

**CHILDREN AND FAMILIES OVERVIEW AND SCRUTINY
COMMITTEE - 4 APRIL 2016**

**REPORT OF THE DIRECTOR OF CHILDREN AND FAMILY
SERVICES**

**SCHOOL FUNDING AND THE RESPONSIBILITIES OF THE LOCAL
AUTHORITY**

Purpose

1. The purpose of this report is to provide the Overview and Scrutiny Committee with a position statement with regard to school revenue funding and information about proposed national changes and the potential impact in Leicestershire.

Background

2. Education funding is provided to Local Authorities (LAs) by the government through the Dedicated Schools Grant (DSG). It is organised into three separate blocks of funding: the Schools Block; the High Needs Block; and the Early Years Block. The detail of the 2016/17 funding arrangements was reported to the Committee on 18th January 2016.
3. In 2015/16, the Schools Block was increased by £20m in response to the national pressure for fairer funding. The distribution of the funding is agreed at a local level through a formula agreed by the Schools Forum. Academies receive their funding directly from the Education Funding Agency (EFA), rather than through the LA-held DSG, but the level of funding replicates the distribution formula agreed at local level.
4. A national consultation has been launched regarding a new national funding formula for schools and the details of this are set out below at paragraphs 14-20. The consultation also includes proposals about the Education Services Grant. This grant provides LAs with funding to:
 - a) provide strategic services to the education system, e.g. school place planning and school admissions;
 - b) provide maintained schools with services such as HR, ICT infrastructure, and finance.

For academies, the funding for HR, etc., is provided directly by the EFA.

5. Consultation is expected for the Early Years element later in the year. It is anticipated that there will be a national formula, similar to the arrangements for the Schools Block.

Current financial pressures

Schools Block

6. The School Block Unit of Funding is the 10th lowest funded of all 151 LAs. Schools manage their resources well and this contributes to good performance across the county.
7. Recently, a large number of Leicestershire's secondary schools are experiencing significant financial pressure. These pressures have come about as a result of surplus capacity in school places available, whilst waiting for the current population 'bulge' in primary places to work through the system by 2020. This has been exacerbated in some areas by age-range changes, and also the introduction of additional places in Studio Schools, FE colleges, and Free Schools.
8. This position will be further aggravated in the 2016/17 as a result of the necessary movement of funding between the Schools Block and the High Needs Block, meaning that all schools budgets will be reduced by 1%. This is due to an over spend on High Needs because of the increase in placements required for pupils with Special Educational Needs.
9. All but two of these secondary schools are academies and funded by the EFA. There is currently no flexibility in those funding arrangements to offer academies deficit recovery planning facilities, as is the case for maintained schools with financial difficulties but good long-term financial plans. A meeting has been arranged to include schools and the LA with the EFA and the Regional Schools Commissioner to discuss this situation and look for medium term solutions.

High Needs Block

10. This element of the Grant has seen no increase since 2013 but the demand for education services for vulnerable children and those with Special Educational Needs and Disabilities has increased. The 2015/16 over spend has been funded from the DSG reserve. The 2016/17 projected over spend will be funded from the transfer from the Schools Block described in paragraph 8 above.
11. There is considerable challenge in meeting the needs of children with high needs from the grant funding available. The settlement is not based on pupil numbers of type of need. Leicestershire is the 17th lowest funded. This position may not necessarily improve as a result of the changes set out in the current consultation as described in paragraphs 21-24 below.

12. As part of the Children and Family Services new Transformation Programme, there is work stream focused on reducing demand and cost, and the potential to create new models of local delivery. Leicestershire schools are active partners in this plan for change.

Early Years Block

13. This settlement funds the Free Entitlement to Early Education (FEEE) for all 3 and 4 years olds, and those 2 year olds identified as disadvantaged. For 3 and 4 years olds, Leicestershire is the 10th lowest funded and for 2 year olds is one of 52 LAs funded at the lowest rate. The introduction of the National Living Wage will have a significant impact on the early learning and childcare sector and could mean that some providers become unviable. It remains the statutory duty of the LA to ensure that there is sufficient provision for all children that require it.

Consultation on a National Funding Formula for schools

14. The consultation attached at Appendix A is the first of two planned consultations about school funding. At this stage it is seeking views on:
 - (a) the principles that underpin the formula;
 - (b) the pupil characteristics and school factors proposed for inclusion in the formula;
 - (c) the overall funding system, in particular on proposals to:
 - i. introduce a school-level national funding formula where the funding each pupil attracts to their school is determined nationally;
 - ii. implement the formula from 2017-18, allocating funding to local authorities to distribute for the first 2 years, and then to schools directly from 2019-20;
 - iii. create a central schools block for local authorities' ongoing duties;
 - iv. ensure stability for schools through the minimum funding guarantee and by providing practical help, including a restructuring fund.
15. The consultation timetable is short – with submissions required by 17th April. In parallel there is a consultation on proposals to introduce a high needs formula for children and young people with special educational needs. Leicestershire Schools Forum will be meeting to consider the proposals in the consultation document and formulate a response.
16. Following consultation, the new formula would be quickly applied, albeit through a phased introduction. The amount that each local authority will receive in 2017-18 will be an aggregate of the notional funding of all the schools in their area, once the national minimum funding guarantee and cap on gains have been applied, plus funding for growth, premises and the other factors at the 2016/17 spend levels.

School Funding

17. The National Formula, as set out in the consultation, will result in pupils with the same characteristics being funded at the same rate irrespective of the LA in which they are educated, with a basic rate for each pupil and funding for deprivation, low prior attainment, English as an additional language plus an element relating to school specific costs.
18. The second stage of consultation will set out the values and weightings to be used within the formula. It will not be until this further information is released that the impact for Leicestershire and its schools can be assessed, including whether the changes bring an overall improvement in its financial position. The consultation is clear however, that there will remain differences in overall funding levels between LAs because of differing levels of deprivation, prior attainment and English as an additional language - more need will attract more funding per pupil.
19. The consultation document sets out a number of data collection exercises in the coming weeks and further consultations, including the role of the local authority in school improvement. Transition will be key and the impact of the Minimum Funding Guarantee and caps on schools that gain on the national funding formula should not be underestimated.
20. Whilst it has been widely reported that this removes the role of the local authority from school funding, local authorities will continue to set local formulae for 2017/18 and 2018/19 and will remain accountable for passporting and recording funding to LA schools. As it will no longer be possible to move funding across the three current Blocks of funding, it will be vital to look at the impact on the funding that will continue to be the responsibility of the LA: namely High Needs and Early Years, as well as the impact on individual schools.

High Needs

21. The consultation document states that “the current funding distribution is not fair to children and young people with high needs across the country, because it directs money to the local authorities with the highest spending, not the highest needs.” It is therefore proposed to introduce a national funding formula for high needs from 2017-18 that will:
 - (a) Use factors in the formula including health and disability;
 - (b) Allocate funding to local authorities on a formula basis;
 - (c) Retain a significant element of funding based on what local authorities are currently spending, and capping the gains and losses of local authorities each year;
 - (d) Provide financial and practical help to authorities to assist them in reshaping their provision, including capital funding for new specialist places and new special free schools.

22. Finally there would be elements of the formula that reflect that local authorities are not only responsible for funding pupils resident in their area, but also provide the core funding for special schools in their area.
23. It is proposed that for the first 5 years the formula should contain a significant element of funding based on what each LA is currently spending on high needs. This would not only allow time for local authorities to make the adjustments that are needed for the future, whilst protecting the special provision for those children and young people already settled in schools and colleges; but it will also allow the Department for Education to undertake further research and evaluation before taking a decision on whether and how to progress further with formulaic distribution.
24. LAs will be encouraged to work together in regional and sub-regional groups, where commissioning of specialist provision makes sense at that level.

Central Schools Block

25. Following the removal of the Education Services Grant (see paragraph 4 above) in September 2017, there will be created a new Central Schools Block. This will fund retained LA duties such as admissions, school place planning, and pupil welfare. This will be distributed on a per pupil formula. The consultation recognizes that LAs will need to find alternative funding sources for some of its statutory duties. Until the remainder of Leicestershire schools convert to academies through Multi-Academy Trusts, the need for continued support to maintained schools for HR, legal services, etc., will need to move to a fully traded model.

Background Papers

26. Report to Children and Families Overview and Scrutiny Committee: 18th January 2016: Medium Term Financial Strategy 2016/17 to 2019/20.

<http://cexmodgov1/ieListDocuments.aspx?CId=1043&MId=4485&Ver=4>

Report to Schools Forum: 22nd February 2016: 2016/17 Schools Budget.

<http://cexmodgov1/ieListDocuments.aspx?CId=1018&MId=4457&Ver=4>

Relevant Consultation Documents

Schools National Funding Formula consultation

https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula/supporting_documents/Schools_NFF_consultation.pdf

High Needs Funding Reform

https://consult.education.gov.uk/funding-policy-unit/high-needs-funding-reform/supporting_documents/HighNeedsFundingReform_Consultation.pdf

Circulation under Local Issues Alert Procedure

27. None.

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Equality and Human Rights Implications

28. It is the intention of the consultation to ensure that the new national funding system more adequately reflects the needs of vulnerable children and young people.