

SCHOOLS FORUM
DECEMBER 4 2012
SCHOOL FUNDING REFORM 2013

Purpose of this Report

1. This report;
 - a) Provides an update on the position on school funding reform.
 - b) Sets out the circumstances where the unit values for delegation may require adjustment and proposes the method of adjustment
 - c) Gives the response of the Education Funding Agency on the proposed formula for primary and secondary schools and actions required as a result of that view.

Recommendations

2. Note the current position in respect of school funding reform.
3. Note the potential for movements between the Schools, Early Years and High Needs Block within the 2013/14 Dedicated Schools Grant settlement (paragraphs 8, 9 &10)
4. Note the reasons where a realignment of the agreed funding formula in respect of unit costs may be necessary;
 - a) To ensure that the cost of school delegated budgets is able to be accommodated within the Schools Block (paragraph 13)
 - b) To reflect any changes between the January 2012 DfE dataset used for modelling and the October DfE dataset which will drive the 2013/14 school formula (paragraphs 14 & 15)
 - c) Any changes to the locally adopted % per pupil in capping budgets set at 1.5%. (paragraph 16)
 - d) The changes as requested by the Education Funding Agency as a result of the validation process of the proposed and final formula (paragraphs 17, 19)
 - e) Any changes to the number and cost of high needs pupils within primary and secondary schools requiring changes to the level of de-delegation in SEN funding (paragraph 22)

- f) Any requirement delegation of funding for NQT induction (paragraph 25)
 - g) Any decision to de-delegate funding for trade union facilities (subject to a further report on today's agenda)
5. Note the response from the Education funding Agency to the primary and secondary formula and the local authorities response to it (paragraphs 17 & 18 16)
 6. Approve the actions taken in respect of the application of the exceptional factor in respect of rent (paragraph 17a)
 7. Note the measures the local authority intend to take to align delegated school budgets with the schools block settlement through the adjustment of the per pupil entitlement (paragraph 21)

Dedicated Schools Grant

8. The structure of the DSG settlement will move from one funding block subdivided into budgets the Individual Schools Budget (ISB) and the centrally managed Schools Budget 2012/13 to a three block system in 2013/14 based upon 3 blocks i.e. Schools, Early Years and High Needs. In order to split the settlement the DfE have taken some judgments regarding two changes within the new funding system;
 - a) Hospital School provision – In the removal of the system for local authority recoument the DfE have top-sliced the funding for hospital school provision in order to fund those authorities with provision directly.
 - b) Early Years – Authorities have previously funded for 90% of 3 year olds receiving nursery education provision, the floor funding for this will be removed in 2013/14 although the DfE have yet to confirm how this will be undertaken this equated to £1.3m in 2012/13 and the worst case scenario is that all this funding may be removed.

The DfE have removed both of these elements pro-rata across funding blocks and as a result there may need to be an adjustment between the funding blocks. Whilst the funding blocks will not be ring fenced, the DfE have given indications that this may not be the case in the future. As the detail of the budget and the DSG settlement are drawn together Schools Forum may be informed of required movements between funding blocks.

9. The DfE have used the 2012/13 S251 statement to attribute expenditure to the three blocks. Baseline information has been received from the DfE, this has been adjusted and validated locally with a further adjustment requested in respect of school notional SEN budget which was originally included within the

Leicestershire High Needs baseline rather than the Schools Baseline. This adjustment is c£10m and should the DfE not make this movement in the baselines then Schools Forum will be requested to approve this adjustment which will move funding from the High Needs to the Schools Block. It should be noted that the baseline purely restates the 202/13 budget, it gives no indication of the 2013/14 DSG settlement.

10. The DfE have now confirmed that the funding for the increased offer for nursery education for disadvantaged 2 year olds will transfer from the Early Intervention Grant (EIG) to DSG. Detailed information on what this will mean is extremely sparse but it is expected that the transfer to DSG will be to the detriment of EIG funded services and a shortfall of funding in the LA budget of c£4m is expected. The position on funding the extended two year old offer is uncertain and will remain so until the 2013/14 DSG settlement is received, it is likely that early years EIG current expenditure will need to be moved with the funding and be met from DSG. It is unclear whether there will be further funding as the offer is expanded.

Formula Update

11. The County Council's Cabinet approved the primary and secondary formula, as endorsed by Schools Forum, at its meeting on October 16th.
12. Significant work has been completed on the structure of the new system for funding special school and special needs units within maintained schools. The special school formula provides the basis for all specialist providers and unit rates of funding will be confirmed within the Council's MTFs process which in turn will inform the 2013/14 budget report to be presented to Schools Forum in February 2013.
13. There is no additional funding with which to implement school funding reform. The position of the County Council remains that the Schools Budget be set at the level of Dedicated Schools Grant (DSG). It is uncertain what, if any, level of turbulence will be in the local authority settlement. The schools formula for 2013/14 must be delivered within the newly defined schools block; adjustments may be required to the unit values when the detailed settlement information is known.
14. Modelling of the new formula was completed on the 2012/13 level of funding and January 2012 pupil numbers, hence it was possible to give a like for like comparison between 2012/13 school budgets and the proposals for 2013/14. However the 2013/14 formula must be based on the DfE's October dataset and able to be funded from the 2013/14 settlement. Should the schools block settlement be insufficient to meet any new costs arising from underlying data changes it may be necessary to amend elements of the formula.

15. The special school and special school unit budgets have also been modelled on 2012/13 data, adjustments to top up values may be necessary if the data changes and cannot be accommodated within the 2013/14 DSG settlement.
16. Any changes in funding allocations arising from data changes will affect the calculation of the Minimum Funding Guarantee (MFG) and the level of funding required to meet its cost. Within the proposals the level of capping gains is measured against the cost of the MFG and set at +1.5% per pupil, as such it may be necessary to adjust this figure. Any such changes will only become apparent as the remodelling exercise is undertaken on October 2012 data and the DSG settlement. It is uncertain when the October dataset will be released

Education Funding Agency

17. The proposed formula was submitted to the Education Funding agency (EFA) on their October 31st deadline and initial feedback was received on November 14. The EFA raised areas of concern and declared the allocation of rent to be non-compliant with the new regulations, whilst the issues give no cause for concern the outcome from the EFA will require an element of change within the proposed formula. The two areas of compliance raised were;
 - a) Rent. The formula proposals included an EFA approved exception to allow funding to be continued to be provided to schools where they incur external rental costs. The EFA has rejected this on the basis that 14% of schools receive funding rather than their limit of 5%. The data shows that 39 schools receive a total of £99k through this factor, it is proposed that only the 5% (13) of schools that receive the greatest proportion of funding in comparison to their school budget should be funded and accounts for 83% of the funding allocation. This proposal has been submitted for to the EFA for their further consideration.

The suitability of continuing to use this factor in 2014/15 onwards should be considered in the review of the formula.

- b) Split Site. The definition of a split site has been challenged by the EFA who have asked for an '*Objective criteria for defining a split site and how amounts are calculated is required which is clear enough to be applied to Academies*'.

The definition consulted on and adopted is;

A Split Site School is a school with two distinct campuses separated by a public highway where teaching and learning occurs on both sites and where it is necessary to maintain permanent staffing on both sites. The following schools will not be considered a split site;

- *schools using additional sites where both staff and pupils temporarily use that site*
- *schools where the additional site is rented from another body,*
- *schools within a federation*
- *schools within any type of formal or informal collaborative arrangement (including schools in collaborative arrangements with special schools)*
- *schools where differing funding bodies or systems are responsible for elements of provision*

No changes to this definition are proposed, although provided initially to the EFA it has been provided again with no change and refer to the fixed nature of the split site factor.

18. Further queries were raised about the proportionality between primary and secondary schools for areas of new delegation;
- a) School budget contingencies where the issue arises as a result of the reduction in budget in 2012/13 and changes which result in post 16 pupil numbers not used for allocation the new formula.
 - b) Behaviour support which is the result of the bias in the service for KS3 support and the result of the principle adopted in the approach to the new formula whereby where funding was specific to a school phase then the funding should remain there.

The EFA have responded '*We would ask your authority to reconsider the formula for these areas and advise us of the action to be taken*'. The EFA have been provided with this explanation and been advised that the local authority intends to take no further action.

- c) When completing the pro-forma notifying the EFA of the formula proposals unallocated funding of £41,000 was identified, this was added to the pro-forma as a growth fund. The EFA have asked for a narrative on how this funding will be allocated, in the final formula it will be included within school delegated budgets and will not exist.
- d) Two areas have failed the EFA's 'reasonableness check' where issues have been raised about the proportionality of delegation between school phases. The first area is behaviour support where the majority of activity is in key stage 3 and, in accordance with the principle adopted within the remodelling, has been allocated to that school phase. The second is school budget contingencies; this is as a result of different data sets between years which included post 16 pupils in 2012/13 and not in 2013/14.

No changes are recommended although it may be prudent to consider these queries within a future formula review.

19. The EFA have confirmed that they are 'content' with the local authority's response to their queries and are not identifying any further areas of change at this moment in time.
20. Local authorities are required to submit their final formula to the EFA by January 28th for final approval before release to schools. The timescale for any necessary changes will be extremely tight and will be required before the next meeting of the Schools Forum on January 17 2013. In order to respond to this challenging timescale the EFA are recommending that local authorities should put principles in place to align budgets and the DSG settlement.
21. There is no information as yet regarding how the Leicestershire formula compares against the national average, although EFA responses to formula proposals appear to have raised issues where authorities are outside the expected norm. Anecdotal information is suggestive that the lump sum in Leicestershire may be higher than that in other authorities; this is suggestive that if there needs to be formula realignment this would be the area to be considered. However within the timescale available, considering that a further review of the formula in 2013/14 will be required and that the proposals for special schools are built on the principle of the lump sum of £150,000 it is proposed that any adjustment for 2013/14 should be made to the per pupil entitlement pending review of the formula for 2014/15.

High Needs Funding

22. In order to formulate the proposals for consultation it was necessary to take a snapshot of SEN funding in order to inform the level of de-delegation and be able to exemplify the impact of the new proposals at individual school level. A further snap shot of this data is now being compiled on the autumn term data, if needs have changed then it may be necessary to de-delegate more or less funding to ensure that the top up funding needs are met.
23. A further snapshot of pupils with high needs in mainstream schools is being created, this may require adjustments to de-delegation, if this is necessary then there will be a requirement to adjust some elements of the formula.
24. Funding reform requires that Pupil Referral Units must have a delegated budget from April 2013 and as such Oakfield will also move onto the place plus system. Whilst no structure for their settlement has yet been defined options are being considered and Schools Forum will be informed of the outcome of this process.

NQT Induction

25. Consultation with schools took place on information provided in the DfE's June announcement on school funding reform. The consultation on the replacement of LACSEG identified £12m funding within the local government settlement notionally assumed by the DfE to be used on NQT induction, the consultation was minded that this funding should be transferred to DSG and then delegated to schools from April 2013. This consultation has not as yet reported and the consultations on school funding reform did not identify this potential movement
26. The local authority is currently the awarding body for NQT until August 2013, post 2013 the DfE refer to Teaching Schools being able to act as the awarding body and discussions will be undertaken to determine how they may undertake this work in the future, in the new education system it is not thought appropriate for Leicestershire to seek to continue to be the awarding body.
27. It may be necessary to establish a short term and a longer term solution to this transfer whereby Leicestershire continues this work to the end of August 2013 and then seek the market place, through Teaching Schools, to continue this work post September 2013. This would require a top slice of DSG should this funding be transferred to DSG in order that the authority is able to fulfil its contractual arrangements to August, with delegation from September 2013 when schools would be required to buy their own service. The Leicestershire consultation response raised the issue of delegation spreading funding so thinly it could be insufficient for its intended purpose.
28. Should the consultation require the delegation of this funding it is proposed that it be incorporated into the per pupil entitlement.

Next Steps

29. Briefings have been undertaken on the changes with headteachers, governors and school finance staff and the next phase of change needs to consider the operational arrangements to support the changes, especially those in relation to high needs pupils. A number of actions are underway;
 - The development of a budget tool which will allow schools to estimate actual 2013/14 budget based upon October pupil numbers.
 - A SEN operational workstream is looking at the systems needed to support the changes and identify school data needs and methods of payment to schools.
 - Work continues on formula changes for the early years formula and how the extended offer for nursery education for 2 year old can be best funded.

- Modelling is on-going on the financial implications of the transfer of responsibility to local authorities for funding 19-25 year olds with learning difficulties and disabilities from September 2013.
 - A briefing note will be prepared for schools to ensure they understand the services that will be delegated from April 2013 and the actions they may need to take to ensure their delegated responsibilities are met.
30. A task and finish SEN and Schools Operational group has been established to establish the practical arrangements that will need to underpin the changes within high needs funding. This group includes representation from the SENA service, finance, Schools Forum, school business managers and the LA's Bursar service. This group will establish;
- The information requirements for both schools and the local authority
 - The process for agreeing place numbers to inform the return to the EFA expected annually in September
 - Payment procedures and frequency of payments for top-up funding
 - The process for determining start and end dates for placements
 - The expectation of what each element of funding is to deliver i.e the £10,000 place cost in special schools and special units, the first £6,000 of additional needs in mainstream and the top-up paid by the local authority
 - The nature of the contract for pupils receiving top-up funding
 - Contacts for Leicestershire and other local authorities

The group will aim to make best use of national work being undertaken by the Local Government Association and local work undertaken within officer and school established networks.

31. It is unknown at which point the DfE will release the settlement information, mid to late December is the anticipated date, that said the DfE have just confirmed that they will not be able to release the 2013/14 capital settlement until late January.

2013/14 Budget Risks

32. Significant risks surround the new structure of the settlement. Whilst the school and early years blocks will be determined with reference to pupil numbers, the high needs block will be based upon actual spend from 2012/13. It is unclear whether growth will be funded and if it is the level at which additional funding will be provided. Schools Forum members will be extremely aware of the difficulties in Leicestershire of increasing spend on SEN, these will be exacerbated by the new responsibility for 19 -25 year olds with learning difficulties and disabilities.

33. The new structure for high needs pupils requires the local authority to set up payment and monitoring systems, no central funding is available for this purpose and in order to meet the new requirements it may be necessary to top-slice an element of the high needs block to meet the additional costs.
34. There is no further information on the intentions of the DfE in respect of the formulae agreed by local authorities other than that they are undertaking an exercise to establish 'national averages'. It is widely believed that the identification of these averages will result in outlying authorities being pushed towards that average whether through the EFA requesting formula changes, this has been reported in other local authorities but appears not to be the case in Leicestershire, or through further directions to local authorities for change in 2014/15.
35. It is however clear that there will be further reviews before the expected implementation of the national funding formula scheduled to commence in 2015. Schools Forum and Cabinet have already agreed to review the new formula during 2013/14, this will need to be aligned to any national timescales and expectations.

Conclusions

36. It has required a significant commitment from local authority officers, schools and Schools Forum to have achieved the level of progress in this extremely difficult and complex implementation to date, it is also clear that full implementation will require significant levels of resource up to and after implementation in April 2013.
37. The new system reintroduces a perverse financial incentive for providers, including schools, to push pupil needs to higher levels as the new system means more needs than more funding. The revised SEN criteria will act as a gatekeeper for this process but any increased needs that are unfunded by the DfE will result in the need for further de-delegation for schools and the unit rates of funding for specialist providers to be revisited.
38. Schools have been briefed on the changes but there are concerns whether they have fully recognised the impact of the changes, the consultation information has remained available on the Leicestershire County Council website as a reference point for schools who continue to be advised to consult it.
39. MFG is confirmed at -1.5% per pupil for 2013/14 and 2014/15, the DfE have confirmed it will exist in 2015/16 but not its level.
40. The national funding formula is expected to be confirmed for implementation in 2015/16, it is now widely believed that this will be an extension of the current changes through placing criteria and ratios on the national average

established on the 2013/14 formula proposals from local authorities although they have not ruled out formula changes again for 2014/15. The DfE have on a number of occasions confirmed that a national funding formula remains the direction of travel, they have also stated that Ministers accept that the movement to the national formula will create turbulence in school funding in 2013/14 and in 2015/16.

41. The DfE however, have not been forthcoming on how, or if, the funding disparity between local authorities will be dealt with. Whilst moving DSG to a different basis for 2013/14 historical funding issues that have been locked into that settlement given that school funding levels are a factor of the current level of local authority spending locked into the system through MFG and funding for high cost pupils remains based upon previous year spend rather than an objective assessment of need.
42. The detail of the 2013/14 is being drafted and cannot be completed until the 2013/14 DSG settlement is known. Forum will be aware that service reductions were necessary in order to fund the growing budget requirement for SEN in 2012/13 and 2013/14, to meet the reduction in DSG as schools convert to academies and to create provision for any deficit balances that fall to be met by the local authority resulting from mainstream school moving to be to sponsored academies. In completing the 2013/14 the longer term position of DSG will need to be considered alongside the budget for the next financial year.

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