

TO: SCHOOLS FORUM
15 SEPTEMBER 2011

**DfE CONSULTATION ON SCHOOL FUNDING REFORM:
PROPOSALS FOR A FAIRER SYSTEM
Director of Children, Young People and Learning**

1 PURPOSE OF REPORT

- 1.1 The purpose of this report is to inform members of the Schools Forum about the proposals set out in the Department for Education (DfE) *Consultation on school funding reform; proposals for a fairer system*. The Forum is also asked to consider what response, if any, it wishes to make to the consultation.

2 RECOMMENDATIONS

- 2.1 To **NOTE** the content of the DfE consultation on school funding reform;
- 2.2 To **CONSIDER** what response, if any, should be made, and how this can be finalised.

3 REASONS FOR RECOMMENDATIONS

- 3.1 The DfE are seeking comments on their proposals.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Not applicable.

5 SUPPORTING INFORMATION

Background

- 5.1 The DfE *Consultation on school funding reform; proposals for a fairer system* builds on the responses received to the previous consultation *School funding reform - Rationale and principles* that was reported to the Forum in July. The initial consultation was limited to rationale and principles to be used in a future funding system with this latest consultation now presenting detailed proposals, although there remains a lack of information relating to the likely financial impact on individual local authorities and their schools.

Proposals

- 5.2 This is a complex and substantial consultation – the DfE are seeking comments on 47 – with proposals for change being made on a number of sensitive areas. This is an important consultation as it will dictate the future distribution of funding for education services to local authorities and schools.

- 5.3 The full consultation document (55 pages), annexes (20 pages) and equality impact statement (11 pages) can be viewed at:

<http://www.education.gov.uk/consultations/index.cfm?action=consultationDetails&consultationId=1765&external=no&menu=1>

Key elements of the proposals

The national funding system

- 5.4 The stated aim is for the funding system to be much more transparent and more clearly reflect need. There is no intention to change current funding responsibilities by moving items in or out of the Schools Budget, although attempts have been made to clarify some matters. Moving forward, four funding blocks are proposed:

- 1 Schools
- 2 High Needs Pupils
- 3 Early Years
- 4 Central Services (items not suitable for delegation)

Annex A sets out the proposed services to be covered by each funding Block, with further information and comment below.

A fifth Block of funding is also relevant to Education, but this is financed from the general resources available to local authorities and not the Dedicated Schools Grant (DSG), so more directed to local authorities rather than schools.

- 5.5 In addition, the consultation states the desire for a funding system which enables local circumstances to be considered, yet secures national consistency so that all schools across the country are funded on a fair and comparable basis. The consultation also makes clear that it is a fundamental principle for Government that Academies are funded on a fair and equitable basis in relation to maintained schools and that any school wishing to convert to an Academy is neither deterred nor incentivised by the financial consequences. The same principle should apply to Free Schools.
- 5.6 Local authorities will continue to be funded for Education through a ringfenced grant which will be required to be spent on the functions it has been allocated for. However, the individual Blocks of funding will not be ringfenced allowing movement between Blocks where this is agreed locally. The current restrictions to limit increases in spend centrally retained by local authorities to no more than funding delegated to schools, together with the Minimum Funding Guarantee, that sets a minimum change in per pupil funding for each school, will both be retained.
- 5.7 Clear definitions of which services each Block is meant to fund have also been proposed as well as the responsibilities of schools, Academies and local authorities. In terms of the position in BF, some changes to current financial delegations will be required to meet to new arrangements. School Block 1a – responsibility of schools and academies - would require delegation of funding for 14-16 practical learning options, admissions authority functions (where a school is its own admissions authority), the future school responsibility for securing careers guidance and probably some areas of support for pupils with low cost high incidence SEN below the threshold, indicated at around £10,000 in the consultation.

- 5.8 To remove the complexity in the current system of funding Academies for the central services financed through the Schools Budget (the top slice process), the consultation proposes that responsibility for the relevant services as set out in Schools Block 1b is delegated to schools and therefore included in the base formula budget of an Academy, thereby removing the need for a subsequent top up. The areas requiring delegation in BF would be licences / subscriptions, supply cover e.g. maternity leave, support for ethnic minority pupils or underachieving groups and support for low cost high incidence SEN and behaviour support services. The consultation proposals do allow central retention of funding for these services if agreed by the Schools Forum or a vote by all schools, but for Academies, the relevant share of funding would be included in their base budget.
- 5.9 In addition to the assumed delegation of the items listed directly above in paragraph 5.8, the consultation also proposes that Academies receive a share of the school specific contingency and budgets to support schools in financial difficulty. This is a change from the current arrangements and does not seem appropriate as these budgets are only allocated to schools if they meet agreed criteria. The purpose of creating these budgets was to target resources where they are needed and not to be allocated to all schools which is now proposed. In Bracknell, these budgets are used to fund schools for in-year increases in the cost of supporting statemented pupils, changes in the number of 3 and 4 year olds eligible to free education and childcare and schools experiencing significant in-year increases in pupil numbers.
- 5.10 Should all of the services in the Schools Block – both 1a and 1b – be delegated, then around £3.2m of the £13.1m currently managed by the Council would be passed on to schools. This would amount to average increases in funding of around 5%, and with schools becoming financially responsible for meeting any future costs.
- 5.11 Education services that must be provided or paid for by the local authority from their own resources have also been clarified and divided between those that must be provided for all maintained schools and Academies, and those that will be provided to maintained schools but would be within Academy budgets with Academies responsible for their future provision. Rather than make an individual top up calculation for each local authority based on individual budgets recorded in section 251 statements, there is a proposal to move to a consistent formulaic basis, although no specific details of the formula have been included. These services are funded from the general resources available to local authorities and not the DSG.
- 5.12 Proposals for the **Schools Block** formula are for four elements; a basic per pupil entitlement; additional funding for deprived pupils; protection for small schools; and an area cost adjustment to reflect areas of the country facing the highest expenses. There is the possibility that a fifth element could be added relating to pupils who have English as an Additional Language, but no decision has been made on this. To ensure a “balanced assessment”, the DfE intends to make a judgement about the weighting applied to each element of the formula at the same time when all the relevant information is available.
- 5.13 The basic entitlement would form the core per-pupil funding which will be allocated for each pupil, with the amount varying by age. Deprivation funding, which will be in addition to funds allocated through the Pupil Premium, is proposed to be allocated on the basis of Free School Meals eligibility, but extended to any child who has been eligible in either the last 3 or 6 years, not just those currently eligible.
- 5.14 Protection for small schools will be limited to primary schools only. There are two options proposed in the consultation; a fixed amount for all primary schools, currently

estimated at £95,000; or an allocation based on relative sparsity of population, which is the current method used in the DSG. If sparsity is to be the indicator used in future, the measure is likely to change and the consultation also asks whether the threshold should be narrowed from the current 1 million pupils attracting funding to say 300,000. Bracknell currently receives sparsity funding, but should the threshold be narrowed as indicated, this would be lost.

- 5.15 The Area Cost Adjustment is a significant element for funding for Bracknell, and the consultation makes mention that the current formula results in “generous allocations to Inner London and the M4 corridor”. This factor attempts to compensate areas with the highest labour costs with enhanced per pupil funding. Two options for an Area Cost Adjustment are identified with significant reductions for Bracknell indicated in the “Combined Approach Area Cost Adjustment”.
- 5.16 In terms of a factor to allocate funding relating to English as an Additional Language and Underperforming Ethnic Groups, the consultation is uncommitted on whether this should be included, but if it is, the funding would be limited to reflect the general need for support only in the first few years when a pupil enters school. The evidence from test results indicates that it is deprived children who do least well, and the Pupil Premium allocates funding for this purpose.
- 5.17 The DfE are considering two ways to calculate the Schools Block funding for local authorities; either producing an indicative budget for each school in a local authority, which could then be compared to the budget calculated locally in conjunction with the Schools Forum, or a budget based on the pupils in the area.
- 5.18 The most complex area of the funding proposals relates to **High Needs Pupils** and there are 17 questions posed on this subject. Note the Schools Block does not include funding for Special Schools, Special Units in maintained schools or provision for individual pupils above a threshold, suggested in the consultation at £10,000. These are funded through this High Needs Pupils Block.
- 5.19 Whilst there is no definition of “high needs”, the DfE are focussing on children where their individual cost of education exceeds £10,000 per annum. Responsibility for funding such children covers the age range of 0-25, with this consultation looking at arrangements for pre-16 pupils, and the Young People’s Learning Agency (YPLA) working towards providing local authorities with a single budget for high needs learners with SEN or learning difficulties and disabilities (LD/D) up to the age of 25 from 2013-14.
- 5.20 This consultation is also designed to be compatible with potential future developments around SEN funding highlighted in relevant Green Paper, and specifically around the potential to give individual people control of budgets (“direct budgets”), rather than local authorities and schools, and the potential introduction of a national banded funding framework for children and young people with SEN or who are disabled.
- 5.21 In terms of the specific proposals for high needs pupils in the consultation, a set of principles have been proposed that then form the basis for the proposed changes that follow.
- 5.22 There is a concern in the DfE that local authorities often place children in the most cost effective establishment rather than the one best placed to meet the impartially assessed needs. For example, if a local authority funds a special school on the basis of a set number of places, where there is spare capacity in the school, the local

authority can make further placements at no additional cost. Placing the child in an alternative provision would result in additional expenditure.

- 5.23 To overcome this, the consultation proposes that the national funding system would recognise only children where their individual cost of education exceeds £10,000 per annum as High Cost (this figure is based on research undertaken by PricewaterhouseCoopers in 2009). Funding for costs up to £10,000 would need to be met from the Schools Block.
- 5.24 In practice this means that specialist SEN settings would have base funding of £10,000 per place / pupil. The requirement for funding above this level would be determined by the local authority on the basis of individual pupils' needs, with additional funding paid to the provider. The same basic approach is proposed for post 16 pupils, but there are added complications based on whether a young person stays in a school or enters FE. As set out above in paragraph 5.19, the YPLA are working on proposals to move this funding onto a consistent basis with pre 16 learners. Short term measures are proposed for Special and Alternative Provision (AP) Academies e.g. Pupil Referral Units, and Free Schools, with the longer term proposal, from 2013-14 that the Education Funding Agency (EFA), which is a new DfE executive agency, responsible for capital and revenue funding for 3-19 education and training, funding a basic £10,000 per place / pupil and the commissioner (likely to be the local authority) funding top-ups based on individually assessed needs.
- 5.25 The consultation also considers whether institutions providing for high needs children and young people should be funded on planned places or actual numbers of pupils. There is a tension between paying for unused places – the average occupancy level in maintained special schools is 90% - and providing sufficient financial security for providers with what can be temporary low occupancy levels to ensure sufficient provision is available when required. The DfE offer 4 options for this issue and 3 alternatives for funding Special and AP Academies and Free Schools.
- 5.26 The consultation also considers specific issues of AP. There are concerns that children are being retained in what should be temporary provisions for longer than intended by law, that current information on costings is therefore overstated and the forthcoming trials giving financial responsibility to schools for pupils whom they exclude, if extended, would require creating a financial relationship between APs and schools. Views are sought as to whether APs should be treated alongside high needs SEN for funding purposes.
- 5.27 The **Early Years Block** intends to fund providers delivering the universal free entitlement to 15 hours a week early education for 3 and 4 year olds. The Early Years Funding Formula (EYSFF) is welcomed as having provided funding on a consistent basis to providers, but parts are considered complex, and as for funding mainstream schools, the number of available factors – or supplements as they are called in the EYSFF – may be restricted, although a deprivation supplement is expected to remain, albeit operating on a different basis. This could include a national rate to apply for deprivation funding, either a cash value or percentage of total spend, use of more consistent eligibility criteria, such as Free School Meals data only, or target deprivation to settings, rather than to individual children.

Setting the level of resources for each Block

- 5.28 Over time, the intention of the DfE is to move towards a formulaic approach to calculating the resources to be distributed through each Block. The starting point however will be the budgets of each authority in 2012-13. This will reduce as far as

possible the likelihood of turbulence in budgets and will also limit the impact from the reforms.

Pupil Premium

- 5.29 The Pupil Premium will continue as the main mechanism to fund schools for deprivation and will remain outside the rest of the education funding system. There are no proposals to change the method of distribution – eligibility to FSM will continue – but the scope is proposed to be extended, but due to additional resources already being committed to be delivered through the Premium, per pupil funding is still expected to increase.
- 5.30 The consultation proposes to move away from funding only those pupils currently eligible to a FSM to those that have been eligible any time in the past 3 or 6 years. Moving to eligibility over the past 3 years adds around 250,000 pupils, moving to 6 years adds around 500,000.

Local systems for funding education

- 5.31 Local authorities, in conjunction with their Schools Forums will still have powers to set a locally determined funding formula for their schools, but in future there will be a smaller number of available factors, and the monetary value that can be allocated through “localised formula factors” will also be limited. The consultation proposes the local formula factors could cover:
1. Basic entitlement per pupil (currently Age-Weighted Pupil Units)
 2. Funding for additional educational needs (e.g. deprivation, SEN, EAL)
 3. Rates
 4. Exceptional site factors (e.g. split site, PFI and rent)
 5. Lump sums for schools

- 5.32 The consultation also sets out the aim that local funding formulas should be comparable with the national funding delivered through the Schools Block in terms of weightings applied to primary and secondary aged pupils. The national formula proposes to adopt the average ratio of funding between primary and secondary stages at 1.27. To minimise potential turbulence in school budgets if all local authorities adopted the national 1.27 ratio, the intention is to set an allowable range around the national average.
- 5.33 As set out above in paragraphs 5.7 to 5.10, the current consultation proposals will require additional delegation to schools for services currently managed centrally by the Council. It is likely that the Council would seek to provide a buy-back service for newly delegated items, subject to sufficient demand from schools.

Accountability

- 5.34 At present local authorities are required to consult with their Schools Forums on the construction of their local formulae and individual school allocations. However, this is purely a consultative duty and Schools Forums do not have the power to approve or disapprove local authority formulae. This consultation suggests this could be detrimental to the interests of minorities (or those schools who are not represented specifically by a member of the Schools Forum).
- 5.35 The consultation also raises concerns about the diversity of representation on Schools Forums and their political independence. The extent to which Academies

participate on Schools Forums is considered variable, with some Academies playing an active part in Schools Forums and others being less involved with the local authority. To improve local accountability, the consultation considers:

1. whether the main groups on the Forum – e.g. primary maintained, secondary maintained and Academies – should all separately have to approve a proposed formula
2. whether the Forum should have more decision making powers – including the power to approve or disapprove funding formulae and allocations.

5.36 There are also proposals for national scrutiny and challenge which it is suggested would be undertaken by the EFA. The EFA could require annual statements from local authorities to check local funding formulas comply with statutory requirements and also undertake reviews should schools raise concerns about local authority decisions.

Transitional arrangements

5.37 The consultation recognises that the proposed changes could introduce significant turbulence in school budgets. They will require funding to be moved between schools and areas, and will take time to have effect as ensuring stability in school funding remains a key objective. Transitional arrangements will apply from the outset to ensure that the reforms are introduced at an appropriate speed that is manageable for schools. These transitional arrangements will limit the year on year change to schools' budgets so that there is stability in budgets while the reforms are introduced.

Comments from BFC on the proposed Funding Arrangements

5.38 This is a complex and sensitive consultation with little information from the DfE on the likely financial impact on individual authorities from the proposals. However, some of the proposals do indicate the potential for a significant loss of income to Bracknell, most notably around the Area Cost Adjustment and sparsity. The proposed transitional arrangements will protect the authority and schools in the short term, but in the longer term, it seems that a loss in total funding is possible.

5.39 Specific comments on parts of the consultation have been added above where relevant.

Next steps

5.40 The consultation runs for 12 weeks from 15 July to 11 October. The DfE will then undertake further work during the autumn with a view to publishing a 'shadow settlement' in the spring of 2012, alongside further options for the timings for reform. This will allow final consultation on the detail and help identify any potential problems that need to be resolved before full implementation, which is proposed from 2013-14 or 2014-15.

5.41 In the interim, local authorities are recommended to begin to consider what changes could be made to their local formulae in order to make them simpler and transparent in line with the proposals for the future.

5.42 The council has yet to complete its reply to the consultation so is not in a position to share views with the Forum. The next meeting of the Forum is after the deadline for responses set by the DfE, so this is the only opportunity for the Forum to consider

together its own response, if one is to be made. The Forum may wish to consider at the meeting whether steps should be taken to formulate a response.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

6.1 The relevant legal provisions are addressed within the main body of the report.

Borough Treasurer

6.2 The Borough Treasurer is satisfied that no significant financial implications arise from this report. Any changes implemented will need to be evaluated for their financial implications.

Impact Assessment

6.3 Government proposals and therefore not applicable.

Strategic Risk Management Issues

6.4 There are no specific strategic risk management issues at this stage.

7 CONSULTATION

Principal Groups Consulted

7.1 None.

Method of Consultation

7.2 Not applicable.

Representations Received

7.3 Not applicable.

Background Papers

DfE consultation document

Contact for further information

David Watkins, Chief Officer: Strategy, Resources and Early Intervention (01344 354061)
David.watkins@bracknell-forest.gov.uk

Paul Clark, Head of Departmental Finance
mailto:paul.clark@bracknell-forest.gov.uk

(01344 354054)

Proposed functions within each funding Block

(Those items in italics are currently within the schools budget).

Block 1 - Schools	
<p>Block 1a Responsibility of Schools and Academies</p> <p><i>Staff costs*</i> <i>Premises costs*</i> <i>Learning resources*</i> <i>Supplies and services*</i> <i>Finance*</i> <i>HR*</i> <i>Payroll*</i> <i>ICT support*</i> <i>Legal services*</i> <i>Caretaking and cleaning*</i> <i>Building maintenance*</i> <i>Day to day health and safety compliance*</i> <i>Training and professional development*</i> <i>Governor training*</i> <i>Grounds maintenance*</i> <i>Staff absence cover* (except for limited central retention)</i> <i>Premature retirement costs (unless agreed otherwise by LA)</i> <i>Funding threshold and performance pay**</i> <i>14-16 practical learning options**</i> <i>School meals**</i> <i>Extended services/community facilities (other than joint use)**</i> <i>Admissions authority functions (where a school is its own admissions authority)</i> <i>Securing careers guidance</i> <i>Support for pupils with low cost high incidence SEN below the threshold</i></p>	<p>Block 1b Could be delegated or centrally retained for maintained schools, but would be within academy budgets</p> <p><i>Support for schools in financial difficulties</i> <i>Allocation of contingencies</i> <i>Free school meals eligibility</i> <i>Insurance</i> <i>Licences/subscriptions</i> <i>Supply cover – long-term sickness, maternity</i> <i>Support for minority ethnic pupils or underachieving groups</i> <i>Support for low cost high incidence SEN</i> <i>Behaviour support services</i> <i>Library and museum services</i></p>

Block 2 – High Needs Pupils	Block 3 – Early Years
<p><i>Provision for pupils above threshold - individually assigned resources (can be delegated)</i></p> <p><i>Special schools (delegated budget)</i></p> <p><i>Special units in maintained schools (delegated budget)</i></p> <p><i>Pupil Referral Units</i></p> <p><i>Independent special school fees</i></p> <p><i>Inter-authority recoupment</i></p> <p><i>Support services for high cost low incidence SEN (could be contracted to special schools/special units)</i></p> <p><i>SEN support for children under five</i></p> <p><i>Education out of school and other alternative provision</i></p>	<p><i>Early Years Single Funding Formula</i></p> <p><i>Central expenditure on under 5s</i></p>
Block 4 – Central Services	
<p><i>Co-ordinated admissions scheme</i></p> <p><i>Servicing of schools forums</i></p> <p><i>Supply cover for LA-wide trade union and other public duties</i></p> <p><i>Carbon Reduction Commitment</i></p> <p><i>Schools forum approved DSG funding of non-schools budget items:</i></p> <ul style="list-style-type: none"> <i>Contribution to combined budgets</i> <i>SEN transport</i> <i>Termination of employment costs</i> <i>Capital expenditure funded from revenue</i> <i>Prudential borrowing costs</i> 	

Block 5 – LA responsibilities (i.e. funded outside DSG)

Block 5a	Block 5b
Responsibility of local authority for all maintained schools and Academies	Responsibility of local authority for all maintained schools, but within Academy budgets (LACSEG)
<p>Mainstream home to school transport</p> <p>Strategic capital and school place planning</p> <p>Management of PFI contracts (including academies which have converted since the contracts were signed) and landlord premises functions for relevant academy leases</p> <p>Education Welfare service – prosecutions for non-attendance, tracking children missing from education</p> <p>Responsibilities for home educated pupils</p> <p>Pupil support</p> <p>Co-ordination of early years provision and other duties under the Childcare Act</p> <p>Commissioning of children’s centres</p> <p>Strategic planning of children’s services including DCS</p> <p>Inherited ongoing termination of employment costs</p> <p>Provision for disabled children</p> <p>Specialist equipment</p> <p>Educational Psychology service (this does also support other pupils)</p> <p>Statutory assessment procedures</p> <p>SEN monitoring and quality assurance</p> <p>Securing information and mediation services, including Parent Partnership</p> <p>SEN home to school transport</p>	<p>School improvement</p> <p>Asset management (other than strategic capital planning) including health and safety</p> <p>Other landlord premises functions (in the case of community schools)</p> <p>Education welfare service (excluding prosecutions)</p> <p>Redundancy costs (unless good reason to charge to school)</p> <p>Internal and external audit</p> <p>Financial accounting requirements – including accounts, returns, VAT returns</p> <p>Financial assurance</p> <p>Procurement advice and compliance</p> <p>Teachers pension returns and local government pension scheme administration</p> <p>Strategic HR employer functions (in the case of community schools)</p> <p>Appointment of LA governors</p> <p>Joint use arrangements</p> <p>Music services</p> <p>Visual and performing arts</p> <p>Outdoor education</p>

* - already within delegated budgets
 ** - currently optional central retention