

TO: SCHOOLS FORUM
DATE: 14 JULY 2011

DfE CONSULTATION ON SCHOOL FUNDING REFORM
Director of Children, Young People and Learning

1 INTRODUCTION

- 1.1 This report updates members of the Forum on the initial proposals from the government on school funding reform, which may be introduced from 2012-13. At this stage consultation has been limited to rationale and principles with specific proposals for reform expected before the autumn.

2 SUPPORTING INFORMATION

Overview

- 2.1 On 13 April, the Government launched two parallel, six-week consultations on school funding: 'School funding reform - Rationale and principles'; and 'Academies pre-16 funding – Options for the 2012/13 academic year'. The closing date for responses was 25 May.
- 2.2 The first is a preliminary consultation on the aims and objectives of the school funding system, and the high level principles of a potential move to a national funding formula as anticipated in the schools White Paper, *The Importance of Teaching*. This will be followed by a further consultation, originally expected to be later in the spring or in early summer, taking account of the response to the current document. To date, no further consultation has been published.
- 2.3 The second explains why the Government believes the current model for funding Academies is unsustainable, and explains why it wishes to make changes in the financial year 2012/13 (FY2012/13) if reform to the overall funding system is not in place by then. It describes the options (including a preferred option) for funding Academies, possibly as an interim measure, in FY2012/13.

Consultation on school funding reform: rationale and principles

- 2.4 An ideal school funding system would have certain key characteristics. It would:
- distribute money in a fair and logical way
 - distribute extra resources towards pupils who need them most
 - be transparent and easy to understand and explain
 - support a diverse range of school provision
 - provide value for money and ensure proper use of public funds.
- 2.5 The paper makes clear that the Government believes that schools are best placed to make decisions about how to use funding for their pupils. It goes on to describe the flaws in the current system, which mainly centre around the fact that the Dedicated

Schools Grant (DSG), created in 2006/07, is largely based on the funding levels in 2005/06 (so-called 'spend plus' methodology). This was mainly determined by an assessment of local authorities' needs at the time (based on data that were already becoming out of date), and the amount that local authorities each chose to spend on schools (itself partially based on decisions made several years previously). As a consequence, the present system is judged to fall short of an 'ideal system' on the grounds of being opaque and complex; unfair, in leading to schools with similar intakes receiving very different funding; failing to reflect current need accurately; and not supporting the new school system, in which the number of Academies is growing rapidly, and they and Free Schools should be funded on a transparent and comparable basis with maintained schools.

- 2.6 The **Pupil Premium** was introduced as the first step towards a 'fair' funding system, worth £430 per child in 2011/12 with an expectation that the value per child and the number of children eligible will increase as the total spent on the premium increases from £625 million in 2011/12 to £2.5b billion in 2014/15.
- 2.7 A national 'fair funding' formula could lead to all schools' budgets being set according to the formula, or could operate by setting a national expectation of funding and an aggregate level of funding for maintained schools within each local authority, but allowing authorities (in consultation or agreement with their schools) to vary the actual budgets to meet local circumstances or locally agreed priorities. Setting overall funding levels in accordance with a consistent formula would lead to clear accountability for the decisions taken by central and local government. However, it would also raise questions about the funding of Academies and Free Schools, and whether their funding should also be affected by local flexibility.
- 2.8 At present, there is no set national definition of the balance between the funding **delegated** to individual schools and that **retained** by local authorities, nor of all the functions that should be delegated or retained (as these are currently matters for local decisions). A move to a national formula, with or without local flexibility, would require a clear divide between these responsibilities and the funding for them – though it is likely that schools would remain free to decide to operate particular functions through the local authority or otherwise.
- 2.9 The need is recognised for local authorities to retain substantial resources outside the funding formula for '**high cost**' pupils with **special educational needs** or **disabilities**, and the second consultation will include proposals for how this model could work. This first consultation raises three issues previously raised in the recent Green Paper, *Support and aspiration: a new approach to special educational needs and disability*: funding for SEN support services (to operate across maintained schools, Academies, Free Schools and other providers); a banded funding framework; and alignment of funding across the age range.
- 2.10 The consultation also covers **early years funding** and the recently introduced early years single funding formula (EYSFF), on which it says feedback has been mixed. If a national funding formula were introduced, the relationship between free early education funding and the formula, and how early years funding is distributed, will need to be clarified.
- 2.11 **Elements of a national fair funding formula** would include direct and proxy indicators that attempt to measure the needs of different children, which will be subject to more detailed consultation in the next stage. Meanwhile, this first stage raises the issues of pupil and school characteristics, pupil factors for inclusion in a formula, and issues around complexity and simplicity.

- 2.12 On the **transition to a new funding system**, the document makes clear that levelling the funding for schools in similar circumstances would lead to some significant changes in current funding levels. It raises questions about the level of annual change that schools can manage, the time needed to plan for change, and the system of 'floors and ceilings' that would be needed to provide protection from 'undue' turbulence. It also asks about the best time to start moving to a national formula.

Academies' pre-16 funding: Options for the 2012/13 academic year

- 2.13 If reforms to the school funding system are not in place by 2012/13, the Government believes that there is a strong case for changing the way Academies are funded in advance of changes to the rest of the sector. This document explains why it believes the current model is unsustainable, and would want to make changes for funding Academies in the financial year 2012/13 (FY2012/13). It makes clear that the Government thinks it is 'imperative to make improvements in the way Academies are funded from academic year 2012/13 (AY2012/13)', and consults on interim changes that could be made in advance of wider reform.
- 2.14 Under **the current system**, Academy funding for the AY2011/12 will be made up of the following main blocks: general annual grant (GAG), LA central spend equivalent grant (LACSEG), insurance payment, and pupil premium. This is believed to be over complicated and to have a number of consequential flaws: it lacks transparency; it does not quickly reflect changes in local circumstances; there is a risk of error during replication; the process becomes more difficult (and less appropriate) as the number of Academies grows; it is not sustainable with the growing number of Academies; and it is not administratively efficient.
- 2.15 Characteristics of an alternative method for funding Academies in AY2012/13 would be that it would:
- enable a smooth transition to a new approach across the funding system
 - ensure that funding is equivalent between Academies, free schools and the maintained sector
 - be transparent and easy to understand.
- 2.16 The paper describes three main options, though it points out that it is impossible to show the precise impact of any of these for an individual Academy as this would involve detailed modelling work for which the data is not currently available.
- 2.17 **Roll forward** (the preferred option): per pupil funding amounts would be kept level, rolling forward the per pupil school budget share figures from the previous year, before any transitional protection such as the minimum funding guarantee (MFG) was applied. The consultation does not propose any MFG next year, but if there were any it would be applied to Academies as well as the maintained sector. This option could lead to the budgets of individual Academies either increasing or decreasing, depending on how pupil numbers fluctuate. It has the advantage of funding being predictable, but the drawback that some funding levels, such as deprivation funding, would remain tied to historical funding levels.
- 2.18 A **fair funding formula for Academies only** could be introduced following consultation later this year. It would be a useful way to trial a national formula for all

schools, but would lead to funding for Academies moving significantly away from comparable maintained schools, thus not meeting the principle that Academies should have neither a financial advantage nor disadvantage.

- 2.19 **Local authority based calculations**, using formulae authorities already hold, could be used to calculate Academy budgets. This would enable calculation on the financial year data closest to the academic year going forward, which would not be lagged as it is at present; but Academies would receive indicative and final funding allocations later than at present – and they would be more reliant on local authority formulae and decisions.

Comment

- 2.20 The implications of the changes proposed in these consultations are potentially significant, such as any potential shift of resources between (and within) the maintained and other sectors, or between local authorities with different characteristics.
- 2.21 One issue that needs consideration is the potential effect of a ‘flat rate’ formula based on pupil characteristics (and, indeed of the pupil premium) whereby the increasing challenges generated by high concentrations of deprivation, including multiple deprivation, are inadequately reflected in the funding allocated. There is an argument that the level of additional funding for deprived pupils should reflect the concentration of such pupils together, as well as their individual characteristics. The second stage of the consultation is due to include more detail of possible indicators, and the balance between them.
- 2.22 It seems highly unlikely that the broader reforms proposed will be in place by 2012/13, and therefore very likely that an interim system for Academies will be introduced; it is therefore essential that this does not have the effect of creating any differential between the Academy and maintained sectors.

3 EQUALITIES IMPACT ASSESSMENT

- 3.1 Not applicable.

4 STRATEGIC RISK MANAGEMENT ISSUES

- 4.1 None apparent at this stage. The final consultation proposals will require a full risk assessment.

Background Papers

Local Government Information Unit (LGIU) briefing

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