

Initial thoughts for dealing with the DfE's latest announcement

Listed below are some of the further reforms that the government plans to make in 2014/15. The most important issues are considered. Under each heading, the report sets out the change the government plans to make. It is then followed by a series of bullet points which highlight a number of initial thoughts. A summary of what may be the best way forward for Lincolnshire's schools is then presented.

Sparsity factor

The government will allow a sparsity factor to operate from 2014/15. It will measure the distance pupils live from their second nearest school. Allowance can be made for the selective system. To qualify for funding, the average sparsity distance must be at least 2 miles for primary schools and 3 miles for secondary schools. LAs can set the threshold above that limit. Only primary schools below 150 on roll and secondaries below 600 on roll can qualify for funding, but LAs can set the cap lower than this. LAs can allocate up to £100,000 per school, either as a lump sum, or tapered according to the size of the school.

- This seeks to address LAs' concerns regarding the reduction in the lump sum for secondary schools in 2013/14. Although that was subject to transitional protection arrangements, the reduction in small secondary schools' lump sum allocations from £0.393m to £0.115m in 2013/14 was a critical issue and the focus of the LA's lobbying of MPs last year.
- The DfE's intention to allow LAs to set a separate, higher lump sum for secondary schools up to a limit of £0.175m (see below) could go some way to alleviating that situation.
- However, the sparsity factor will not plug all of the remaining gap, should its introduction be considered desirable in Lincolnshire. That is because the factor can deliver a maximum of £0.1m per school and only secondary schools below 600 can qualify. The LA defined a small school as one with less than 700 pupils, so the sparsity factor would not help those with between 600 and 700 on roll.
- It has not been possible to undertake any modelling of this factor at the time of drafting this report, but the results could be anomalous and therefore be considered to be unfair and in contravention of the LA's guiding principles, as listed earlier in this report.
- The use of a sparsity factor for primary schools may be less attractive because: the results may also be anomalous and so unfair; no fundamental change was made to this sector's funding (i.e. lump sum) in 2013/14 that warrants corrective action through the introduction of this new factor; the primary schools lump sum was actually increased in 2013/14 by c.£22k to enable small schools to continue to collaborate and so further protection is probably both unnecessary and undesirable (the LA wishes to protect small schools but value for money remains an important issue and so the funding formula should perhaps not promote smaller schools than are operational now).
- There may be practical difficulties with obtaining and maintaining accurate data, and there may be problems with measuring distances 'as the crow flies' in certain cases.
- For individual schools, the funding provided by this factor could vary over time and be unpredictable, therefore making medium term financial planning much more difficult.
- To prevent a movement of funds between sectors, the funding for a sparsity factor in secondary schools would need to come from that sector, and probably from the secondary awpu. This would effectively represent a reversal of the changes introduced in 2013/14, when the reduction in the lump sum was redistributed through awpu.

It could therefore be concluded that a sparsity factor for primary schools is unnecessary and that a view on whether to operate it for secondary schools is deferred until such time as the factor can be modelled.

Lump sum

The government will allow LAs to set different lump sums for primary and secondary schools for 2014/15, with a cap set at £175k or below.

- This does not allow the LA to return the small secondary schools' lump sum to the pre 2013/14 level of £0.393m.
- There may not be a desire to increase the primary lump sum. Prior to 2013/14, the primary lump sum was sufficient to enable schools with c.30 pupils on roll to be sustained. To help minimise the loss to small secondary schools and continue funding for small primary schools' collaborations, the lump sum was set at £0.115m in 2013/14, and therefore c.£22k higher than the previous primary lump sum allocation. Funding for small schools collaborations appears to be having a positive impact and so there may be little demand to reverse that increase. There may also be limited demand to increase the primary lump sum further, because that would enable very small schools to remain financially viable and that would reduce the value for money derived from the DSG.
- With respect to secondary schools, the flexibility to increase that sector's lump sum to a higher figure may be attractive, because it would help partially restore the reduction in the lump sum in 2013/14. Due to transitional arrangements, the impact of that decision has not been fully felt, but it would be possible to partially repair any damage that might arise from it, by increasing the secondary lump sum to the £0.175m cap.
- The government's reforms for 2013/14 enabled the LA to introduce a rates factor. Each school's actual rates bill is now funded. The rates bill per school varies, but when mandatory rate relief is discounted, it is often the case that small secondary schools have rates bills of c.£50,000 per annum. So, should decisions be made to increase the secondary lump sum to £175k, and introduce a sparsity factor that delivers £100k to small schools, it is possible that along with the rates factor, the loss in funding to small secondary schools with less than 600 on roll will be substantially, although not completely, bridged. As indicated above, the introduction of a sparsity factor would not be applicable, or therefore beneficial, to secondary schools with between 600 and 700 on roll.

It might be concluded that the primary lump sum should remain unchanged, but the secondary lump sum should be increased to the maximum level that will be permitted next year (i.e. £0.175m) as this will partially restore the cut imposed in 2013/14 as a result of the government's school funding reforms.

Support for schools with falling rolls

The government will allow the LA to top-slice the DSG to create a small fund to support schools with falling rolls in exceptional circumstances. This is to enable schools to avoid the costs of redundancies, etc, when the demographic data shows that their capacity will expand in the near future. The creation of a budget would need to be agreed by the Schools Forum and would have to be applied fairly to maintained schools and academies. Funding could only be allocated to schools rated good or outstanding by OFSTED and not schools that are simply unpopular or of low quality.

- It could be considered unfair, and therefore counter to the LA's underlying principles, not to make available funding to schools that are not good or outstanding when they too have falling rolls for short periods of time. Such schools could be small, rural, serve deprived areas and have an intake with below average abilities, etc.
- It may be difficult to define: 'small amounts of money', 'short periods of time' (although the operational guidance suggests it should be restricted to population increases expected in the next 2 to 3 years) and 'exceptional circumstances' when developing the factor.
- When considering the allocation of funding, it may be difficult and subjective to identify 'clear evidence' that a school's roll will rise again, and will do so in the near future.
- Numerous factors can influence numbers on roll and it may be incredibly difficult to determine whether a dip in roll is due to factors that warrant funding or others that do not. Indeed, falling rolls can be created by schools' deliberate actions (e.g. where they are seeking to maintain efficient class sizes) and so it may not be appropriate to provide funding in certain circumstances. The funding system must avoid creating perverse incentives.
- This factor is unlikely to be necessary in the primary sector for several years because pupil numbers are continuing to rise.
- Although many of the county's secondary schools will be experiencing falling rolls due to the demographic decline, it may not be appropriate to introduce this factor for the sector. Firstly, it will be several years before the greater numbers in the primary sector feed through, so funding provided now would not be regarded as 'short term'. Secondly, assuming that the introduction of such a funding mechanism should not result in the

movement of funds between sectors, there is the possibility that many secondary schools would qualify for funding, and there would therefore be little re-distributional effect (the funding would probably be taken from that sector's awpu and so the net gains for most schools may be modest). Thirdly, those schools that were not good or outstanding would lose funding to help fund the net gains of others and, as stated within this report, such schools have and will continue to lose out under the new funding regime due to changes in the lump sum from 2013/14. That could be considered to be unfair.

- It may be difficult to determine how much extra funding would be required if the factor is introduced. This could become a complex task because each case is likely to be different and it may not be easy to create a transparent, formulaic approach that provides a fair amount of additional funding to each school. The government has indicated that the funding should be 'small', but has not defined what it means by that.
- It may be difficult to determine the length of time that funding should be made available to schools. This too may vary from case to case, up to a maximum of three years.
- As highlighted above, the subjectivity involved in determining allocations could undermine the transparency that exists with the rest of the school funding formula, and the trust and faith that schools have in the funding system.
- There may be practical difficulties associated with the Schools Forum assessing applications.
- It has not been necessary to operate such a factor in the 23 years since local management of schools was first introduced and yet there have been demographic changes in that time. Arguably, with good financial planning, it should be possible for most schools to manage staffing levels in such a way as to avoid the need for a lot of redundancies. Of course, the government's reforms for 2013/14 no longer permit the LA to retain a redundancy budget within the DSG, so the flexibility that existed prior to this year has now gone. However, both the LA / EFA could, in theory, licence schools to overspend for a short period of time, where costs cannot be reduced in a timely manner and redundancies prove necessary.

It could be concluded that due to current demographics, there will be no need to protect primary schools with falling rolls for at least several years, and that the introduction of such a system for secondary schools would: probably be unfair; be difficult to design; involve too much subjectivity; be likely to deliver limited benefit for very few schools, and; therefore should not be introduced.

Prior attainment

The government will require LAs to alter their prior attainment factor to fund pupils that at KS2 failed to achieve a level 4 or higher in English *or* maths, not English *and* maths, as is required now.

- If the DfE's national projections are replicated locally, we might expect to see double the number of pupils qualifying for funding. That would drain resource from other factors.

It could be concluded that given that Lincolnshire's current funding of low cost, high incidence SEN is already in the top quartile nationally, and that concern has recently been expressed by some Schools Forum members that it may be too high and needs to be monitored, it may be appropriate to contain next year's funding at the current level, and reduce the unit of funding in anticipation that more pupils may qualify.

Pupil Mobility

The government will require LAs that choose to operate the pupil mobility factor to apply a 10% threshold, so that it will only support schools that experience a significant change in their pupil numbers.

- Lincolnshire operated a pupil mobility factor until 2013/14 and, had the government allowed the operation of a qualifying threshold this year, the LA may not have removed it.
- Now that a threshold has been re-instated, it may be worth modelling the impact upon schools to see whether this factor should be re-introduced.
- Although the total funding through the LA's factor was low, with allocations to individual schools also being small, it may be worthwhile having the factor in place to address circumstances where there is a sharp rise or fall in numbers at a school. However, based on current data, the net gains to most schools are likely to be modest, because there would probably have to be a reduction to the awpus to fund this factor.
- The Children and Young People's Scrutiny committee asked the LA to re-consider this as part of its next review.

It could be concluded that the benefits of re-introducing this factor should be explored.

Looked After Children

For the reasons explained in Appendix 1, the LA did not introduce a Looked After Children factor in 2013/14.

- The Children and Young People's Scrutiny committee asked the LA to re-consider this as part of its next review.
- Lincolnshire's performance for Looked After Children is in the lower quartile and exclusions are high.

It could be concluded that the introduction of a factor for Looked After Children should be re-considered. A relatively modest sum of funding could make a significant difference to the outcomes for this vulnerable group.

Notional SEN budgets

The government will require LAs to provide notional SEN budgets to their schools on the basis that each school will meet the first £6,000 of additional support required by a pupil with SEN.

- Despite the changes that the government introduced for special educational needs in 2013/14, Lincolnshire's funding remains fundamentally unchanged.
- As indicated in Appendix 1, Lincolnshire's current funding of low cost, high incidence SEN is already in the top quartile nationally. The government hasn't indicated how LAs' high cost SEN funding allocations from the Higher Needs block compare, and Lincolnshire may be in a similar position there.
- Given the wide variation in SEN funding across the country in 2013/14, it is understandable that the government would want to see more consistency as it moves towards a national funding formula. It appears that government expects that for some LAs, it will mean a significant change in the level of delegation of SEN funding from 2014/15.
- However, the £6,000 figure is notional and how LAs calculate that is subjective. So it is not clear what impact the government's decision on this is likely to have in Lincolnshire.

It could be concluded that as Lincolnshire's funding of low level SEN through the prior attainment factor is already comparatively high, and funding from the Higher Needs block may be too, no radical change may be needed to school funding arrangements in 2014/15. The LA will need to ensure that it meets the £6,000 threshold, and whilst that might simply mean revisiting the calculation used to derive that figure, there is a possibility that as this is explored, changes to the funding formulae may be necessary. In theory, increased delegation to schools from the budget for high value statements in the Higher Needs block would be the obvious funding source, but that could be highly detrimental to certain schools and the pupils with SEN within them. This matter needs to be explored and any implications for future funding will be carefully considered.

Mergers

The government will permit LAs to allow two merging schools to keep 85% of the two lump sums for the next full financial year following the year in which they merge.

- There have been relatively few mergers in Lincolnshire in recent years. The LA's own scheme has been more generous by allowing the second lump sum to be funded for two years and then reduced by 50% in the third year (the government might consider something similar in due course). This provision has been important because it allows schools time to adjust their staffing structures, to enable them to operate with a reduction in the schools' combined funding.
- It may be necessary to define very clearly the circumstances under which a merger is deemed to take place, to distinguish it from other forms of school re-organisation.
- Federations are becoming increasingly more popular and, as they help safeguard the lump sums of the schools involved, mergers may continue to be viewed as less attractive to schools.

It may be concluded that although this provision may not have to be applied very often, it should form part of Lincolnshire's school funding arrangements, to allow merging schools some time to acclimatize to reduced funding.