-mail to: [schoolfunding.consultation@education.gsi.gov.uk](mailto:schoolfunding.consultation@education.gsi.gov.uk)

Consultation Unit  
Area 1C  
Castle View House  
Runcorn  
Cheshire  
WA7 2GJ

11 October 2011

Dear Sir

### **DfE Consultation on school funding reform: Proposals for a fairer system**

Thank you for inviting local authorities to comment upon the government's proposals for funding reform. This is Lincolnshire County Council's response.

Whilst the consultation document poses many questions, there are a number of very important issues which are not the subject of questions. The Council would also like to take the opportunity to respond to those issues.

Lincolnshire County Council welcomes the recognition that local authorities can and should continue to play a significant role in school funding. Local authorities are best placed to understand the relative needs of schools and pupils in their locality and it is therefore important that they continue to play a crucial role in determining how funding is distributed.

The Council also welcomes the DfE's proposal to review the distribution of funding to local authorities. The current system is outdated and fails to reflect adequately the additional costs arising in rural areas, especially in relation to small schools.

The Council supports the need for stability in local authority funding as a redistribution of funds arises from the introduction of a new formula. However, the period over which transition applies should be limited, because the current differential in funding between local authorities is too wide. As long as transition remains in place, authorities will effectively continue to be funded on the current, outdated system and that is a concern.

Nevertheless, the Council welcomes the fact that the new system will not be introduced until 2013/14 at the earliest. Local authorities will need time to plan for changes in their funding, even with transition, and given the process that the DfE will need to go through, the introduction of a new formula from 2012/13 would be unmanageable.

The Council notes the proposal to continue ring fencing school funding through the operation of the Dedicated Schools Grant. Whilst this offers protection to schools and some school related budgets, it also reduces the capacity of local authorities to move funds between services to address local priorities and needs.

The Council also notes the proposal to continue to operate a Central Expenditure Limit (CEL) type mechanism. Although this prevents local authorities from increasing expenditure on central DSG budgets by more than schools' delegated budgets without Schools Forum approval, this hasn't historically been a problem in Lincolnshire - the Council's proposals

have always been supported. However, with the growth in the number of academies, and the as yet unspecified changes to the powers of Schools Forums, obtaining support could become more difficult when potentially difficult and contentious issues such as provision of broadband services require decisions.

The proposal to continue with a Minimum Funding Guarantee (MFG) is likely to be welcomed by many schools. However, this mechanism delays the impact of changes to the local authority's school funding formula. The Council supports the need for the MFG and the stability that it provides. However, careful consideration is now needed over the level of restriction it creates. In the short to medium term, there are several reasons why there may need to be a relaxation of the current arrangements. Firstly, the government is seeking to alter the way that it funds local authorities, so that will inevitably have an impact upon schools in some local authorities. Secondly, the government also wishes to see changes to the formula factors that local authorities can use, and that too will alter the way schools are funded. Thirdly, following the government's decision to streamline very significant grants in to the DSG this year, Lincolnshire and other local authorities are currently considering how those funds should be redistributed. Given those circumstances, it would be unacceptable to continue to apply MFG regulations in a very restrictive way, such that the full impact of these issues is not seen in school budgets for many years. There is a need for greater flexibility over the next few years, albeit with the safeguard of Schools Forum's oversight of local authority proposals.

The Council welcomes the DfE's assurance once again that a fundamental principle is that academies are funded on a fair and equitable basis and that schools wishing to convert are neither put off nor incentivised to convert. However, as stated in the Council's response to the recent consultation on that subject, the current system *does* provide a significant financial advantage for schools to convert and the ongoing delay in rectifying that situation is unacceptable. Local authorities have provided evidence to prove that the use of s.251 statements for calculating the costs of academies' additional responsibilities is inappropriate and significantly overstates the funding required. Moreover, the deductions that are subsequently made to local authority budgets are far greater than the savings that can be generated and so breach the New Burden's doctrine. The Council therefore urges the government to address these issues quickly.

On the face of it, the proposal to require local authorities to complete a proforma to demonstrate how they are allocating all of the funding (to ensure that there is transparency and accountability) seems fine. That is because the s.251 statement, and its predecessors, have done that for a considerable period of time. However, if the government proposes a significant departure from the current approach, then it would be helpful to be advised of the details and to be invited to comment.

Lincolnshire County Council's response to the questions posed in the consultation document is attached at Appendix 1.

Yours faithfully,

**Question 1: Would you prefer the formula to be based on**

**a) a notional budget for every school; or**

**b) the pupils in each local authority area?**

The Council would prefer option b. and is strongly opposed to option a. Transparency is not as an important a facet of the school funding arrangements as successive consultation documents imply. Headteachers, governors and parents are not asking the Council for explanations as to how the government funds schools. The Council believes that fairness and equity are far more important features of the funding system. Furthermore, the calculation of notional budgets for each school under option a. is likely to cause confusion and become a significant distraction for schools and officers. Indeed, this was the case with academies when many headteachers expressed concern at the scale of the local authority's 'top-slice' (LACSEG) of their budgets. What they failed to appreciate was that firstly, the local authority had not top sliced their budgets at all and secondly, the LACSEG figures massively overstated the true cost of providing those services because of the completely inappropriate use of s.251 statements for calculating those costs. The danger with option a. is that exactly the same situation will arise, but on a much wider scale, i.e. across all maintained schools and not just those planning to become academies. Those maintained schools and academies that receive less funding than the notional sum determined by central government are likely to turn their attention to challenging that, rather than focussing on teaching and learning. In conclusion, option a. serves no useful purpose and yet carries significant risks.

**Question 2: Do you agree that these are the right formula factors to retain at a local level?**

No. The Council supports the principle that the current formula factors allowed by regulations should be rationalised to deliver greater clarity, consistency and transparency nationwide. It may also serve to reduce the cost of administering the system. Traditionally, Lincolnshire has had comparatively few formula factors and, following the streamlining of grants in to the DSG this year, it is planning a major review with the aim of further rationalisation. Having said that, the Council is concerned that the government does not place too many constraints and restrictions on the use of factors, and suggests that local authorities are given discretion over those they can use. The Council would prefer a directive to be issued to local authorities that they should seek to simplify their funding formulae to achieve the stated outcomes. Otherwise, there is a risk of significant instability in some local authorities' formulae and an inability to recognise genuine local need.

**Question 3: What other factors, if any, should be able to be used at local level or could any of these factors be removed?**

There is little to be gained by reducing the current list of permitted formula factors. Instead, the Council would prefer the government to encourage local authorities to simplify their formulae. Even with the proposed list, there will still be a significant number of permitted formula factors and so the success in simplifying local funding formulae will be limited. Also, the inner workings of the allowable factors are likely to vary considerably across local authorities, so there is little to be gained from this approach.

The Council also believes that it is unnecessary to require a set percentage of the budget to be targeted through core factors. Most similar authorities appear to distribute similar amounts through those and should any local authority fall outside of what the government

perceives to be accepted boundaries, they could be approached by the DfE with a view to discussing whether the local funding formula needs to be changed.

**Question 4: Do you think that setting a range of allowable primary / secondary ratios around the national average is the right approach to ensure that there is consistency across the country?**

No. It would be useful for the DfE first to provide evidence of the current variation between authorities' relative funding of primary and secondary sectors, to prove whether there is a significant degree of inconsistency now and whether that creates a problem in terms of educational outcomes. National data suggests that the relative funding of the two main sectors, as illustrated by respective pupil teacher ratios, has hardly changed over the past two decades. The relativity in funding continues to generate local debate and those differences ought to be reviewed before historical national averages are locked in to the new funding system.

The Council is aware that it distributes comparatively small sums through deprivation factors and, as previously requested, it would welcome research by the DfE to assess what impact that type of approach has on outcomes for children. This could then inform the Council's decisions over changes to the local formula.

Finally, it would be helpful for the DfE to disclose the financial impact of these proposals, to help respondents reach an informed view.

**Question 5: Do you think we should implement option (i) or (ii) when calculating budgets for Academies**

The Council supports option i.. The current system, which requires the YPLA to replicate the local authority's calculations, is unnecessary, wasteful, causes confusion and is prone to error. Option ii. would have exactly the same inherent problems that exist now and besides, it is not clear how the EFA could calculate academy budgets quickly enough after the January census, without once again building in a time lag that the government no longer wishes to retain. It is inconceivable that the proposals to simplify the formula and publish a proforma go far enough to reduce the problems with the current system.

The Council welcomes the proposal that academies' budgets will be based on the local funding formula. This will be important for fairness and transparency.

The Council also welcomes the removal of the 17 month time lag that currently exists in the funding of academies. This is particularly important at the time of budget reductions. It also unfair that academies receive much earlier notification of their budgets; financial planning is equally important for maintained schools.

The Council welcomes the government's aim to give local authorities two or three year settlements, but it is important that unlike previous attempts, these are rolling budgets. Having three, two and then one year budgets are of little value to schools. Of greater importance, is advanced notification of future funding through the Comprehensive Spending Review and decisions regarding MFG limits. Schools can then take account of local factors, such as their projected numbers on roll, when producing their medium term financial plans.

It is not clear how local authorities will be able to publish useful draft budgets ten months in advance when school budgets will remain highly dependent upon data from the schools census undertaken two months prior to the start of the financial year. The CSR, MFG and

good local financial planning software is usually sufficient for most schools to plan ahead. Greater predictability and stability in post-16 funding would be useful, however.

**Question 6: Do you think these options would help to achieve greater representation and stronger accountability at a local level?**

No. The Council strongly opposes the options. They are unnecessary.

In Lincolnshire, plans to alter the funding formula are always developed with the help of Schools Forum representatives, and so the local authority's proposals are invariably supported by the majority of members. It is not necessary for each sector to approve the formula.

Currently, there is not a problem with the Schools Forum's independence, or representation of academies. The Schools Forum is genuinely independent and its members are not reticent to express their views forcefully. Academies are currently represented and indeed, as a number of Schools Forum members have recently helped their schools to convert, the prospect is that academies may become over represented in time, not under-represented.

The Council agrees that minority interests need to be protected and because that is very difficult to achieve through Schools Forum membership, it helps explain why the role of local authorities in local school funding remains important. Local authorities can protect minority interests, but it is not easy to configure membership of the Schools Forum to do so. It is almost impossible to keep Schools Forums to an effective size and balance the membership of various interested parties, which include: governors, headteachers and other representatives; early years, nursery, primary, secondary, special schools and academies; large, small and medium sized schools; schools serving deprived and less deprived pupils; those with and without sixth forms, and; grammar, comprehensive and secondary modern schools; etc; etc. For example, small schools will often be underrepresented, simply because their headteachers tend to have less time to devote to membership of the Schools Forum. It will therefore be difficult for the government to find a solution to this problem and so trust should continue to be placed in local authorities to represent minority interests. The Council therefore does not support the proposal to extend the Schools Forum's powers; that will reduce its ability to protect minority interests.

Also, the Council does not support the idea of each sector having to approve the formula. There is a lack of detail within the consultation as to how this would work in practice, particularly when disputes arise. For example, historically, there has been strong disagreement between the primary and secondary sectors over their relative funding, despite the fact that the local position is mirrored nationally. Such issues are likely to re-surface over time and proposals for change could generate disagreement, disharmony and stalemate between the various groups. It could seriously undermine the implementation and development of the local funding formula and create widespread uncertainty, which would undermine schools' forward financial planning.

Finally, given the restrictions that the government plans to retain around school funding, it seems that quite limited powers will be available locally over which to make decisions. The current formula has largely been in place for two decades and, due to restrictions placed on local authorities by government, especially since Schools Forums were introduced, there has been little opportunity for radical change. It would therefore seem rather bizarre for each sector to have to approve the local formula, when key aspects of government policy (e.g. the DSG, CEL and MFG) serve to prevent significant change.



**Question 7: Do you think we should implement option (i), (ii), both or neither?**

Neither. The consultation document does not explain why greater scrutiny and challenge is necessary at a national level. One of the government's aims is to reduce bureaucracy and the proposal for greater scrutiny conflicts with that and would serve no useful purpose. There are already extensive rules and regulations within the current and proposed systems, including: the ringfencing of the DSG and the regulations over its use; the regulations associated with the local funding formula; the restrictions imposed both by the CEL and the MFG, and; the scrutiny by the Schools Forum (including academy representatives), schools and elected members. In Lincolnshire, our consultative approach to school funding issues is such that there is rarely disagreement over final decisions and there seems no justification whatsoever in complicating matters any further.

Moreover, local authorities should be trusted to work within all of the relevant guidelines. Reverting to the approach adopted following the SSAF Act 1998 will slow down the decision making process which has, of course, already been lengthened by the creation and involvement of Schools Forums nearly a decade ago. Local authorities should be free to alter their local funding formula swiftly and the involvement of a further agency in that process would inhibit that.

It would have been useful for the consultation document to indicate the likely cost of option one and the response times / service standards that local authorities could expect to see.

There is no evidence to suggest that any of the maintained schools or academies in this authority feel they are treated unfairly so, again, this approach is unnecessary.

Also, it is not clear why the EFA would have the checking role. Given its responsibility for funding academies, it would not be seen as independent and could have a conflict of interests. Future concerns regarding the fairness of funding are much more likely to arise from additional payments that academies might receive from the EFA, and it would be helpful if the DfE could indicate how future LACSEG and other payments to academies might be made much more transparent.

The Council accepts that individual schools and others should, in exceptional cases, be able to make representations to government about local authority decisions. Naturally, we hope this would not be necessary in Lincolnshire, but such representations should be made to an independent party, i.e. directly to the DfE, and not through the EFA.

**Question 8: If we introduce the new system in this spending review period, do you think that Free Schools should remain on the Free School methodology for 2013-14 and 2014-15 or move straight away to the overall funding system?**

Free schools should be funded using the same methodology that applies to maintained schools and academies and this should apply as soon as possible. Not to do so will only create a sense of unfairness. The government should not wait for the next CSR period to implement this.

Lincolnshire does not have any free schools at present, but there are concerns over the impact they could have on the planning of school places and on other local school budgets. Free schools could create instability for existing schools. This is ironic, given that the government states that it values highly stability in school funding.

**Question 9: Are these the right factors to include in a fair funding formula at a national level?**

No.

It seems sensible to include a basic per pupil element, deprivation, small schools and the area cost adjustment, as these appears to be fundamental components of a fair system of funding. Furthermore, it is crucial that an appropriate balance is given to each of these components and, in particular, that anomalies within the area cost adjustment are resolved and adequate weighting is given to sparsity and small schools. Indeed, it would have been helpful to have seen proposals for the relative balance of funding between these factors, as the detail underpinning them will be vitally important. However, there appears to be no justification for including English as an Additional Language (EAL). The Council accepts that the number of children with EAL vary tremendously between local authorities, but there are likely to be few schools nationwide that are unaffected by it. Almost every school has been faced with the prospect of developing strategies to deal with related issues and most have done so. That has largely involved the development of skills within school and whilst some additional ongoing costs arise, they do not appear significant enough to warrant EAL becoming an additional factor within the formula used to allocate funding to local authorities.

**Question 10: Do you agree that we should use Ever FSM to allocate deprivation funding in the national formula? Should this be Ever 3 or Ever 6?**

Yes. The Council would support Ever 6.

For many years now, Lincolnshire has not welcomed the use of free school meals, whether that be for the purposes of funding or the measurement of performance in schools. The reason is that for several decades, there was no provision of hot school meals in the county's primary schools and therefore the number of children registered as eligible for free school meals was considered to be significantly understated. However, recent capital investment in school kitchens across the county has helped partially remedy the situation and it was evident from an earlier consultation that Lincolnshire's percentage of pupils eligible for free schools is not inconsistent with its statistical neighbours. The Council also recognises the advantages and disadvantages with using alternative deprivation measures.

The reason for extending the measure to include pupils registered for free school meals in the previous six years appears sensible. It is acknowledged that by widening the number of pupils qualifying, the sum available per pupil will fall and the Council requests the DfE to give careful consideration to data collection, so that the process for calculating school budget shares each year does not become too bureaucratic and is not delayed.

**Question 11: If we have a school-level formula, do you agree that £95,000 is an appropriate amount for a primary school lump sum?**

The Council welcomes the government's recognition of the importance of small schools and the need to fund them appropriately. If the presumption against closure of small schools remains in place, it is vital for fairness that the funding formula for local authorities fully recognises this.

The Council completely disagrees with the statement that small school protection is not needed for secondary schools. Lincolnshire is a rural, sparsely populated county that has some secondary schools with fewer than 400 pupils on roll. Indeed, the average size for the county's secondary schools is considered small by national standards. Those schools, especially the secondary moderns, face huge challenges in offering a broad and balanced

curriculum that meets their students' needs. These schools often serve students from deprived areas and can lack the management capacity to deliver continuous improvement and reach increasingly higher government floor targets. The fact that there does not appear to be a systematic funding method used by local authorities to support such schools is irrelevant. It does not mean that a major problem does not exist and indeed, looking at the government's wider objectives, it appears that this aspect of the consultation warrants much more attention than the superficial conclusions drawn so far. It is simply wrong to suggest that the only cost associated with small secondary schools is transport and to dismiss that on the basis that transport is funded from outside of the DSG by formula grant. The formula grant is in itself a major issue because successive reports from the s.251 benchmarking data have concluded that Lincolnshire spends a disproportionate element of its total funding for schools on school transport. The Council urges the government to reconsider the need to recognise small schools in the secondary sector.

The small schools aspect of the consultation is rather complex and, without further detailed information, it is not possible to assess whether a fixed lump sum or sparsity measure would be most appropriate. Likewise, it is not possible to assess whether the narrowing of the threshold to target sparsity funding much more would be unfair to some authorities. The Council therefore requests that whatever decisions are made, they fund small schools appropriately wherever they are located.

The Council notes that the £95,000 lump sum has been derived from examining the budgets of schools outside of London. However, one has to question whether the creation of a new funding formula should be based simply on current practice. Current practice may not deliver an appropriate level of funding

Whilst the Council is keen to see the government's funding formula recognise fairly the cost of small schools, it is worth noting that if the government's final decision results in an increased expectation in small schools that the block allocation locally should be as high as £95,000, it could prove damaging. If a block of that value was replicated in the local funding formula, value for money would be compromised as very small schools may be able to survive financially, but they would be unable to provide the breadth of experiences that all pupils deserve.

The Council supports the proposal to use more up-to-date information from the schools census for sparsity information, rather than the 2001 national census.

**Question 12: Do you agree that the lump sum should be limited to schools with Year 6 as the highest year-group?**

No. As explained above, it is critical that small secondary schools also receive additional funding.

**Question 13: If we have a local authority-level formula, should we use a primary school lump sum or the sparsity measure?**

As explained above, the government should use the one that most fairly recognises the additional costs in small rural schools.

**Question 14: If we have a sparsity measure, do you think we should narrow the sparsity threshold as described above?**

Possibly. The Council notes the option to spread the sparsity funding more narrowly and to fewer authorities. It is notable from the information in Annex C that the impact upon many

authorities would be similar and there is a danger that local authorities will express a preference for the one that most suits their schools. However, this Council believes that the ultimate aim must be to recognise fairly the true costs of sparsity and it could be that neither option fulfils that aim. The Council would prefer there to be a more detailed analysis of the cost of small schools, with an appropriate level of funding to meet the needs in each local authority.

**Question 15: Which option should we use to calculate the ACA: the current GLM approach or the combined approach?**

The combined approach. This seems most likely to ensure that funding more fairly reflects the additional costs in each area.

**Question 16: Do you agree that we should use an EAL factor in the national formula?**

No. As explained in answer to question 9 above, the impact of EAL is not significant enough to warrant its inclusion within the national formula; the vast majority of schools are affected by it and most have already developed strategies and the necessary skills to deal with it.

**Question 17: Do you agree that this should cover the first few years only? How many years would be appropriate?**

Yes, although as indicated in response to question 16, the Council does not favour the inclusion of EAL in the national formula. Lincolnshire has its own local formula factor to address such needs and when it was first introduced several years ago, the Council recognised that funding was needed for two years only. The view of local headteachers and EAL experts then was that once children are able to use the English language, their progress is comparable with their peers.

**Question 18: Do you think we should:**

**(a)**

**Continue with a maximum decrease of -1.5% per pupil each year and accept that this will mean very slow progress towards full system reform; or**

**(b)**

**Continue with a -1.5% per pupil floor in 2013-14 but lower it thereafter so that we can make faster progress?**

Without knowing the likely impact of the new national funding formula in Lincolnshire, the Council would prefer option b. The consultation is highly critical of the current funding arrangements and, whilst it is widely accepted that there are enormous benefits from having a degree of stability in local authority and school funding, a very slow move from the current funding model seems unjustifiable. After 2013/14, a per pupil floor below 1.5% would be acceptable, providing local authorities and schools are given plenty of notice of the changes, to enable them to plan ahead. A limit should however, be placed on how low the floor should be set in those later years. A maximum reduction of 2.5% may be appropriate, if schools are to be able to plan for losses, and do so without recourse to the expense and waste associated with redundancies.

**Question 19: Do you agree that some of these services could be retained centrally if there is local agreement by maintained schools?**

Yes.

The Council supports the proposal to define more clearly the responsibilities of maintained schools, academies and local authorities. The lack of clarity on this to date has, in part, been a cause of the overfunding of academies for their additional responsibilities.

With regard to Block 1a, the Council supports the inclusion of most of these functions within the delegated block. Lincolnshire has traditionally been a high delegator and so this will create little change. However, although apparently recognised within the consultation document, it is worth emphasising the need for the Council to retain funds for its admissions responsibilities. Also, it is imperative that a budget can be retained for premature retirement costs. This allows an insurance type approach which safeguards schools from huge expense due to uncontrollable factors such as a sharp decline in the number on roll. Without this facility, some schools' finances would be hit hard from time to time, and the provision available to their pupils would suffer.

With regard to Block 1b, it appears that the proposed content would cause little disruption locally. There are some important points to note however. First, whilst the Council believes that academies have been overfunded via LACSEG, it seems bizarre that academies do not qualify for in-year adjustments from the Schools Contingency. In Lincolnshire, those are formula driven and it seems that the reason why academies do not qualify is simply because the YPLA does not have the resource to re-calculate the figures. That too creates inconsistencies in funding and this anomaly should be removed. Second, whilst these funds can be delegated, the Council would wish to retain the option, as it has now, to make those budget additions during the financial year. The allocations are varied, but in the main, respond to in-year changes to the schools' circumstances. Clarity on this point will be welcomed because if delegation of those funds is required at the start of the year, it will have a dramatic affect upon Lincolnshire's local funding formula. Third, clarity is requested on what the government defines as low cost / high incidence SEN and behaviour support services, before the Council would wish to comment on the proposals for those elements. Fourth, if these services are to be delegated, clarity is needed on how the DfE would expect that to be undertaken. The Council would expect that methodology to be determined locally and it would not expect allocations to have to use too simplistic an approach, e.g. pupil numbers. Indeed, part of the overfunding of academies has been caused by them qualifying, through LACSEG, for a share of certain services (e.g. Education Welfare) when they have previously had little need to use those services. Such inequalities should not be permitted to continue under the new system and local authorities should be able to delegate the funds in a fair and equitable manner. Fifth, for transparency and fairness, the DfE should confirm that if funds for support to schools in financial difficulty are to be delegated to academies, the EFA will not also provide additional financial support to them. The government is asked to note that by requiring such budgets to be delegated we are likely to see more schools with large overspends. That is because few maintained schools are likely to wish to see the top-slicing of their budgets to recreate central budgets which help reward the "failure" of others (as many would see it) to manage their school's budget effectively. Sixth, the Council would not support the need for all schools to support the retention centrally of budgets for maintained schools. That would be highly bureaucratic and unnecessary, as the members of the Schools Forum should be trusted to represent their views. Presumably, the DfE will set the regulations to bar academies from voting on such decisions, as they do not affect them.

**Question 20: Do you agree that the split of functions between the blocks is correct? If not, what changes should be made?**

The split is broadly correct.

It is not clear why the DfE would want to pursue the idea of delegated budgets for PRUs. The creation of a local funding formula for PRUs is likely to be fraught with difficulties. Children stay in PRUs for a limited period of time and so developing a funding model that reflects both occupancy rates and the relative fixed costs of those units will be very difficult. Also, if there are to be transfers from school budgets to help finance those costs, both schools and PRUs may seek to retain the children for financial reasons; this may not always be in the child's best interests. The proposed approach could lead to some local authorities closing their PRUs and delegating the funding via new special units. That could lead to a loss of some expertise and significant duplication with correspondingly poorer value for money. The Council believes it would be preferable to allow PRUs to continue to be centrally funded from the DSG.

With respect to block 5b and the funds that would transfer to academies, there are a number of points that need to be made. First, it is not the items that fall within this block that are important, so much as how the allocations to academies are calculated. The current methodology fails to recognise that some academies use a lot less of some services than maintained schools. Education welfare is a good example. If that service is to fall within block 5b, each academy should not necessarily receive a pro-rata share of its budget. That type of approach has led both to the overfunding of some academies and the top-slicing of local authorities' formula grant by far too great a sum. The resulting impact upon maintained schools is unfair, as those most dependent upon such services find that the local authority does not have the level of resource to meet their continuing needs.

Second, with regard to redundancy costs, the proposed approach would work providing that the data used (s.251) clearly distinguishes between the budget for new redundancies and the ongoing financial commitments for redundancies over previous decades, which are often not schools related. The downside of the proposed approach, of course, is that the insurance type model is lost. Academies may receive a small, perhaps pro-rata share of the budget, but if an academy is unfortunate to need to make several high cost redundancies, that could give rise to a significant overspending and have an adverse effect upon provision for the academy's pupils over several years. As with the situation for schools with financial difficulties, if this approach is adopted, the DfE should state categorically that no additional financial support will be available from the EFA – academies should not receive a pro-rata share of budgets that are insurance in nature and then receive additional financial support from the EFA when the insurable event arises.

Third, to prevent a continuation of the over funding of academies, the costs for such functions as financial accounting, VAT returns, internal and external audit, etc, need to be separately identified. Currently, they are included within the statutory and regulatory duty line of s.251 statement, along with many other costs. If s.251 is to be used in future to identify the local budgets for the purposes of LACSEG, such qualifying items need to be separated out. This will provide openness and transparency. It should ensure that the budgets are calculated more accurately, and it will enable the figures to be challenged locally. Without this approach, the DfE cannot cost the blocks for the purpose of transitional protection.

Fourth, the DfE should ensure that there is much more clarity over the activities that are expected to be performed under each function. The s251 guidance is already lengthy, but there needs to be greater clarity for consistency and avoidance of doubt.

Finally, it is worth noting that the activity around financial accounting, financial returns, audit, etc, is likely to be much more expensive under a joint academy (EFA) / maintained sector (LA) model, than where a single (LA) system applies. The DfE is asked to clarify how those increased costs will be funded.

**Question 21: Do you think the funding for local authority LACSEG should be moved to a national formula basis rather than using individual LA section 251 returns?**

No. The local authority does not accept the assertion that there are significant benefits in distributing the local authority budgets using a consistent national formula. Firstly, that idea conflicts with two DfE core principles, i.e. that academies should not be financially advantaged or disadvantaged and that their funding should be based on local funding and costs. Secondly, Lincolnshire may lose significantly under a national formula because it receives a significantly lower level of DSG funding than most other authorities and so the funding available to meet such costs is likely to be much smaller at the outset. Also, Lincolnshire has traditionally kept its support services small and so any move to using national averages to calculate LACSEG is likely to be unfair and disadvantageous to this authority. The Council proposes an alternative approach. The functions which form the basis of LACSEG should be very clearly defined; they should appear as separate lines on the s251 statement so that they can be costed in an open and transparent way, and; the DfE should work with local authorities to agree a national system for allocating those funds between maintained schools and academies. That would provide a fairer and more transparent system than the one that is proposed or, indeed, operates now.

Historically, Lincolnshire delegates a high proportion of the DSG to schools. The proposal to move away from having a Schools Budget LACSEG may have adverse consequences for a number of support services. That is because the de-delegation of services to maintained schools may be problematic. Depending upon their need for certain services, not all maintained schools may wish to support de-delegation. The local authority may therefore be inclined to adopt a similar approach to the regulation changes of 1999 and delegate fully with the offer of buy back services. Demand for such services can reduce over time and they could become financially unviable, leaving schools unable to obtain the support they need. The impact of this may be seen in the relevant performance measures of those services and schools in the years to come. If the DfE proposal is implemented, authorities may respond by delegating those services because, that way, the funding could be distributed in a fair and transparent manner that reflects the differing needs of all institutions, whether they be maintained schools or academies. Local discretion in creating such formulae must be permitted.

The government should not require local authority budgets to flex as more schools become academies. That would severely undermine local authority financial planning, especially for those authorities that see a sharp and unexpected rise in the number of academies. That problem is compounded when schools are able to convert at such short notice. All organisations require a degree of predictability and stability in school funding and whilst the consultation document repeatedly stresses the importance of that for schools, it is no less important to local authorities. Should the government decide to flex local authority budgets, some authorities may take a risk averse approach and seek to reduce immediately the services available to schools. That could be highly damaging. As local authorities' recent responses to the government on academy funding explain, the level of deductions to local authority budgets should be considerably less than has historically been taken for LACSEG. Should the government decide not to flex local authority budgets, the estimates for future conversions should be realistic, not excessive. Hopefully, by the start of the next funding period, the situation with conversions will have stabilised.

**Question 22: Do you think the distribution mechanism should be changed to one that more accurately reflects the actual pattern of where Academies are located?**

Yes. Although such an approach is likely to have greater financial consequences for local authorities like Lincolnshire that have seen a high number of conversions, it would appear to be fairer. Having said that, the system for calculating LACSEG deductions should be much more refined to ensure more accurate results are produced. The amounts deducted should recognise the actual savings that local authorities can actually make, as reflected in the New Burden's doctrine. The additional costs being incurred by local authorities as a result of the academies programme should also be recognised and offset. Taking all of these points together, whilst a system that recognises the number of academies in each authority may be fairer, the actual impact upon local authorities' budgets, such as Lincolnshire's, should be much more modest than the current LACSEG figures might suggest.

**Question 23: Is this the right set of principles for funding children and young people with high needs?**

The principles appear reasonable but there is a potential conflict between some of them, e.g. following the preferences of parents and young people, and using resources efficiently.

The Council supports the continued role of local authorities in dealing with SEN. This is important.

The Council acknowledges that the YPLA is working towards providing authorities with a single budget for high needs learners for SEN or LD/D up to the age of 25, but it is important to register here the major challenge that this presents to some authorities like Lincolnshire, where previous practice means that costs significantly exceed what might initially be seen as an appropriate share of the regional budget. The authority is working with the YPLA to develop solutions to that.

**Question 24: Would it be appropriate to provide a base level of funding per pupil or place to all specialist SEN and LD/D settings, with individualised top up above that?**

No. The proposals relating to SEN are a very significant concern as they could lead to major changes in special school funding and provision. The Council recognises the government's intention is to develop a larger, more diverse market and notes that it sees the current funding arrangements as a barrier to that, because LAs are presently incentivised to use existing capacity in mainstream or special schools, before using much more expensive out of county placements and other providers. The proposal to provide £10,000 to each child in all special needs setting, with top-ups from LAs as commissioners, could have severe implications for special school budgets, as the high needs block would have to be top sliced. That could affect the sustainability of maintained special schools and lead to a situation where other providers drive up prices. The Council's ability to place pupils in local, specialist provision could then be severely compromised.

The Council does not recognise the problems that this section of the consultation document describes and seeks to address. First and foremost, the Council always seeks to place children in the most appropriate setting. However, once the most suitable provision has been identified, the use of existing capacity in maintained special schools demonstrates the Council's desire to deliver best value for money. Indeed, if a place exists in an appropriate local special school, it would be completely unacceptable to taxpayers to place the child in a more expensive, independent out of county placement. To describe that approach as a



'perverse incentive' is bizarre. Moreover, the proposal in the consultation document actually conflicts with one of the key principles. i.e. of using resources efficiently.

Local authorities can and should be trusted to meet the needs of pupils, whether 'perverse incentives' are assumed to exist or not.

The notion of using a basic, £10,000 sum per pupil with top-ups from the commissioner seems far too simple. The way in which that figure has been arrived at is inconsistent with other aspects of the consultation document which calls for greater accuracy and sophistication in all aspects of funding for local authorities and schools. Further detail is required as to how the number of qualifying children in each local authority will be determined for the high cost pupil block and what implications that will have for each individual local authority's funding.

The use of £10,000 as the base funding for specialist SEN settings creates other problems. Firstly, it may be that some specialist settings, such as hospital schools, require less funding than that, simply because the children need a different level of provision for a shorter period of time. Secondly, and more importantly, the proposal seems to ignore the considerable efforts that some local authorities will have invested in developing a new local funding formula for special schools. Indeed, Lincolnshire introduced a completely new formula for special schools earlier this year, and the authority considers it a much fairer system than its predecessor. Thirdly, it may become increasingly difficult for local authorities to place children locally, if special schools can offer places to the highest bidding authority. Finally, the impact upon remaining maintained special schools could be severe, with lower budgets and increased instability in their funding as more diverse provision grows.

In conclusion, the Council has no appetite for a significant change to this aspect of funding. Indeed, it is rather confusing. Presently, local authorities have a duty to provide suitable placements and secure value for money, but it appears that these important roles will be undermined, simply to create a diverse market for no obvious or guaranteed benefit.

**Question 25: Is £10,000 an appropriate level for this funding?**

No. As stated in the response to question 24, other than for determining the high cost pupils block for the national funding allocation, it appears completely unnecessary. The figure appears to have been arrived at in a crude manner, which is hardly a firm platform on which to base this important aspect of future funding.

**Question 26: Is the idea of a base rate of funding helpful in the post-16 context?**

No. Whatever funding model the EFA develops, it needs to reflect accurately the costs of meeting that provision in whichever sector the young person is placed. It is not clear how the fixing of a £10,000 base rate helps in any way with that objective.

**Question 27: Should local authorities be directly responsible for funding high level costs over £10k for young people in post-16 provision in line with their commissioning responsibilities?**

Yes. However, as stated in response to question 23, care is needed to ensure that in moving to a new system, those local authorities that have historically incurred significantly greater costs, are not penalised financially.

**Question 28: Do the proposed funding arrangements create risks to any parts of the post-16 sector?**

Possibly. This depends upon the purpose and impact of setting the £10,000 rate. As stated above, if the transfer of responsibility for funding to local authorities is made without transition, the financial consequences could be severe.

**Question 29: Should institutions providing for high needs children and young people be funded on the basis of places or pupil numbers?**

Pupil numbers. Lincolnshire recognised the difficulties created by using places as the basis for funding high needs children and young people and so moved to using pupil numbers when introducing its new special school funding formula earlier this year.

As indicated above, Lincolnshire does not support the creation of delegated budgets for PRUs. However, if delegated budgets are to be introduced, they would have to be based largely on places, in recognition of the fact that staffing and other costs cannot be reduced or increased quickly as pupil numbers fluctuate week by week.

**Question 30: Are any of options a-d desirable?**

No. It is not clear why the government feels the need to focus on this aspect of local funding. Local authorities should be left to develop their own solutions, recognising the advantages and disadvantages of the various approaches to funding that are available.

**Question 31: For the longer term, should we fund Special and AP Academies and Free Schools:**

**with all funding coming direct from the commissioner?**

**with all funding coming through the EFA and recouped from the commissioner?**

**through a combination of basic funding from the EFA and top-up funding for individual pupils direct from the commissioner?**

The proposals in this section of the consultation document appear unnecessarily complicated. Contrary to the statement made, this Council would be willing to continue playing the role of funding alternative provision academies and recouping money from other local authorities. Is there evidence to suggest that other authorities would be unwilling to do so?

Moreover, it is not clear why alternative provision academies should not be closely linked to one local authority's funding system. Mainstream academies are closely linked to one local authority and an alternative approach may otherwise incentivise such academies to offer places to children from the highest paying authorities.

It is not clear why variations in the way local authorities fund special schools should be a concern. Local authorities fund primary and secondary schools differently.

Establishing funding arrangements for Special Free Schools should not be a problem. It is important for the principles of fairness and transparency that all providers in an area are funded on the same basis. Just as that should apply to primary and secondary schools that convert, it should also apply to free schools. Their funding should therefore be based on the

local authority in which they are located. They should not be financial advantaged or disadvantaged.

In answer to the specific question posed, the local authority would prefer all funding to pass from the commissioner. As stated above, the authority would wish to see that funding determined from the local funding formula and, in terms of making payments, this approach would be consistent with other academies. Contrary to the suggestion in the consultation document, these academies would have financial certainty and the funding of empty places would be treated in exactly the same way as maintained special schools. The need for a basic sum per place is unnecessary and just complicates matters.

The option of funding through the EFA seems highly complex and the setting aside of notional sums could create problems with estimating errors. Also, this idea appears to run counter to one of the key aims of the consultation document, i.e. to simplify the funding system.

**Question 32: If we go for the combination funding approach, should we pass all funding through the EFA for a limited period while the school is establishing itself before moving to this approach?**

No. This will reduce transparency in the funding of alternative provision academies and could create a perception of unfairness.

**Question 33: Given there is no absolute method of determining which pupils have high needs, and given local variation in policy and recording, is this approach to determining proxy variables acceptable?**

Yes. The objective should be to achieve a fairer system of funding for local authorities and if evidence suggests that alternative proxy indicators are appropriate, then they should be used. Intuitively, it seems that the Disability Living Allowance is likely to capture accurately a key section of the special needs population and, likewise, the general population size together with deprivation may capture other special needs.

As a note of caution, however, local authorities will have developed different approaches to the funding of SEN and so too much reliance should not be placed on the combined sum that they spend when drawing conclusions on how much should be distributed through the High Needs Block.

**Question 34: Do you agree that deprivation is linked more to AP rather than the wider SEN needs?**

Yes, but evidence should be produced at national level to confirm that this is the case.

**Question 35: Do you agree that in the short term we should base allocations to local authorities for the high needs block largely on historic spend?**

Yes. However, although stability in local authority funding is important, it is imperative that the move towards a fairer system of funding is achieved within a reasonable timeframe.

**Question 36: Do you agree that post-16 funding should also become part of the local authority's high needs block over time, but that there might be a particular need for transitional arrangements?**

Yes. It seems sensible for the local authority to control all of the funding for children and young people aged 0 – 25.

Lincolnshire is one of the authorities that has concerns over the adequacy of future funding and so would support the need for extended transitional arrangements.

**Question 37: What data should ideally underpin the funding allocations both initially and for a potential high needs block arrangement?**

The data used should be that which evidence suggests most closely reflects the extent and level of high needs across the country.

**Questions 38 & 39: Should AP continue to be treated alongside high needs SEN for funding purposes? What differences between them need to be taken into account?**

Yes in the interim, although further work should be undertaken to establish whether a better solution is available.

The local authority notes that the funding for alternative provision is comparatively small in relation to high needs SEN. It is not surprising that the costs are highly variable, as local authorities and the schools within them will take different approaches to inclusion and the creation of alternative provision. In Lincolnshire, the financial impact of a school excluding a pupil is simply the loss of a pro-rata share of the age weighted pupil unit funding. This is very modest in relation to the cost of some alternative provision that is made available, and schools and academies should therefore be more accountable financially, for the decisions they take.

Plans to develop pilot projects to address this issue have been noted. However, a key challenge will be to prevent schools from refusing to admit those children that they regard as being at higher risk of exclusion later in their school careers. The alterations to the admissions code may make that more difficult.

The short term nature of provision in PRUs, coupled with the fixed costs that such organisations have, is the reason that this authority does not support the delegation of funding to them.

**Question 40: Do you agree we should aim for a simpler EYSFF? If so, how?**

No. A trade-off between simplicity and a funding system that fairly reflects the difference in costs between various types of providers is inevitable. Local authorities developed and introduced their early years funding formulae working within quite tight parameters set by the DfE. The fact that some providers do not understand the system that has been introduced is not surprising. Nevertheless, local authorities should endeavour to clarify their funding mechanism and communicate as clearly as possible with all providers to aid their understanding, but it would only serve to confuse some providers further, if radical changes were made to funding so soon after implementation.

**Question 41: How could we refine the EYSFF so that it better supports disadvantaged children?**

It is not necessary for the EYSFF to better support disadvantage. Local authorities introduced their early years funding formulae within the guidance set by government and some variation in approach and funding between authorities is to be expected, not least given the variations in deprivation nationwide.

It is not necessary to make the support offered to disadvantaged children more consistent. This authority gave that matter careful consideration when developing its new formula and has ensured that some of the most expensive and best provision available (i.e. in local nursery schools) are incentivised financially to identify and recruit children from the most deprived areas. The impact of the new formula should be evaluated over the medium term before further changes are enforced.

**Question 42: Do you agree we should allocate funding to local authorities on the basis of a formula?**

Yes. The Council supports the government's intention to review all aspects of local authority funding for children and young people and there is no justification to exclude the early years element from that exercise. Whilst local authorities have introduced their new EYSFF in the last year or so, they have done so working within the financial envelope delivered through the spend plus funding methodology. The move to a fairer system of funding should narrow the differential in funding between local authorities and, in terms of early years funding, it ought to enable the variations in early years funding across neighbouring authorities to be reduced. It is important, however, that local authorities retain the right to determine how that funding is distributed to local providers.

**Question 43: Do you agree a formula should be introduced based largely on the same factors as the schools formula?**

Yes. However, the inclusion of a sparsity factor within the formula is crucial. For rural counties like Lincolnshire, it is important that sufficient resource is attracted through the national formula to allow providers in the most rural areas to become established and remain economically viable.

**Question 44: We would be grateful for views on whether anything else can be done to improve transparency.**

The proposals to increase transparency are not unreasonable. In the past, they have operated for schools and this authority would wish to ensure that providers understand the funding mechanism. However, whether the government continues with the existing system for funding early years provision or not, benchmarking and other information should make clear the crucial role of government in fixing the funding allocations to local authorities. Local authorities should not have to explain that variations in funding between neighbouring authorities is largely due to the way that central government funds their early years provision.

**Question 45: What is your preferred option for determining eligibility for the Pupil Premium from 2012-13? Should it be based on the Ever 3 or Ever 6 measure?**

Ever 6. It is important that pupils that cease to claim free school meals because of peer pressure are not further disadvantaged by their school not being able to attract the pupil premium. The Council therefore supports the widening of the measure. As explained in the document, it is evident from Annex G of the consultation document that the percentage

increase in the number of qualifying pupils varies across authorities through a move to the Ever 6 measure. Closer scrutiny suggests those increases are less great in the London boroughs and the major cities. It may not be unreasonable to surmise that in areas of greatest deprivation where a higher proportion of children are eligible for free school meals, the pressure not to claim free school meals is much less. Therefore, it seems that the Ever 6 measure is most likely to ensure fairer funding for pupils nationwide.

Whichever decision is finally made, schools will wish to understand in good time the option that will be used, the relevant data for their school and the amounts per pupil that are likely to be funded in each future year of the CSR. The pupil premium is a significant element in some schools' budgets and this information is vital for effective medium term financial planning. Early announcement of those decisions would therefore be welcomed.

**Question 46: What is your preferred approach for calculating the Pupil Premium?**

The simplicity and transparency of the pupil premium is of little value when considered alongside the other, larger and much more complex aspects of school funding. It is far more important that the allocations are fair rather than simple, and that suggests moving away from the flat rate system. Having said that, determining fair allocations will not be an easy task. Any new method of allocating the pupil premium needs to have regard to the funding formula as a whole. It should reflect what the pupil premium is seeking to achieve and recognise that currently, some authorities and schools are better able to secure the desired outcomes. If all other aspects of the national funding system were fair, it would be inconceivable that a flat rate pupil premium would be fair or appropriate.

The local authority would wish to see the pupil premium integrated in to the local funding formula as soon as possible. Like the Schools Standards Grant of a decade ago, there is little benefit to be gained from separating this out from the main budget at school level. It adds unnecessary complexity to the calculation of school budgets each year.

**Question 47: Do you think we should implement the proposed reforms in 2013-14 or during the next spending period?**

The Council believes the changes should be implemented in 2013/14. It would be impractical to introduce the changes for 2012/13, but the current system of funding is outdated and the differentials in funding between local authorities cannot be justified and should be corrected as soon as possible.

The publication of shadow budgets next spring will assist with local authority planning, but it is worth noting that decisions relating to the funding of academies and LACSEG may well be of much greater importance to some local authorities' future planning.