

REGULATORY AND OTHER COMMITTEE REPORT

NAME OF COMMITTEE:	Schools Forum
DATE OF MEETING:	23 April 2014
SUBJECT:	DfE consultation: Fairer Schools Funding in 2015/16
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IS REPORT CONFIDENTIAL?	No

SUMMARY

1. The purpose of this report is to advise the Schools Forum that on 13th March 2014, the DfE launched a consultation entitled 'Fairer Schools Funding in 2015/16'. The report considers the key issues and seeks the Schools Forum's views on those prior to the Local Authority (LA) submitting a response to the DfE by the closing date of 30th April 2014.

DISCUSSION

2. The DfE has launched a consultation entitled 'Fairer Schools Funding in 2015/16'. A copy of the consultation document is available at:

<https://www.gov.uk/government/consultations/fairer-schools-funding-2015-to-2016>

3. The key points to note are:

- a. A new national fair funding formula will not be introduced in 2015/16. By way of explanation, the DfE stated that a national funding formula will be issued when the government has set spending plans over a longer period of time, to enable LAs to have more certainty about how the formula will affect them over a number of years. The government's next spending plans are for one year only, i.e. 2015/16.
- b. The document states that the proposals '..... will begin to address the unfairness of the current system and provide some help to authorities that are least fairly funded.'
- c. In 2015/16, the government plans to fund LAs at the same cash level per pupil as for 2014/15. No LA will therefore receive less per pupil funding in cash terms. The government will however allocate an additional £350m in 2015/16 to LAs with schools that are most in need.
- d. To determine whether a LA will qualify for funding, the DfE has calculated the minimum funding level for each one, by setting minimum funding levels for the following five pupil and two school characteristics. Table 1 shows these factors, the government's proposed minimum funding levels¹ and Lincolnshire's 2014/15 rates:

Table 1

No.	Formula factor	DfE minimum rates	Lincolnshire's rate for 2014/15
1	Age weighted pupil (awpu): Primary Key Stage 3 Key Stage 4	£2,845 £3,951 £4,529	£2,542 £3,468 £4,274
2	Deprivation (free school meals and IDACI)	£893 to £1,974	£1,186 to £2,379
3	Looked After Children (LAC)	£1,009	£600
4	Low prior attainment: Primary Secondary	£878 £1,961	£1,641 £1,420
5	English as an Additional Language (EAL): Primary Secondary	£505 £1,216	£1,000 £1,000
6	Lump sum: Primary Secondary	£117,082 £128,189	£115,490 £175,000
7	Sparsity	£53,988	£100,000
8	Area Cost Adjustment	This varies from LA to LA	Not applicable

- e. The minimum funding level for the awpu has been set at the average that LAs currently allocate through them.
- f. 75% of the £350m has then been applied to the awpu, with the remaining funds being allocated to the other factors.
- g. The government has used this information to calculate a minimum level of funding for each pupil in every school and where the Local Authority's (LA) funding is currently below that level, extra funding will be provided.
- h. As indicated above, an area cost adjustment has been applied to LAs with higher salary levels.
- i. 62 of the 152 LAs will receive a share of the £350m. Lincolnshire is one of those and provisional figures suggest this would be £3.7m or an increase of 0.9% in the

¹ These are based on LAs' 2013/14 proformas (except lump sum and sparsity where 2014/15 figures have been used) . The minimum levels will be updated when the 2014/15 proformas are available.

Dedicated Schools Grant (DSG). If the proposals remain unchanged after the consultation, the figures could still vary due to the DfE's planned use of LAs' 2014/15 proformas and data.

- j. Under the proposed approach:
 - i. The % increases in DSG range from 0.01% (Derby) to 11.3% (Bromley).
 - ii. In monetary terms, the increases range from £24.8m (Surrey) to £0.1m (Derby).
 - iii. Lincolnshire's £3.7m increase seems modest when one considers the likely levels of pay and price inflation next year.
 - iv. Lincolnshire's % increase is the 15th lowest of the 62 qualifying LAs and its per pupil funding would then be the 25th lowest of the 'least fairly funded' group of LAs.
 - v. In some cases, the differential in funding between Lincolnshire and other LAs will widen. 17 LAs that currently receive more per pupil funding than Lincolnshire would receive a greater percentage increase in their funding. For example, Westminster's current funding per pupil is £5,663 and this will rise by 3.5% to £5,862. Lincolnshire's comparable figures are £4,329 and £4,370 respectively. Also, 8 LAs that are currently receiving less per pupil funding than Lincolnshire will receive more per pupil funding than Lincolnshire under the proposals.
 - vi. LAs with similar characteristics to Lincolnshire will receive a greater increase in funding. For example, Norfolk's current per pupil funding is £5 greater than Lincolnshire's at £4,334, but its funding will rise by 3.7% to £4,494, well above Lincolnshire's £4,370. Every year, that will draw in an additional £16.0m to Norfolk compared to Lincolnshire's £3.7m.
 - k. Stability remains important to the government and so no LA or school's per pupil funding will fall as a result of the proposal.
 - l. It will be for LAs to decide how best to apply the additional funding to its local formulae. LAs are not required to distribute the funding through all seven factors, or set the rates for those factors at or above the minimum rates used by the government for allocating these funds.
 - m. The per pupil Minimum Funding Guarantee (MFG) has been confirmed at minus 1.5% for 2015/16, so protection arrangements will remain in place at school level.
 - n. No other DfE changes to LA funding formulae are expected in 2015/16, although the new sparsity factor is being reviewed and the consultation seeks views on that.
 - o. The consultation closes on 30 April 2014.
4. At the time of writing this report, the DfE was releasing further information to LAs on how the minimum funding levels had been calculated. That information will be reviewed and consideration will be given as to whether the proposed response in Appendix 1 requires amendment.
 5. The consultation invites views on how to set the minimum funding levels and how the DfE will distribute the additional £350m of funding. A copy of the draft response is set out in Appendix 1 for the Schools Forum to comment on.
 6. The delay in implementing a national funding formula is disappointing because it was hoped that the wide differential in per pupil funding across LAs would be markedly reduced in the near future. The proposed increase for Lincolnshire's DSG in 2015/16 is modest in the context of likely pay and price inflation for that year. Having said that, it is clear from the consultation that stability in school funding remains a top priority for the government, and so any major redistribution of resources between LAs was likely to have been curtailed by significant transitional protection arrangements. The relative protection of school funding next year should also perhaps be seen in the context of the wider reductions in public sector funding, including an expected 10% or more reduction in the LA's non-schools budget.
 7. LAs will be free to decide how to allocate any additional DSG funds that are forthcoming in 2015/16. It could be inferred from the consultation document that this funding is intended for

primary and secondary schools only. However, the use of any increase in funding will need to be considered by the LA and Schools Forum later in the year when the outcome from the consultation is known.

RECOMMENDATIONS

The Schools Forum is asked to:

1. note the content of the report;
2. comment on the government's proposals;
3. consider whether it supports the LA's provisional views as set out in the draft response at Appendix 1; and
4. decide whether to support a joint response to the DfE's consultation.

APPENDICES (If applicable) - these are listed below and attached at the back of the report.

Appendix 1: DfE Consultation questions and Lincolnshire County Council's draft response

BACKGROUND PAPERS

PAPER TYPE	TITLE	DATE	ACCESSIBILITY
DfE Consultation	Fairer Schools Funding in 2015/16	13 th March 2014	https://www.gov.uk/government/consultations/fairer-schools-funding-2015-to-2016

DfE Consultation questions and Lincolnshire County Council's draft response

Lincolnshire County Council welcomes the opportunity to comment on the government's consultation.

1. As one of the lowest funded LAs for schools, it is disappointing that a new national fair funding formula will not be introduced in 2015/16, as previously expected.
2. The fact that no further changes will be made to LA's local funding formulae in 2015/16 is welcome. There has been considerable change and uncertainty in school funding for several years now and a period of relative stability is likely to be welcomed by schools.
3. The setting of the Minimum Funding Guarantee at minus 1.5% for 2015/16 is likely to be welcomed by schools, as it continues to offer a significant level of protection in times of austerity.
4. Whilst the provision of additional funding to the least fairly funded LAs is welcome, the extra £350m being made available is relatively modest and would constitute only c.1% of the national DSG. This sum is unlikely to cover pay and price inflation in 2015/16. Also, it cannot have a major impact on reducing the huge differentials in per pupil funding that currently exist across LAs, and that is hugely disappointing.
5. The DfE's approach of selecting most formula factors and applying average funding rates to determine minimum funding levels for each LA appears arbitrary and does not appear to be based on need. The proposed allocations are therefore unfair. Although Lincolnshire will qualify for funding under the proposals, its allocation at 0.9% is one of the lowest. Some LAs that already receive considerably greater levels of funding than Lincolnshire will receive significantly more funding in 2015/16, and so in some cases the current disparity in funding will only widen. Also, other LAs with similar characteristics to Lincolnshire will receive significantly more funding under the proposals (e.g. Norfolk, which will receive a 3.7% increase). This represents an extra £12m in funding each year, which appears to be completely unjustifiable given that both LAs are also of similar size.
6. Lincolnshire's 2014/15 actual awpu funding rates are between £200 and £500 lower than the DfE's minimum rates. As most school funding is distributed through awpus, this demonstrates the considerable shortfall in funding for LAs like Lincolnshire. The allocation of £350m and the proposed method of distribution will not have a significant impact on this critical issue.
7. The proposals are perpetuating the flaws and inconsistencies in the current funding system. The consultation states that for the first time in a decade funding is being allocated on the basis of actual characteristics of LAs pupils and their schools. However, the setting of minimum funding levels based on average funding across LAs, will clearly continue to reflect the funding system of the past. Other than the proposal for the Area Cost Adjustment, there appears to be no assessment of need and this is a fundamental weakness of the proposals.
8. The cost of running small schools in rural LAs is one area where a needs assessment is urgently required. It is inappropriate to use LA averages for that calculation when the needs of LAs are so diverse, and when the setting those rates has been heavily and adversely influenced by the government's decisions to place a cap on the lump sum. An appropriate lump sum rate should be determined for rural authorities through a needs assessment. It is inconsistent and unfair to adopt a needs assessment approach for the Area Cost Adjustment, which benefits the London boroughs, and not to do so for other elements of the formula such as the lump sum for rural schools.

1 Do you agree that the existing distribution of schools funding is unfair?

Yes. The disparity in per pupil funding is far too great and the formula underpinning it is out of date. However, the proposals in the consultation do not go far enough to redress this huge imbalance.

2 Do you agree with our proposed choice of characteristics to which to attach minimum funding levels?

Yes. It seems sensible to include in this mechanism the main formula factors currently permitted by DfE's regulations. However, the differentials in funding between Lincolnshire's actual awpu rates and the minimum specified by the DfE amount to between £200 and £500 and so this demonstrate how much further the government needs to go to deliver fair funding to schools across the country.

Given our proposal to set minimum funding levels such that we can afford to fund all local authorities at those levels or above in 2015-16, do you agree with the proposed values of the minimum funding levels?

The values should be determined by reference to need, not by reference to average funding values used by LAs, because they are a reflection of the decade old funding formulae which is out of date and fails to reflect need.

3 a) Age Weighted Pupil Unit

The proposed rates are acceptable but demonstrate the huge gulf between the minimum rates and those affordable in LAs like Lincolnshire. There is therefore a considerable way to go for the government to redress this inequality and unfairness.

3 b) Deprivation

This is acceptable.

3 c) Looked-after children

This is acceptable, but won't have a dramatic impact due to the relatively small numbers of LAC.

3 d) English as an additional language

This is acceptable, but won't have a dramatic impact due to the relatively small numbers of pupils with EAL.

3 e) Low prior attainment

The primary level is too low and does not reflect the need to target sufficient resource at younger children to help address learning difficulties as soon as they are identified. The secondary rate is acceptable.

3 f) Lump sum

This is unacceptable. The cost of running small schools in rural LAs continues to be overlooked by the DfE and a needs assessment is urgently required. The use of LA averages or some other arbitrary rate is wholly unjustified, not least when the needs of LAs are so diverse, and when the current lump sums have been heavily and adversely influenced by the government's decision to cap these rates. It is both inconsistent and unfair to adopt a needs based approach for the Area Cost Adjustment and not to do so for the lump sum which is equally as important to LAs with rural schools.

3 g) Sparsity

The value attributed to sparsity is too low and considerably below that currently used by Lincolnshire. For large, rural counties with a significant number of small schools, a high sparsity factor is necessary, not only to compensate for the government's unnecessary cap on the lump sum, but to enable rural schools to cover their fixed costs.

4 Do you agree that labour market cost differences should be taken into account as we allocate the £350m?

No. Those LAs that will benefit from this are already some of the highest funded in the country and this approach will only widen the differential in funding between LAs. It is accepted that there are greater labour costs in the London area, but whilst it is understandable that the DfE would want such costs to be factored in, there is a major inconsistency and unfairness in the DfE's approach. That is because the setting of the values for other factors is based on LA averages, which in turn are a

consequence of the decade old funding formula, and are not based on need. A needs assessment relating to the lump sum and small rural schools is equally as important to some LAs, as the ACA is to the London boroughs, etc.

5 Do you agree this should be calculated using the hybrid approach we have set out?

If the area cost adjustment is to be applied, the hybrid approach continues to appear preferable.

6 If you do not agree that we should use a hybrid approach, what would you prefer we used?

Not applicable.

Sparsity Review

7 We introduced a sparsity factor for the first time in 2015-16. How helpful has this factor been in ensuring that sufficient funding is targeted at small schools serving sparsely populated areas?

The sparsity factor has not been very helpful in ensuring sufficient funding is targeted at small schools, especially secondary schools. Lincolnshire has used the new factor to try to plug some of the gap in funding created by the DfE's decision to cap the secondary lump sum to a maximum of £175k, but has been unable to close it. As protection unwinds, many of our small secondary schools (most of which are academies) may struggle to survive financially. The method of assessing whether a school qualifies for sparsity funding seems bizarre, not least as the distance of pupils to their next nearest school appears to have no correlation with the fixed and variable costs of running the nearest school. Evidently, the funding allocated through this mechanism is not based on need and is fundamentally flawed.

8 Do you think it would be useful to revise the criteria for the sparsity factor to take into account the average number of pupils in each year group, rather than the number of pupils in the school? If so, how?

No. It would be helpful if this idea was exemplified to illustrate the proposal prior to comment, but a modest amendment to a fundamentally flawed approach is unlikely to be useful. Instead, the government should permit LAs to work with their schools and Schools Forum to determine an appropriate level of lump sum to help meet rural schools' fixed costs. That would mean raising the lump sum from £0.175m towards £0.3m.

9 Are there any other changes you would like to suggest to improve the operation of this factor, and why?

Yes. The government should remove the factor and allow the cap on secondary lump sums to be raised to £0.3m. This would allow LAs to reflect the fixed costs that these schools have, rather than rely on an unnecessarily complicated system that doesn't reflect needs, or the costs of running small schools.