

TO: SCHOOLS FORUM
DATE: 15 SEPTEMBER 2016

UPDATE ON SCHOOL AND EDUCATION FUNDING
Director of Children, Young People and Learning

1 PURPOSE OF REPORT

- 1.1 To update on the potential implications to the council and schools from consultations issued by the Department for Education (DfE) relating to proposed changes to education and school funding. This provides a more detailed response to the verbal update presented to the last meeting of the Forum on 10 March.

2 EXECUTIVE SUMMARY

- 2.1 Significant changes are proposed by the DfE to the way schools and education in general are funded and there will be a greatly reduced future role for LAs. The Education Funding Agency (EFA), the executive agency of the DfE, intends to put in place a Schools National Funding Formula (SNFF) to directly fund all schools with no involvement of LAs. The main financial responsibility remaining with LAs will relate to the high risk Special Educational Needs budgets and those relating to Early Years.
- 2.2 From 2017-18, there will be a significant reduction in grant funding from the DfE to councils to provide education related services. This, together with other pressures from the proposals will require a review of what services should continue to be provided and at what level. This is likely to cut across some of the existing Transformation Projects where elements of these services are already subject to review. The initial provisional financial assessment is a potential aggregate pressure of £2.161m, with the possibility to make savings of £0.665m, resulting in an overall net pressure of £1.496m.
- 2.3 In addition, there has been increased debate about whether all schools should be forced to become academies which has stimulated interest and may accelerate the number of conversions. The Council and schools therefore need to consider the best approach to be taken with academy conversions.
- 2.4 A new Transformation project has been included for CYPL on the proposed education changes for which there is representation from 1 secondary and 3 primary head teachers.

3 RECOMMENDATIONS

To NOTE:

- 3.1 the changed role for LAs in supporting schools, the potential for significant financial implications that could arise, and the requirement to review services that support schools and education related services in order for them to be operating on an affordable cost base.**

- 3.2 the changes likely to impact on schools, including the introduction of a Schools National Funding Formula, the additional £500m expected to be added to the SNFF to ensure those schools gaining from the changes receive an early benefit, the new role of LAs in supporting schools and the expectation of enhanced hourly funding rate payments to be paid to early years providers.**

4 REASONS FOR RECOMMENDATIONS

- 4.1 To provide an update on anticipated changes to school and education funding, including an outline of the potential financial and other implications that need to be managed.

5 ALTERNATIVE OPTIONS CONSIDERED

- 5.1 These are set out in the supporting information.

6 SUPPORTING INFORMATION

Background

- 6.1 On 7 March, the DfE issued 2 substantial consultations on school and education related funding in respect of introducing a Schools National Funding Formula (NFF) and changing how funding is allocated to LAs for High Needs Pupils i.e. those in general with support needs in excess of £10,000. A verbal update on the consultations was presented to the Forum at its last meeting on 10 March. This therefore represents a more detailed update.
- 6.2 These consultations represent the first of a 2 stage process, with stage 1 setting out the case for change, the principles to be adopted and outline changes being proposed, with stage 2, later in 2016 making firm proposals which are expected to include details of anticipated financial implications. Therefore, the full financial implications are not yet apparent and won't be for some time, but it is clear that the council faces a significant reduction in funding and the removal of current responsibilities with a knock on effect expected on the services to be provided to schools.
- 6.3 The deadline for responses to stage 1 of the 2 main consultations was set for 17 April. To date, the DfE has yet to publish its stage 2 firm proposals although operational guidance for setting 2017-18 budgets has been issued to LAs by the DfE, and these are summarised below from paragraph 6.15.
- 6.4 The initial consultation documents also highlighted that 4 further consultations will follow relating to Early Years, School Improvement, Alternative Provision (i.e. Pupil Referral Units and home tuition), and post 16 SEN funding. Therefore, it is an emerging picture with further changes to follow. More information on the recently launched DfE Early Years funding consultation is set out below from paragraph 6.26.
- 6.5 Alongside the ongoing funding consultations, the DfE also published in March 2016 the White Paper - Educational Excellence Everywhere, and this unusually was headlined in the Chancellor's Budget Speech. The White Paper promotes academisation and there are options to consider with regard to future delivery models

for the LA which will be explored with schools and through the work of a new Transformation Project.

6.6 Moving forward, the DfE have set out the future role of LAs in education being centred around 3 main areas:

1. Securing that sufficient school places are available, ensuring fair access through admissions and working with schools to develop local transport policies, and taking a lead in crisis management and emergency planning
2. Ensuring the needs of vulnerable pupils are met: identifying, assessing and making provision for all children with SEN and disabilities; promoting attendance; and making sure that alternative provision is available for children and young people excluded from school or otherwise unable to attend a mainstream school; leading on safeguarding for those pupils in unregulated settings, educated at home, tracking children missing education as well as those at risk of extremism; working with schools to ensure they understand and discharge their safeguarding duties; acting as a corporate parent for looked-after children and those adopted from care
3. Acting as champions for all parents and families: listening and promoting the needs of parents children and the local community; supporting parents in navigating the system and ensuring children do not fall through the gaps; supporting children, young people and parents to navigate local SEND arrangements (such as providing information, advice and support); and championing high standards locally.

6.7 A number of education related services are currently funded from general council funds, such as school transport, the SEN statementing process, Education Psychology and planning for the supply of sufficient school places. These are outside the scope of the consultations and have current budget allocations of around £3.5m.

Overview of the proposed Schools National Funding Formula (NFF)

6.8 Annex A sets out a full briefing on the Stage 1 proposals with the key points to note:

1. That the NFF will include 4 elements; a core per pupil amount payable equally to all schools; an additional needs top-up, likely to be linked to FSM eligibility and low family income, low prior attainment and English as an additional language; fixed school costs, such as rates; and an uplift for high cost areas.
2. BF schools are most likely to gain from the changes if the core per pupil and area cost elements have a high weighting. A high weighting to additional needs is likely to result in a funding reduction for BF schools. The relative weighting will be set out in stage 2 of the process.
3. EFA will directly allocate budgets to schools at which point LAs will no longer have a role in setting school budgets and allocating funds. LAs will continue to calculate and distribute funding to schools through their existing local funding formulas in the short term, but their total allocation for schools will be based on the NFF calculation of the overall LA Schools Budget, so will be different to the current amount. At this stage it is unclear at what point funding allocations to LAs will be based on the SNFF.
4. A minimum funding guarantee will limit budget losses at individual schools, to be financed from new money (see paragraph 6.13) and a cap on schools that gain.

Unrestricted

5. LAs will not be allowed to retain any schools block funding, including “de-delegated” budgets meaning more trading with schools or closure of services. BF currently manages around £2.4m of budgets on behalf of schools.
6. DfE are reducing LA involvement in education – including school improvement - and further cutting the funding source – the Education Services Grant - by £600m, which is expected to cost the Council around £1.24m when fully implemented.
7. Subject to Schools Forum approval, DfE will allow LAs to retain some budget from maintained schools to fund central services. This would be a new pressure on school budgets but unlikely to be sufficient to cover current costs.

6.9 The Council will need to:

1. Review the requirement for services currently supporting schools, including those delivering traded services through SLAs, and those fulfilling statutory duties as these will need to be self funding.
2. Consider the approach to be taken to academies as the reforms are likely to stimulate interest and also the number of conversions.
3. Be prepared for reduced levels of buy-back as schools become academies.
4. Prepare for the outcomes from stage 2 of the consultation when the full financial implications will be clearer.

6.10 Schools will need to:

1. Be prepared for the Schools NFF. This could result in further pressure on school budgets or increased funding and will become more apparent once stage 2 of the consultation is published.
2. The option of “de-delegation” will cease. Schools will need to decide whether they would buy-back the services if offered by the Council, or how they would be provided in-house, if required. There will no longer be a budget to support schools in financial difficulty unless schools contribute to a central fund.
3. DfE recognise that moving to a formulaic national funding approach for school costs will be problematic, especially for the growth fund where costs will be linked to current and future demographics / building programmes. This will be a significant issue for BF if there are insufficient funds to support the new schools that are expected to be built.
4. Consider in a measured way the changes ahead and their future direction as a maintained or academy school.

Overview of proposed changes to High Needs Funding

6.11 Annex B sets out a full briefing on the proposals with the key points to note:

1. This will be the main area of financial responsibility for LAs in respect of schools and education with a recognition from the DfE that an area wide strategic role is required for effective and efficient delivery of support to high needs pupils. For BFC, grant funding in 2016-17 is £11.7m with planned spend of £13.8m, which is financed by transferring £2.1m grant from the Schools Block.

Unrestricted

2. Total funding allocated for high needs pupils will be re-based to current levels of spend, not grant receipts. In future, LAs will need to manage high needs spend to the grant allocation as the existing ability to use School Block and Early Years Block grant allocations will be removed. This process will make the £2.1m funding transfer from schools to high needs permanent, within the national control totals for each funding block.
3. Funding allocations to LAs will move from historic spending levels to a formulaic approach using 5 nationally available proxy measures for needs; a basic £4,000 per pupil in a specialist institution, such as Kennel Lane Special School; low prior attainment from national tests at the end of primary education and GCSEs; health and disability data; deprivation at individual pupil eligibility to free school meals and the area deprivation level from where they live; and an amount per pupil aged 2 to 18.
4. In addition there will be an uplift for high cost areas and 2 layers of transitional protection for at least 5 years to limit losses at LA level. The length of transition period recognises that much of the spend is tied up in education fees for children that will remain in their existing provision for a number of years to come.
5. Some LAs will experience a reduction in funding and will need to examine ways of reducing costs, although this will not be known until later in 2016 when more information is provided in respect of weightings to be applied to the formula factors and the actual source data numbers.
6. The DfE will financially support LAs in the development of appropriate, cost effective SEN provisions through £200m of capital funding for invest to save type schemes and will confirm how this can be accessed later in 2016. However, there is no indication of extra revenue funding to support the transition from existing to new provisions and start-up costs, such as those being experienced at the Rise@GHC autistic spectrum disorder unit.
7. There are limited direct implications to schools from these changes.

6.12 The Council will need to:

1. Continue the successful management down of costs as evidenced in the £0.9m under spending achieved on high needs budgets in the 2015-16 financial year.
2. Proceed with the planned review of services funded through the High Needs Block to ensure that cost effect and appropriate services are being commissioned.
3. Prepare for the outcomes from stage 2 of the consultation when the financial implications will be clearer.

This is a more technical consultation compared to the NFF, with minimal impact on current responsibilities.

Budget announcement

- 6.13 In the 2016 budget, the Chancellor announced the government will provide around £500 million of additional core funding to schools over the course of this Spending Review, on top of the commitment to maintain per pupil funding in cash terms. The intention being that those schools gaining from the reforms should experience the benefit as soon as possible, rather than needing to use gains to fund the protection required for those schools that will lose money.

Unrestricted

Summary provisional financial implications

6.14 As set out above, at this stage it is not possible to accurately quantify the financial effects arising from the changes. However, Table 1 below sets out the potential issues identified at this stage with a provisional financial impact and anticipated timing. Clearly, these are all subject to change as more information emerges from stage 2 of the consultation so should be viewed with caution.

Table 1: Potential financial issues arising from DfE school and education funding reform

Item	2017-18 £000	2018-19 £000	2019-20 £000	Cumulative £000
<u>Anticipated loss of grant:</u>				
Loss of ESG	1,242	255	0	1,497
Less: Statutory duties ESG transferred to DSG central school block	-260	0	0	-260
Net loss of grant	982	255	0	1,237
<u>Potential cost pressures:</u>				
Loss of Schools Block Funding:				
- Family Intervention Project	0	0	100	100
- Looked After Children Education	0	0	134	134
- Looked After Children Transport	0	0	43	43
- Common Assessment Framework Co-ordinator	0	0	42	42
- Others	0	0	126	126
Underfunding of new Central Schools Block (assumes grant is 50% of actual costs)				
- School Admissions	88	0	0	88
- Servicing of Schools Forum	11	0	0	11
- Boarding Placements of Vulnerable Children	38	0	0	38
Loss of recharges on 'de-delegated' budgets				
- Schools in Financial Difficulty	0	0	60	60
- Official Staff Absence	0	0	10	10
- Free School Meals Eligibility Checking	0	0	10	10
- Behaviour Support Team	0	0	15	15
Pressure from school PRC/Dismissal costs	0	0	40	40
Loss of contribution to overheads from reduced trading with schools following academisation (75% of current level in 2017-18, then 50%, then 25%)				
- CYPL	45	45	45	135
- Corporate Services	24	24	24	72
Total potential cost increases	206	69	649	924
Total potential pressure	1,188	324	649	2,161
<u>Potential cost reductions:</u>				
(NB these could overlap with Transformation Projects)				
School Improvement (Service at 75% of current level in 2017-18, then 50%, then 25%)	-79	-136	-136	-351
Operation of BF School Funding Formula	0	0	-50	-50
Fund only 50% of services above that loose Schools Block Funding	0	0	-223	-223
<u>Potential additional income:</u>				
0.3% top slice to maintained schools	-121	40	40	-41
Total potential savings	-200	-96	-369	-665
Total potential net financial effect	988	228	280	1,496

All amounts and phasings are estimates.
Excludes any potential redundancy costs

Recent Developments

- 6.15 At the end of July 2016, the EFA issued *Schools Revenue Funding 2017-18 Operational Guidance*. This sets out the arrangements LAs need to make for next financial year, although a number of requirements are subject to updated funding regulations being adopted and the issuing of more detailed guidance. Key points to note at this stage are:

General:

- 6.16 There will be a one year delay to April 2018 for the following:
- 1 Implementation of the first stage of the schools National Funding Formula (SNFF). The original consultation proposed LAs run a “soft formula” for 2 years from April 2017-18, with funds allocated at LA level on the new SNFF calculation. Now LAs will continue to run the local funding formula in 2017-18 with DSG funding allocated through the current calculation, although this has been re-baselined so that each LAs DSG block (Schools, early years (EY) and high needs(HN)) now matches what they are spending rather than the grant allocation. This will facilitate the correct splitting of DSG Block control totals during the reforms but has no significant impact for 2017-18.
 - 2 The creation of a new central schools block in the Dedicated Schools Grant (DSG) to cover central school services, historic spending commitments on schools and the defined statutory duties that LAs provide for both community and academy schools.
 - 3 Discretion for LAs to set a local Minimum Funding Guarantee at a different rate from the national level of maximum reduction in per pupil funding of 1.5%.
 - 4 Ring fencing LA spend to the funds allocated in each DSG Block i.e. Schools, EY, HN.

It is unclear if all aspects of the funding reforms will slip a year, or just those set out above. Full implementation could remain at April 2019, or also possibly slip a year to April 2020.

Schools Block:

- 6.17 No LA will see a reduction in their 2016-17 per pupil funding rates in the Schools Block.
- 6.18 In respect of the ESG that notionally funds a range of LA retained education duties (See Appendix 1 of Annex A for current list):
- 1 Confirmed the 2015 Spending Review decision to make a saving of £600m on the Education Service Grant (ESG) by April 2019. BFC is expected to receive around £1.5m ESG in 2016-17.
 - 2 The ESG retained duties amount of £15 per pupil has been added into the 2017-18 DSG. BFC will receive £0.26m which is the amount anticipated from the stage 1 consultation. This is unlikely to cover costs, but this can't be determined until EFA confirm duties that need to be covered (see also point 4. below).
 - 3 The ESG general funding rate of £77 per pupil, to allow LAs to fund other ongoing education duties in respect of maintained schools only, will, as

Unrestricted

previously announced, be removed at September 2017. Transitional arrangements for April 2017 to September 2017 to be “confirmed later in the year”. BFC will receive around £1.25m for this element of ESG in 2016-17. Note the general rate is only paid for pupils in maintained schools (academy schools receive the funding for their pupils) so the grant receipt will reduce if more schools convert to academies.

- 4 To provide LAs with a funding source to pay for education services, Funding Regulations will be updated to allow LAs to retain some of the Schools Block funding to cover statutory duties. Precise duties this can cover will be set out in the “forthcoming consultation” on the Funding Regulations.
 - 5 The amount that can be retained will be based on an amount per pupil, for maintained schools only. It will in effect be a new charge to school budgets, with each £1 deduction generating around £0.016m. The amount of deduction must be agreed by the Schools Forum. The Secretary of State decides where no agreement can be reached locally. Based on current school status, a £20 per pupil deduction would generate £0.322m.
 - 6 The Council’s Efficiency Plan, that sets out the 4 year medium term budget position, includes the removal of ESG funding and the expectation of reducing relevant costs by an equivalent amount. This means school support services will need to move to an affordable cost base.
- 6.19 No changes are proposed to the factors that can be included in the LA Funding Formulae that effect BF. Therefore, the council will not be proposing any changes to the current BF Funding Formula for Schools.
- 6.20 EFA are updating the weightings that LAs must use for allocating secondary low attainment figures (to reflect new tests) and Income Deprivation Affecting Children measure (to reflect new national census data). This is an attempt to reduce funding turbulence, as experienced by a number of schools in 2016-17, most notably from the IDACI revision, but data has yet to be issued by the DfE to be able to establish the potential impact on BF schools.
- 6.21 The EFA has yet to determine which elements of historic spend commitments individual LAs can continue to centrally fund from the Schools Block in 2017-18. BF currently retains £0.406m for Combined Services, as per Appendix 2 of Annex A. Elements of this spend would become a budget pressure for the LA in 2017-18 if central Schools Block funding is disallowed.
- 6.22 De-delegation of funds from schools to manage certain services centrally by the LA will, as expected, be permitted again in 2017-18, subject to Schools Forum agreement. As usual schools will be consulted over the autumn term to gather their views on de-delegation. This relates to £1.25m on the services set out in Appendix 3 of Annex A.
- High Needs Block:
- 6.23 No LA will receive less gross DSG in 2017-18 than in 2016-17.
- 6.24 As usual, EFA will continue to fund places directly in certain institutions via deduction to individual LA HNB DSG, based on the number of resident pupils that have been placed. Details will be collected over the autumn, with EFA then deducting the amount required to fund the places in those institutions. A higher number of external placements will therefore result in a reduced amount of HNB

Unrestricted

DSG being retained by the LA. So whilst the gross funding is cash protected, there can be an increase or decrease in funding available to LAs, based on movements in the number of external placements.

6.25 The operational guidance note on HNB funding will be issued in September.

Early Years Block:

6.26 On 11 August, the DfE launched the consultation document *An Early Years National Funding Formula and change to the way three and four year olds entitlements to childcare are funded*, with a closing date of 22 September. This builds on the policy objective of enabling more families to work by extending the free entitlement to childcare from 15 to 30 hours per week for parents that want to work, with £1 billion additional funding by 2019-20 to increase provider funding rates to encourage the development of the additional places that will be required from increased take-up.

6.27 Agreed changes will be implemented from April 2017, with the extension to 30 hours per week for eligible children commencing at September 2017.

6.28 The DfE intends to introduce an Early Years National Funding Formula (EYNFF) for the allocation of funds to LAs, rather than continue with the current historic spending level at individual LA. The proposals therefore follow a similar pattern to wider school funding reforms. With the additional funding, average LA hourly funding rates from all grant sources will increase from £4.56 to £4.88 (7.0%)

6.29 There are proposed to be four component parts to the EYNFF:

1. A universal base rate for each 3 and 4 year old;
2. Deprivation addition, based on eligibility to Free School Meals of pupils in Key Stages 1 and 2;
3. English as an additional language (EAL) addition, based on Key Stages 1 and 2 numbers;
4. Disability Living Allowance (DLA) addition, based on Department for Works and Pensions data of eligible children under 5.

These factors were found to be the key drivers to provider costs from the findings of the DfE commissioned *Cost of Childcare Review*.

6.30 The consultation proposes the following weightings are applied to each factor:

1. 89.5% to the universal base rate;
2. 8% for the deprivation addition;
3. 1.5% for the EAL addition;
4. 1% for the DLA.

There would then be an area cost adjustment uplift for relevant areas to reflect pressures arising from the General Labour Market and Nursery Business Rates. Again, the need for these uplifts was evidenced through the *Cost of Childcare Review*.

Unrestricted

- 6.31 Transitional funding protection will also be applied that will cap LA loses at 10% of the 2016-17 funding rate, to be financed by limiting increases to LAs that gain. Funding protection is due to be in place for 2 years, so ends in 2019-20.
- 6.32 It is the intention of the government for provider hourly rates to be maximised, with the same base funding rate to be paid to PVI providers and maintained schools, with a simplified local funding formula with fewer top-up supplements, of which the total payable will be capped to 10% of the total paid to providers. However, there is a recognition that LAs must incur expenditure in meeting their Early Years duties, as well being best placed to provide some support services, so ongoing retention of funds will be allowed.
- 6.33 Moving forward, LA retained spend will be capped at 7% of the EYNFF allocation in 2017-18, reducing to 5% in subsequent years. LA retained spend only covers funds not ultimately passed to providers. Where an LA holds an SEND fund that gets allocated in year to providers, this does not count as LA retained spend. In addition to this general cap, LAs can also retain an amount of contingency to cover in-year increases in up-take. The DfE will not apply a cap maximising contingency amounts.
- 6.34 Funding for the EY pupil premium will remain unchanged at £0.53 per hour to LAs, with the same top-up amount required to be paid to providers. An area cost adjustment is not added to this funding rate.
- 6.35 The DfE propose to retain the current funding formula that is used to finance LAs for the free entitlement for 2 year olds which is based on a range of hourly funding rates determined by the DfE, that currently averages £5.09, and for which BF receives £5.49. The increased funding for 2 year olds added to the 2017-18 DfE budget is proposed to be allocated to LAs through a uniform 7.1% increase on current rates.
- 6.36 Key issues from the DfE consultation for the council and providers in BF are likely to be:
1. The harmonisation of the base rate so that maintained schools and PVI providers receive the same amount of basic core funding, which must aggregate to at least 90% of funds paid to providers. The current hourly rates paid in BF are £3.17 and £3.71 respectively and were based on a local costing exercise undertaken with providers when the current funding framework was introduced. Moving to a uniform hourly base rate of £3.71 would cost around £0.25m. LAs will have 2 years, until 2019-20, to implement the universal base rate. Harmonising this element of funding will be a significant issue for BF.
 2. The DfE has calculated the 2016-17 hourly funding rate paid to BFC for 3 and 4 year olds at £3.79. This arises from dividing the actual January 2016 number of funded hours into the total 2016-17 budget figure provided by BFC. However, the BFC budget was based on an estimate of hours that would actually be provided throughout the year, which was a lower number, and therefore indicates a higher hourly funding rate of £4.04. LAs are funded on actual hours of take up each term and not just those taken in January. In the current year, BF providers are expected to be paid an average hourly rate of £3.83.
 3. Based on an illustrative funding model published by the DfE, BF gains from the new EYNFF, with the DfE estimating an LA hourly funding rate in 2017-

Unrestricted

18 of £4.66 (+15.3%). This indicates additional funding of around £0.675m, of which around £0.25m is likely to be required to harmonise the base rate.

4. As an area gaining from the proposed EYNFF, in the first instance BF will need to contribute to funding protection that will be paid to areas receiving less money. The DfE indicate that the 2017-18 LA funding rate will be £0.27 below the EYNFF. A further £0.294m is therefore expected to be added in addition to the £0.675m set out above, although it is not clear when this will happen.
5. Within the EYNFF, the BF Area Cost Adjustment is 1.31 i.e. 31% uplift to the standard cost level. The rate paid to LAs varies between 1 and 1.9.
6. The simplification of the local funding formula is likely to:
 - a. Continue with a requirement for a mandatory deprivation supplement, with LAs free to select an appropriate proxy measure. BF currently uses IDACI, which is measure of relative low family income by post code.
 - b. Only allow the following supplements to be paid, if agreed locally:
 - i. *Rurality / sparsity*: to support providers that face high costs in sparsely populated areas. Not currently used in BF.
 - ii. *Flexibility*: to support working life hours including holidays or a particular segment of the childcare market. Current BF flexibility supplement is targeted to providers in a similar way.
 - iii. *Efficiency*: to reward and recognise providers who make optimum use of their income to provide high quality childcare, to invest in the workforce and develop and share strong business models. There is no existing equivalent to this supplement.
 - iv. *Delivery of the additional 15 hours*: to ensure sufficient high quality places of 30 hours are available. BF currently retains funds to pay to providers to support the delivery of sufficient high quality places.
 - c. See the removal of the quality supplement, as DfE state that good quality should be expected of all providers. BF currently pays hourly quality supplements of nil, £0.021, £0.027 or £0.48 dependant on provider workforce qualifications.
7. DLA related funding is proposed to be ring-fenced for relevant children, to be centrally managed by LAs through the payment of annual lump sum allocations (i.e. not part of the hourly rate) to qualifying providers. LAs need to develop a policy for distributing these funds, in consultation with providers.
8. To support children with special education needs, LAs should create SEN Inclusion Funds to enable the necessary amount of top-up funds required for individual children to access the free entitlement to be paid to providers. Amounts to be paid would be determined on a case by case basis. SEN Inclusion Funds could also be used to fund local specialist support services, rather than be paid in hourly rates for providers to make their own arrangements. The methods to be adopted to target funds should be considered in consultation with providers, SEN specialists and parents, and ultimately published as part of the 'local offer'. BF currently pays providers hourly top up supplements for children with SEN at an additional rate of £7.20 and a second, higher additional hourly rate of £9.00 for those with the most severe or complex needs.

Unrestricted

9. The long term 5% cap on central expenditure is not expected to be a significant issue in BF as the current holdback is £0.225m, around 3.7%, some of which is likely to be paid in year to providers and will be outside the cap, meaning the true rate is below 3.7%. Around £0.3m can be held back.
10. The 10% cap on funding that can be delivered to providers through supplements will need to be looked at closely, including which of the allowable supplements will be used from April 2017, and the proportion of funds they should each allocate. 2016-17 is expected to see 89.6% allocated through the base rate, with 10.4% through supplements (3.2% for deprivation, 5.4% for quality, 1.3% for SEN and 0.5% for flexibility). This indicates that the base rate will need to be increased above the existing £3.71, which coupled with needing to remove the quality supplement, will also create a significant issue for BF.
11. With the DfE proposal for a universal 7.1% increase in hourly funding rates paid to LAs for the free entitlement for 2 year olds, the expectation should be for a similar increase in rates paid to providers.

6.37 Annex C sets out the use of 2016-17 EY DSG as approved by the Schools Forum.

Next Steps

- 6.38 The DfE will launch the second stage of the national funding formula consultation for schools and high needs in the autumn, to apply from 2018 to 2019. This should provide more information on likely financial implication on LAs and schools arising from changes to be introduced with the SNFF, and resultant impact on DSG allocations.
- 6.39 For the LA, consultations will need to be undertaken with schools and early years providers to inform the local arrangements to be put in place for next financial year, where there is flexibility within the funding framework to do so. These will also need to take place in the autumn term.

7 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

7.1 The relevant legal issues are identified within the body of the report.

Borough Treasurer

7.2 At this stage, it is not possible to accurately assess the likely financial implications arising from the reforms proposed by the DfE although it is clear that the council faces a significant loss in funding with further financial pressures likely to fall on schools. An accurate assessment will not be available until the second stage of the consultation later this year when the DfE will publish relevant financial information. This report therefore sets out the key issues and an indication of financial implications where it can reasonably be assessed.

Equalities Impact Assessment

7.3 The DfE has completed an EIA on the impact of these proposals.

Strategic Risk Management Issues

- 7.4 The proposed reforms, with the removal of funding and responsibilities from councils for education related services will create significant financial difficulties and require a review of services to be provided.

8 CONSULTATION

Principal Groups Consulted

- 8.1 CYPL Departmental Management Team, council's Corporate Management Team.

Method of Consultation

- 8.2 Written report.

Representations Received

- 8.3 Included in body of the report.

Background Papers

None:

Contact for further information

David Watkins, Chief Officer: SR&EH

(01344 354061)

David.Watkins@bracknell-forest.gov.uk

Paul Clark, Head of Departmental Finance

(01344 354054)

paul.clark@bracknell-forest.gov.uk

Doc. Ref

G:\Executive\Schools Forum\78) 150916\Update on school and education funding.doc

School and Education Funding Reform: Moving towards a Schools National Funding Formula

Executive Summary

2. On 7 March DfE issued 2 substantial consultations on school and education related funding in respect of introducing a Schools National Funding Formula (NFF) and changing funding allocations to LAs for High Needs Pupils. This briefing relates to the NFF. A separate briefing is available on High Needs Pupils. There are 4 further consultations to follow relating to Early Years, School Improvement, Alternative Provision i.e. PRUs and home tuition, and post 16 SEN funding.
3. This represents the first of 2 stages, with stage 1 setting out the case for change, the principles to be adopted and outline changes being proposed, with stage 2, later in 2016 making firm proposals with anticipated financial implications. Therefore, at this stage the full financial implications are not apparent and won't be for some time.
4. Agreed changes will be implemented on a phased basis from April 2017.
5. What is clear in respect of a Schools NFF is:
 1. That the funding formula will include 4 elements; a core per pupil amount payable equally to all schools; an additional needs top-up, likely to be linked to FSM eligibility and low family income, low prior attainment and English as an additional language; fixed school costs, such as rates; and an uplift for high cost areas.
 2. BF schools are most likely to gain from the changes if the core per pupil and area cost elements have a high weighting. A high weighting to additional needs is likely to result in a funding reduction for BF schools.
 3. EFA will directly allocate budgets to schools from April 2019 at which point LAs will no longer have a role in setting school budgets and allocating funds. For 2016-17 and 2017-18 LAs will continue to calculate and distribute funding to schools but their total allocation for schools will be based on the NFF so will be different to the current amount.
 4. A minimum funding guarantee will limit budget losses at individual schools, to be financed from a cap on schools that gain.
 5. LAs will not be allowed to retain any schools block funding, including "de-delegated" budgets meaning more trading with schools or closure of services.
 6. DfE are reducing LA involvement in education – including school improvement - and further cutting the funding source – the Education Services Grant - by £600m, which is expected to cost the Council around £1.24m.
 7. Subject to Schools Forum approval, DfE will allow LAs to retain some budget from maintained schools to fund central services. This would be a new pressure on school budgets but unlikely to be sufficient to cover current costs.

6. The Council will need to:

1. Review the requirement for services currently supporting schools and those fulfilling statutory duties
2. Consider the approach to be taken to academies as the reforms are likely to stimulate interest and also the number of conversions
3. Be prepared for reduced levels of buy-back as schools become academies
4. Prepare for the outcomes from stage 2 of the consultation when the full financial implications will be clearer.

The current funding system

7. Funding for schools and education comes from 4 main sources:

1. The Dedicated Schools Grant (DSG) a ring-fenced grant allocated by the Department for Education (DfE) through 3 Blocks for; schools, including delegated school budgets, early years provisions; and pupils with high needs above £10,000. In 2016-17 BFC received £83.4m (£66.5m for Schools, £5.2m for Early Years and £11.7m for pupils with High Needs). Note; the ring-fence applies to the overall DSG. LAs can freely move money between the individual Blocks.
2. Other specific school grants. Post-16 (£4.5m), Pupil Premium for disadvantaged children (£3.4m), Universal Infant Free School Meals (£1.5m), Primary PE and Sports Grant (£0.3m).
3. The Education Services Grant (ESG), which comprises 2 parts; an amount paid to LAs at £15 per pupil to cover a small number of defined statutory duties that affect all schools, including academies; and a number of other defined services for which LAs receive £77 per pupil to provide to community schools and which is paid directly to academies to provide for themselves. BFC will receive £1.5m in 2016-17. General council funding to cover other education related services, such as school transport, the SEN statementing process and planning for the supply of sufficient school places. The funding for these functions is not in scope of the DfE proposals and amounts to around £3.5m.

Appendix 1 provides a breakdown of ESG and council funded services and their budgets.

8. Put simply, the majority of DSG funding is allocated to LAs based on their historic spending levels, updated each year to reflect changes in the overall number of pupils and those with high needs. Each LA has a unique DSG per pupil funding amount for both the Schools and Early Years Block and a lump sum amount for High Needs, with flexibility to move funding between the different blocks to reflect local needs and decisions. For the Schools Block DSG, per pupil funding varies between £6,982 and £4,166, with BFC receiving £4,284 which is the 18th lowest amount of 150 LAs.

Proposals for change:

Consultations and timescales

9. Two main consultation documents were released on 7 March; Schools national funding formula and; High needs funding formula and other reforms. For both of these consultations there will be a 2 stage process; March 7 to April 17 is Stage 1 where the DfE makes the case for change, the principles to be followed and outlines the intended factors to be used in future to allocate funds to schools and LAs; Stage 2 will follow later in 2016 with firm proposals including the key weightings to be applied to each funding factor and the anticipated financial implications for schools and LAs. An update on proposals for High Needs funding reforms is set out later in this report.
10. There are multiple consultation documents, with 4 yet to be released. Those outstanding relate to Early Years which will implement changes from April 2017, and school improvement which will have changes from the beginning of academic year 2017-18. Implementation dates for changes to make Alternative Education i.e. PRUs and home education more vigorous and sixth form SEN funding have yet to be announced.
11. The key driver for change in allocating funds to school is to remove the “outdated, inefficient and unfair” characteristics in the current system and have a process that ensures “every school will have funding matched to need”. It will remove the situation where “a school in one part of the country could receive over 50% more than an identical school with exactly the same children, simply because of an accident of history”. There is also an objective to increase the amount of funds schools receive direct in their budgets. To address this, the proposed funding system will follow 7 principles:
 1. it supports opportunity
 2. it is fair
 3. it is efficient
 4. it gets funding straight to school
 5. it is transparent
 6. it is simple
 7. it is predictable
12. Changes are mostly due to be implemented on a phased basis from April 2017 with LAs managing school budgets through a ‘soft’ formula basis for 2 more years until April 2019 when the EFA will take over.

Structure of the funding system

13. The DSG will be retained, but with a fourth ‘Central Schools Block’ added to fund central school services, historic spending commitments on schools and the defined statutory duties that LAs provide for both community and academy schools, for which funding is currently allocated through the £15 per pupil ESG allocation. The relevant amount of ESG will therefore transfer into the DSG. At the same time, the DfE will cut funding through the ESG by £528m in 2017-18. This follows a £72m reduction in 2016-17 and a £200m reduction in 2015-16 and leaves around £120m for transfer to the DSG Central Schools Block. BFC will receive £1.5m of ESG in 2016-17 before these changes and a transitional amount “at a reduced [currently unspecified] rate” for April to September 2018. Overall a net reduction in grant funding of £1.24m is expected.
14. Other existing school specific grants will continue.

Schools National Funding Formula

15. Over time, a school-level national funding formula will be implemented with the DfE directly funding all schools and therefore with a much reduced role for LAs. This will be fully implemented from April 2019, with LAs running a 'soft' transitional formula for two years from April 2017, allocating the total funds received through the re-structured funding system through their local funding formula in consultation with the Schools Forum. Therefore, LAs could receive more or less funding for schools in the next 2 years than through the current funding framework.
16. The first 2 building blocks proposed for the national funding formula build up funding allocations on an individual pupil basis and are:
 - Basic per pupil amount. Separate, national, uniform amounts for; Key Stage 1 / 2; KS3; and KS4.
 - Additional needs top up. For deprivation at both pupil and area level, low prior attainment and English as a second language
17. These blocks will be used to calculate each individual school budget and then aggregate the total to the LA level. Then a national minimum funding guarantee (MFG) will be applied, capping the year-on-year per pupil funding loss any school can experience, which will be funded by applying a cap on gains at individual schools, with no net overall financial effect. For the last 3 years the MFG has been set at a maximum reduction of 1.5% in per pupil funding, but this rate may be considered too low to enable the majority of schools that are currently under funded to quickly benefit from the reforms. This is the mechanism for transitional funding protection. The last 2 building blocks will then be added:
 - Allocation for school costs. Fixed lump sum payment for all schools plus sparsity top up for rural / small schools (no BFC schools qualify), business rates and the Growth Fund for new schools and those experiencing significant in-year increases in pupil numbers.
 - Top up for high cost areas. Either through general labour market costs or the current 'hybrid' model that uses a teachers' pay element and the Department for Communities and Local Government's labour cost adjustment

The 4 building blocks together represent the total Schools Block Funding allocation to an LA.

18. LAs can currently centrally manage a small number of Schools Block funded services. The new arrangements propose that all of these funds must be passed on to schools as LAs will no longer be able to hold back Schools Block funding. It relates to a range of services supporting vulnerable pupils, including Family Support, Education for Looked After Children and Education Health Partnerships, and in-year funding allocations made to schools meeting qualifying criteria, for example experiencing significant increases in pupil numbers. The full range of services is set out in Appendix 2 and total £1.164m, with 3 existing centrally managed budgets transferring to the new Central Schools Block for on-going council management. This relates to school admissions, servicing the Schools Forum and funding boarding places for vulnerable pupils.
19. DfE recognises that not all of these budgets can be passed on to schools immediately so for the 2 years that LAs will be operating under the 'soft' formula, funds will be allocated individually to LAs based on historic amounts of spend. The intention is to gather information and to determine how this money can be included in the 'hard' formula from 2019-20.
20. The existing funding arrangements also allow school members of the Schools Forum to agree that a small number of prescribed services can be "de-delegated" from all schools for the

Unrestricted

council to manage centrally. This recognises the benefits that can arise from economies of scale, risk sharing, and strategically important services. “De-delegation” will not be permitted from April 2019, with LAs either offering the services on a normal trading basis, or schools making their own arrangements. The BFC Schools Forum has agreed that £1.25m of budgets can be “de-delegated” and these are set out in Appendix 3.

21. Some LAs will receive more Schools Block money to pass on to schools than under the current system, others less. The impact on each LA will not become apparent until the Stage 2 consultation is launched which will set out the proposed weightings to be applied to each funding factor. Where an LA does experience a funding loss, there would be little room to manage the budget, and there is a proposal to allow a second, local MFG to be applied, up to a maximum amount set by the DfE, that allows for a greater year-on-year loss of funding compared to the national formula amount. This could only be applied after consultation with all schools and agreement of the Schools Forum.
22. In deciding on the starting amount of funding to be allocated nationally through each funding block, the DfE will use current LA budget allocations and not the DSG grant allocations. A baseline exercise has been undertaken with LAs to align the funding blocks. This is likely to see a shift in funds from the Schools Block to the High Needs Block to reflect the recent budget decisions of LAs and Schools Forums in financing SEN pressures. In 2015-16, the BFC Schools Forum agreed that £2.093m should be diverted from Schools to the High Needs Budget and this has remained in the base for 2016-17. Moving funds between Blocks will not be permitted from April 2017.

Funding that will remain with LAs

23. The consultation sets out 3 main areas for LA involvement in education for which funding will be provided:
 - Securing that sufficient school places are available, ensuring fair access through admissions and working with schools to develop local transport policies, and taking a lead in crisis management and emergency planning
 - Ensuring the needs of vulnerable pupils are met: identifying, assessing and making provision for all children with SEN and disabilities; promoting attendance; and making sure that alternative provision is available for children and young people excluded from school or otherwise unable to attend a mainstream school; leading on safeguarding for those pupils in un-regulated settings, educated at home, tracking children missing education as well as those at risk of extremism; working with schools to ensure they understand and discharge their safeguarding duties; acting as a corporate parent for looked-after children and those adopted from care
 - Acting as champions for all parents and families: listening and promoting the needs of parents children and the local community; supporting parents in navigating the system and ensuring children do not fall through the gaps; supporting children, young people and parents to navigate local SEND arrangements (such as providing information, advice and support); and championing high standards locally.
24. Funding for direct provisions and support for High Needs Pupils will continue to be provided through the restructured DSG and those costs currently funded from general council funds, such as home to school transport, which are out of scope of this consultation, will continue to receive funding through current sources.
25. Resources are proposed to be allocated to LAs for the duties previously notionally funded through the ESG through a per pupil formula. It will be financed from the per pupil element included in the ESG for the defined statutory duties that LAs provide for both community and academy schools, currently £15 per pupil, for which BFC will receive £0.26m in 2016-17, and

Unrestricted

centrally retained DSG, for which there is no national funding basis but reflects decisions made by local Schools Forums on what their LA can centrally manage. As set out above, this will be called the Central Schools Block. The formula and pace of transition will be set out in the Stage 2 consultation as there is a wide variation of spend between LAs.

26. The DfE has divided elements of the Central Schools Block into 2; those services that a national approach to funding through an amount per pupil can be taken, and those based on local Schools Forum decisions and historic costs that will unwind over time and which will vary considerably from LA to LA. The DfE are unwilling to continue indefinite funding of historic commitments, some of which are considered the responsibility of the LAs core budget, and over time will be reducing funding and transferring it to the Schools National Funding Formula. DfE will only initially fund these costs where there is relevant evidence that the service was in place before April 2013 and that the cost is on-going. BFC currently spends £1.9m on services that will in future be funded on a national per pupil amount, i.e. £1.67m of ESG funded items set out at the top of Annex B and £0.27m of Schools Block Funded items in the final column of Annex C. A per pupil funding rate of £109 will be required to fully cover costs. For historic commitments that the DfE will review before continuing funding, on what is likely to be a time limited basis, there is £0.45m current spend, as set out in Part 1 of Appendix 3.
27. To reduce LA costs to the lower funding arising from the £528m cut in ESG funding in 2017-18, the DfE are seeking views on what statutory functions can be removed from LAs. There are also a number of proposals from the DfE, including expecting LAs to “step back from running school improvement from the end of 2016-17 academic year and therefore they will not require funding for this function.” ESG funding will be available through a short transition period to support school improvement. DfE will issue a further consultation on School Improvement that will set out the future funding arrangements. No other information is available at this stage on school improvement. The BFC school improvement budget is £0.54m and is in addition to the £1.9m costs that will in future fall into the Central Schools Block.
28. The duties the DfE suggest can be removed from LAs relate to the responsibility for setting the local funding formula which will cease to exist at April 2019, and a small number of LAs continue to fund music services, visual and performing arts, pupil support and outdoor education. Funding for these activities will be removed.
29. DfE recognises that the reduction in ESG funds will require LAs to identify alternative funding streams for their statutory duties. A proposal has therefore been included that will allow LAs to retain some of community schools DSG to cover these duties. The amount to be retained would need to be agreed by school members on the Schools Forum and whilst the details of operation have yet to be disclosed, it is likely to be a similar arrangement to Multi-academy trusts that charge each school in the chain a percentage top-slice to their budget for central services. Full details have yet to emerge on this.
30. Appendix 5 sets out a summary of where services and budgets are expected to reside from April 2017.

Initial implications for schools

31. BFC schools are likely to benefit most from the Schools National Funding Formula if there are high funding weightings through the basic per pupil amount and top up for high cost areas. Lower funding allocations are likely to arise if greater importance is placed on the additional needs top up. There is no indication at this stage what the likely outcome will be.
32. The potential for a local MFG to allow a larger reduction in per pupil funding may be required if there is a poor outcome from the reforms for BFC. Even though the Council is currently the 18th lowest DSG funded authority, the reforms could result in a lower ranking than present.

Unrestricted

33. The transfer of the centrally managed budgets supporting vulnerable pupils into delegated school budgets will most likely result in the services ceasing or contracting. The reduced levels of early interventions may result in individual schools needing to set aside more resources to support these pupils than is currently the case. This will take place no later than April 2019.
34. The reduction in ESG removes the ability of the Council to provide a number of services, such as school improvement, strategic Finance, HR and health and safety and elements of Education Welfare. If they are to continue, it is most likely that a percentage top slice will need to be applied to school budgets in a similar way to that in place at Multi-academy trusts, subject to approval of the Schools Forum.
35. Removing the Local Funding Formula for Schools removes the ability to include all of the current factors, specifically joint use sports centres and schools experiencing high pupil mobility, and to be able to prioritise certain factors for additional funding. In future, the national rates will apply.
36. The option of “de-delegation” will cease at April 2019. Schools will need to decide whether they would buy-back the services if offered by the Council, or how they would be provided in-house, if required. There will not be a budget to support schools in financial difficulty unless schools contribute to a central fund.
37. DfE recognise that moving to a formulaic national funding approach for school costs will be problematic, especially for the growth fund where costs will be linked to current and future demographics / building programmes. This could be a significant issue for BFC with the substantial planned build programme if sufficient funds aren't available to support the new schools.
38. The budget ‘re-basing’ exercise will mean that at a national level, the £2.093m of funding the Schools Forum agreed could be transferred from the Schools Block to the High Needs Block will be made permanent, rather than be subject to annual agreement.

Initial implications for the Council

39. ESG reduction is forecast to result in the £1.5m grant expected in 2016-17 reducing to £0.26m, and paid through the DSG. So a reduction in funding of £1.24m. There will be some transitional protection for April to September 2018, although the likely amount has not been disclosed other than at a “reduced rate” compared to the current £77 per pupil. A per pupil rate of £35 would deliver £0.3m in 2017-18 in addition to the £0.26m transferred into the DSG.
40. DSG funding for those services currently managed centrally by the Council will no longer be available and a decision needs to be made regarding their on-going provision. Most of the services link to improved outcomes for children, such as the Family Intervention Service, Looked After Children’s Education Service and Education Health Partnerships and early interventions that help to manage down higher cost tier 3 interventions. Part 1 of Annex B sets out the services involved that total to £0.445m. It seems unlikely that any DSG funding will be available for these services past April 2019.
41. It seems unlikely that the services the DfE intend to fund through the new ‘Central Schools Block’ element of the DSG through a per pupil funding allocation can continue to be provided in their current form as this requires a funding rate of £109 per pupil, and total grant of £852m.
42. The reforms are likely to stimulate the academy conversion process. The Council needs to consider whether attempts should be made to manage the process in a measured way that would be beneficial to the council. This could include a School Improvement Service.
43. An increase in academies is likely to reduce the level of buy-back income earned through school trading. Over time, this is likely to require a contraction in services.

Unrestricted

44. The requirement for staff involved in the process of allocating funds to schools where the responsibility ends in the next 2 years needs to be established.
45. Future arrangements and funding for school improvement service from September 2017 need to be determined in light of the forthcoming consultation.
46. A decision needs to be taken on whether the services currently “de-delegated” and managed by the Council, which must cease no later than April 2019, should be traded with schools or cease. This particularly relates to the Behaviour Support Service and English as an Additional Language. There are £0.095m of LA costs charged to “de-delegated” budgets that are at risk. There is £0.06m recharged to Schools in Financial Difficulty, £0.015m to Behaviour Support, £0.01m to Free School Meal eligibility Checking and £0.01m to the Official Staff Absence scheme.

Services and budgets funded by the ESG and general council resources

Funding Source / Budget item	Total 2015-16 £
<u>ESG funded:</u>	
<u>Central Schools Block – per pupil funded item</u>	
Statutory and Regulatory Duties	1,257,570
Education Welfare Service	204,370
Central Support Services	0
Asset Management	204,094
PRC/redundancy costs (new provisions)	0
Therapies and Health-related Services	0
Sub total	1,666,034
<u>Alternative Funding Source Required</u>	
School Improvement	528,301
Monitoring National Curriculum Assessment	15,000
Sub total	543,301
Total Funded from ESG *	2,209,335
<u>General Council Funding</u>	
Education Psychology	348,853
SEN assessment process	397,524
Independent Advice and Support	44,186
Home to school transport	2,226,914
Supply of school places	25,000
Young peoples learning and development	144,779
Adult and community learning	35,315
Historic Teacher pension costs	307,963
Sub total	3,530,534
Total Funded from general funds	3,530,534
Grand Total Funded from DSG, ESG and general funds	6,903,569

Note All figures are taken from the 2015-16 Section 251 budget statement returned to the DfE and include an appropriate share of Departmental and Corporate recharges, so represent full costs.

* Prior to cuts in grant funding, the Council received £2.115m ESG from the DfE in 2014-15, close to the £2.209m 2015-16 budget amount.

2016-17 Schools Block budgets centrally managed by the Council

Budget item	Central budget	
	To be in Schools Block £	To be in Central Schools Block £
<u>Part 1: Spending limited to amount agreed in the previous financial year</u>		
Combined Services Budgets*:		
Family Intervention Project	£100,000	£0
Educational Attainment for Looked After Children	£133,590	£0
School Transport for Looked After Children	£42,890	£0
Young People in Sport	£18,050	£0
Common Assessment Framework Co-ordinator	£42,470	£0
Domestic Abuse	£6,000	£0
Education Health Partnerships	£30,000	£0
SEN Contract Monitoring	£32,680	£0
Miscellaneous (up to 0.1% of Schools Budget):		
Forestcare out of hours support service	£4,850	£0
Borough wide Initiatives	£27,270	£0
Support to Schools Recruitment & Retention	£7,470	£0
School Admissions	£0	£175,970
Schools Forum	£0	£21,440
Sub total Part 1 items	£445,270	£197,410
<u>Part 2: No restriction on annual increases</u>		
Schools Contingency:		
Significant in-year growth in pupil numbers	£182,648	£0
Key Stage 1 class sizes	£86,392	£0
Start-up costs for new schools (2015-16 base budget relates to Jennett's Park)	£106,100	£0
Boarding Placements for Vulnerable Children	£0	£75,880
Central copyright licensing	£70,000	£0
Sub total Part 2 items	£445,140	£75,880
Total Part 1 and Part 2 items	£890,410	£273,290
	£1,163,700	

* Combined Service Budgets funded by the DSG generally support vulnerable children and link to other programmes funded by the Council which together result in better, more effective use of resources with improved outcomes for children than if provided and managed independently. DfE now consider these services a core LA budget responsibility.

Items subject to de-delegation

Budget Item	Total 2016-17 £
<p>Behaviour Support Services :</p> <p>Behaviour Support Team – provides support to young people, children and their families in the home environment and schools to manage behaviour. £299,787</p> <p>Anti-bullying co-ordinator – assists schools in their capacity to address bullying issues. £25,027</p> <p>Schools in Financial Difficulty – additional support where a school is in, or likely to fall into one of the Ofsted categories of causing concern. £280,000</p> <p>English as an Additional Language – to support under performing EAL pupils. £127,066</p> <p>SIMS and other licences – purchase of the licence required by the software that performs most finance and administration tasks in schools. £90,452</p> <p>Official staff absence e.g. maternity leave, union or magistrates duty, jury service, council membership, staff suspension. £345,420</p> <p>Premature Retirement / Dismissal costs to fund one-off redundancy costs following staffing restructure in schools. £52,000</p> <p>Exceptional costs (primary schools only) to support schools facing exceptional costs that could not be predicted when the budget was set £10,000</p> <p>Free School Meal eligibility checking - Ensures schools have relevant information to complete the annual, national census to maximise income. £20,000</p>	
Total Schools Budget	£1,249,752
Less retained by academies (estimate)	£141,000
Total Managed by the Council	£1,108,752

Expected Budget Structure from April 2017

Funding Source / Budget item	Budget £
<u>DSG funded:</u>	
<u>Schools Block</u>	
Growth Fund:	
Significant in-year growth in pupil numbers	182,648
Key Stage 1 class sizes	86,392
Start-up costs for new schools	106,100
Sub total	375,140
<u>Central Schools Block – per pupil funded item</u>	
School Admissions	175,970
Schools Forum	21,440
Boarding Placements for Vulnerable Children	75,880
Sub total	273,290
<u>Central Schools Block – historic commitments item</u>	
Combined Services Budgets*:	
Family Intervention Project	100,000
Educational Attainment for Looked After Children	133,590
School Transport for Looked After Children	42,890
Young People in Sport	18,050
Common Assessment Framework Co-ordinator	42,470
Domestic Abuse	6,000
Education Health Partnerships	30,000
SEN Contract Monitoring	32,680
Central copyright licensing	70,000
Sub total	475,680
<u>Alternative funding source required</u>	
Miscellaneous (up to 0.1% of Schools Budget):	
Forestcare out of hours support service	4,850
Borough wide Initiatives	27,270
Support to Schools Recruitment & Retention	7,470
Sub total	39,590
Total Currently Funded from DSG	£1,163,700

Unrestricted

Funding Block / Budget item	Budget
	£
<u>ESG funded:</u>	
<u>Central Schools Block – per pupil funded item</u>	
Education Welfare Service	204,370
Asset Management	204,094
Statutory and Regulatory Duties	1,257,570
Sub total	1,666,034
<u>Alternative Funding Source Required</u>	
School Improvement	528,301
Monitoring National Curriculum Assessment	15,000
Sub total	543,301
Total Currently Funded from ESG	2,209,335
<u>General Council Funding</u>	
Education Psychology	348,853
SEN assessment process	397,524
Independent Advice and Support	44,186
Home to school transport	2,226,914
Supply of school places	25,000
Young peoples learning and development	144,779
Adult and community learning	35,315
Pension costs	307,963
Sub total	3,530,534
Total Currently Funded from general funds	3,530,534
Grand Total Currently Funded from DSG, ESG and general funds	6,903,569

Schools Block		375,140
Central Schools Block – per pupil funding		1,939,324
Central Schools Block – historic commitments		475,680
General Council Funding		3,530,534
Alternative funding source required		582,891
Grand Total Currently Funded from DSG, ESG and general funds		6,903,569

Note, all non-DSG figures include an appropriate share of Departmental and Corporate recharges, so represent full costs. All figures taken from Section 251 budget statements.

School and Education Funding Reform: High Needs Funding Reform

Executive Summary

1. On 7 March DfE issued 2 substantial consultations on school and education related funding in respect of introducing a Schools National Funding Formula (NFF) and changing funding allocations to LAs for High Needs Pupils. **This briefing relates to High Needs Pupils** i.e. those with assessed support needs in excess of £10,000. A separate briefing is available on the NFF. There are 4 further consultations to follow relating to Early Years, School Improvement, Alternative Provision i.e. PRUs and home tuition, and post 16 SEN funding.
2. This represents the first of 2 stages, with stage 1 setting out the case for change, the principles to be adopted and outline changes being proposed, with stage 2, later in 2016 making firm proposals with anticipated financial implications. Therefore, at this stage the full financial implications are not apparent and won't be for some time.
3. Agreed changes will be implemented on a phased basis from April 2017.
4. What is clear in respect of a funding for High Needs Pupils is:
 - i. This will be the main area of financial responsibility for LAs in respect of schools and education with recognition from the DfE that an area wide strategic role is required for effective and efficient delivery. Grant funding in 2016-17 is £11.7m with planned spend of £13.8m by transferring £2.1m grant from the Schools Block.
 - ii. Total funding allocated for high needs pupils will be re-based to current levels of spend, not grant receipts. In future, LAs will need to manage high needs spend to the grant allocation as the existing ability to use schools money will be removed.
 - iii. Funding allocations to LAs will move from historic spending levels to a formulaic approach using 5 nationally available proxy measurers for needs; a basic £4,000 per pupil in a specialist institution, such as Kennel Lane Special School; low prior attainment from national tests at end of primary education and GCSEs; health and disability data; deprivation at individual pupil eligibility to free school meals and the area deprivation from where they live; and an amount per pupil aged 2 to 18.
 - iv. In addition there will be an uplift for high cost areas and 2 layers of transitional protection for at least 5 years to limit loses at LA level. This recognises that much of the spend is tied up in education fees for children that will remain in their existing provision for a number of years to come.
 - v. Some LAs will experience a reduction in funding and will need to examine ways of reducing costs, although this will not be known until later in 2016.
 - vi. The DfE will financially support LAs in the development of appropriate, cost effective SEN provisions through £200m of capital funding for invest to save type schemes and will confirm how this can be accessed later in 2016.
 - vii. There are limited direct implications to schools from these changes.

Unrestricted

5. The Council will need to:
 - i. Continue the successful management down of costs as evidenced in the £0.9m under spending achieved in 2015-16 financial year.
 - ii. Proceed with the planned review of services funded through the High Needs Block to ensure that cost effect and appropriate services are being commissioned.
 - iii. Prepare for the outcomes from stage 2 of the consultation when the financial implications will be clearer.

The current funding system

6. Funding to support schools and pupils with high needs comes from 3 main sources:
 - i. The Dedicated Schools Grant (DSG) a ring-fenced grant allocated by the Department for Education (DfE) through 3 Blocks for; schools, including delegated school budgets, early years provisions; and pupils with high needs above £10,000. In 2016-17 BFC received £83.4m (£66.5m for Schools, £5.2m for Early Years and £11.7m for pupils with High Needs). Note; the ring-fence applies to the overall DSG. LAs can freely move money between the individual Blocks.
 - ii. Other specific school grants. Post-16 (of which around £0.6m of a total £4.5m grant specifically relates to SEN pupils) and the Pupil Premium for disadvantaged children (£3.4m) where there is a link to some high needs pupils.
 - iii. General council funding to cover the cost of some central services, such as the SEN statementing process including Education Psychology. The funding for these functions is not in scope of the DfE proposals.

Appendix 1 sets out the initial 2016-17 High Needs budgets, which includes the £2.1m transfer from the Schools Block.

7. Put simply, the DSG High Needs Block is allocated to LAs based on their spending levels in 2012-13, updated each year to reflect changes in the number of pupils with needs above £10,000 and attending specialist schools. Subsequent to this most recent funding reform, various legislative changes have been introduced through the Children and Families Act 2014 (most notably the introduction of the Education, Health and Care Plan (EHCP) and extending LA responsibility for funding SEN to age 25 from 19) and the SEN and disability Code of Practice which have had the effect of widening LA statutory responsibilities and lengthening the processes.

Proposals for change:

Consultations

8. Two main consultation documents were released on 7 March; Schools national funding formula and; High needs funding formula and other reforms. For both of these consultations there will be a 2 stage process; March 7 to April 17 is Stage 1 where the DfE makes the case for change, the principles to be followed and outlines the intended factors to be used to allocate funds to schools and LAs; Stage 2 will follow later in 2016 with firm proposals including the key weightings to be applied to each funding factor and the anticipated financial implications for schools and LAs.
9. There are multiple consultation documents, with 4 yet to be released. Those outstanding relate to Early Years which will implement changes from April 2017, and school improvement which will have changes from the beginning of academic year 2017-18. Implementation dates for

Unrestricted

changes to make Alternative Education i.e. PRUs and home education more vigorous and sixth form SEN funding have yet to be announced.

10. The key driver for change on High Needs Funding is that the current funding distribution is not fair to children and young people with high needs as it directs money to LAs based on historic spending, not the highest current needs. To address this, the proposed new funding system will follow 7 principles:
 - i. it supports opportunity
 - ii. it is fair
 - iii. it is efficient
 - iv. it gets funding to the front line
 - v. it is transparent
 - vi. it is simple
 - vii. it is predictable
11. Changes are due to be implemented on a phased basis from April 2017.

Scope and Structure of the funding system

12. In line with the special educational needs and disabilities (SEND) reforms that were introduced from September 2014, the High Needs Block is intended to fund a continuum of provision for pupils and students with SEN, learning difficulties and disabilities from 0-24.
13. The DfE has determined that where the cost of provision is above £10,000 it will be classified as high needs. In such circumstances, a “place-plus” approach to funding is used which can be applied consistently across all providers that support high needs pupils and students as follows:
 - i. **Element 1, or “core education funding”**: equivalent to the age-weighted pupil unit (AWPU) in mainstream schools, which the DfE has stated the national average is around £4,000.
 - ii. **Element 2, or “additional support funding”**: a budget for providers to deliver additional support for high needs pupils or students with additional needs of up to £6,000.

Specialist and Alternative Providers (AP), such as special schools and Pupil Referral Units (PRUs) only cater for high needs pupils and therefore receive a minimum £10,000 (Element 1 funding plus Element 2) per agreed place.
 - iii. **Element 3, or “top-up funding”**: funding above Elements 1 and 2 to meet the total cost of the education provision required by an individual high needs pupil or student, as based on the pupil’s or student’s assessed needs. This element is paid to all provider types, for pupils with assessed needs above the £10,000 threshold.
14. Additionally, High Needs Block DSG is also intended to be used where high needs provisions are not arranged in the form of places e.g. specialist support for pupils with sensory impairments, or tuition for pupils not able to attend schools.
15. The DSG High Needs Block will be retained, but the DfE intends to introduce a more formulaic approach to distributing funds to LAs, using proxy indicators of need, rather than using historic spend. The allocation will also be ring-fenced for high needs expenditure. The factors

Unrestricted

proposed to be included are based on independent research commissioned by the DfE and as well as an amount per SEN pupil / student are to be based on measures of health, disability, low attainment and deprivation. They are:

- i. A basic entitlement for pupils / students in special schools and post-16 institutions: To be at around £4,000 per student i.e. current basic per pupil amount or Element 1, with LAs funding the remaining £6,000 of current place funding i.e. Element 2 from their general High Needs Block funding. This is the first stage of the calculation.
- ii. Secondly, as a transitional funding protection measure, a proportion of the funding would be based on each local authority's planned high needs expenditure in 2016-17 – the baseline year – and this amount would be maintained at a cash level in succeeding years. This provides a degree of funding stability and reflects the fact that a significant amount of costs are medium to long term commitments as most children and young people will remain in their current provision for a number of years. This protection will be in place for at least 5 years.
- iii. Thirdly, the remaining amount of overall funding would be distributed according to fixed proportions for each of the other formula factors, allocated to LAs in proportion to their relative data score compared to all LAs, using the following proxy indicators:
 - a. Low attainment factor: for pupils achieving low scores in national tests at Key Stage 2 (end of primary education) or Key Stage 4 (GCSEs)
 - b. Health and disability: use of "children not in good health" population census data and disabled living allowance data
 - c. Deprivation: use of pupils eligible for free school meals or living in low income areas, as measured through the Income Deprivation Affecting Children Index (IDACI)
 - d. Population factor: ONS data for children and young people aged 2 to 18.

So for example, for these last 4 funding factors, an LA will receive funding relative to their own data as a percentage of the whole national data. If an LA has 2% of all pupils eligible to a FSM, they will receive 2% of the total funds to be allocated through this factor. As expected, the weightings to be used in allocating funds through the factors will be key to the outcomes of an LAs financial settlement and this will not be known until later in 2016.

16. Three further adjustments are proposed:

- i. An area cost addition for high cost areas on all factors mentioned above.
- ii. An adjustment would be applied to the pupil / student basic entitlement to reflect the number of pupils / students in maintained schools from other LAs at the value of Element 2 (£6,000). A net "importer" LA would receive additional funding, a net "exporter" a deduction. This would work outside the transitional protection described in 15 ii above with the impact felt immediately. It re-introduces inter authority recoupment, although the process is managed on a national level by the DfE. Crucially, this will also include the places in academies, non-maintained special schools and specialist post 16 provisions directly funded by the EFA. This adjustment was stopped in the current arrangements and prevents LAs from receiving the full financial benefits from placing pupils in their own maintained provisions rather than out of Borough. This means over time, funding should transfer from the EFA to the Council as the new Autistic Spectrum Disorder Unit (Rise@GHC) recently opened by the Council at the refurbished Eastern Road site

Unrestricted

admits more pupils at the start of each academic year and at the same time reducing the numbers moving out of borough. A similar, long term impact can also be expected from the SEN Unit included in the Binfield Learning Village development.

- iii. The application of an over-arching minimum funding guarantee that would be applied to limit year on year losses in high needs funding to no more than a specified percentage.

17. Other existing specific grants will continue.

Reviewing and developing high need provision

18. The DfE recognises that moving forward, LAs will have reduced flexibilities to manage the financial effects arising from high cost pupils. Furthermore, some LAs will experience funding reductions and will need to take steps to reduce costs, with significant reductions only likely to be possible over the medium to longer term. The DfE suggests help will be available for this through:

- i. Accessing capital funding through the existing Free School Programme to develop new specialist provision to better meet existing pressures and emerging needs.
- ii. A £200m capital budget to support the expansion of existing provision and inclusion of specialist places in new schools. More information on this fund will be made available later in 2016.
- iii. The promotion of collaborative working between LAs in regional and sub-regional groups to achieve more effective and efficient commissioning, as well as sharing administrative functions, services and provisions.
- iv. Making changes to encourage schools and colleges to include pupils and students with SEN rather than need to use more expensive specialist providers.
- v. Supporting specialist providers in reducing some of their costs in order to meet other cost pressures.

19. The DfE are also looking at funding for post-16 providers, to make it more consistent with pre-16 funding and to make improvements to the planning and delivery of provision. The changes being considered include:

- i. Amending the post-16 funding formula that funds school sixth forms to include resources to cover the Element 2, up to £6,000 through proxy measurers, rather than actual high needs student numbers. This would then mirror the pre-16 funding framework
- ii. Allowing LAs to have a role in allocating additional resources to providers outside the normal formula where there is a high proportion of SEN students to encourage inclusion. LAs would also have a role in designating SEN Units at FE colleges which would then attract £6,000 Element 2 place funding.

A further consultation will follow on these post-16 issues.

Initial implications for schools

20. There are no significant changes proposed to the way schools are funded for pupils with SEN and disabilities. They will continue to be responsible for meeting Element 1 and 2 costs from their delegated budget i.e. the first £10,000, with LAs providing individual Element 3 top-up funding where assessment of individual pupil needs indicates a higher cost.

Unrestricted

21. DfE expects mainstream schools to “play their full part in providing for pupils with SEN”. There is a presumption in the Children and Families Act 2014 that children with SEN are educated in mainstream schools, unless they have a statement or EHCP that specifies more specialist provision.
22. There is a change proposed to the way mainstream schools with special units receive per pupil funding. Rather than receiving the current £10,000 per place, individual pupils would attract per pupil funding through the National Funding Formula plus a £6,000 places ‘top-up’. Depending on the individual pupil’s characteristics, schools would receive more or less than the current £10,000. This affects 4 BF schools.

Initial implications for the Council

23. Funding educational support for pupils and students with High Needs will be the main education related financial responsibility for LAs. These are high cost, demand led services, subject to change at short notice and therefore come with significant cost risks. The 2015-16 initial budget was £13.8m with an outturn under spend of £0.9m.
24. Placing a ‘ring-fence’ on each DSG funding Block and removing the ability to move money between Blocks reduces the flexibility currently available to LAs to manage overall expenditure and in particular ensuring there are sufficient resources available to meet statutory responsibilities. It will prevent any future transfers like the £2.1m agreed by the Schools Forum in 2014-15. The risk to the council on having to manage an over spending will increase because of the nature of high needs costs. Any under spendings will be carry forward each year and ‘ring fenced’ to overall DSG funded responsibilities.
25. There will be a financial incentive for schools to maximise the number of pupils and students classed as High Needs as the LA will be financially responsible. There will no longer be a shared responsibility with schools understanding the more that is spent on High Needs pupils, the less there is for allocation into their delegated budgets. The DfE indicate they will encourage schools to include SEN pupils but it is not yet clear whether this will be effective.
26. Whilst transitional funding protection is proposed, some LAs will still face a number of years of funding cuts. As such it is important that those LAs have plans in place to reduce costs at a time when the overall sector will be facing demographic and general cost pressures. The review of High Needs Block budgets that is due to commence spring 2016 will help prepare the council in identifying the most effective use of resources.
27. Changes to post-16 funding, including enabling LAs to designate SEN resource units in FE colleges should result in better provision planning and take account of local knowledge of students with particular needs in schools that will over time need post-16 support

2016-17 Initial High Needs Block Budgets

Budget Item	Initial 2016-17 Budget
Elements 1 and 2: Specialist places	
Kennel Lane Special School	£1,850,000
BFC maintained schools	£292,000
Element 3: top up payments	
BFC maintained schools and academy	£967,050
Non-BFC maintained schools	£867,000
Kennel Lane Special School	£1,420,650
Other specialist providers e.g. NMSS, FE colleges	£5,940,670
Education out of school	
College Hall Pupil Referral Unit	£701,490
Home Tuition	£300,160
Family Outreach Work	£94,130
Other support to high needs pupils	
Teaching and support services	£638,750
Sensory Impairment services	£228,470
Autism support service	£84,000
Traveller education	£75,140
Medical support, specialist equip etc.	£197,610
Support to schools with high numbers of SEN pupils	£100,000
SEN Resource Unit Reserve	£55,000
Total DSG funded (1)	£13,812,120
Reserve funding for KLS	£0
EFA sixth form grant for KLS	£500,170
Total gross funding	£14,312,290

(1) comprises current budget for HNB DSG of £11.719m plus £2.093m transfer from Schools Block.

Early Years Block Budgets

Budget Item	2015-16 Budget £	2016-17 Changes £	2016-17 Budget £
Free entitlement to early years education and childcare:			
Maintained school nurseries: 3 and 4 year olds	£1,392,450	£75,150	£1,467,600
PVI provider settings: 3 and 4 year olds	£2,593,230	-£26,530	£2,566,700
2 year olds	£640,160	-£35,620	£604,540
Provider Contingency – for in-year increases in take-up and other support to providers e.g. SEN children, providers in financial difficulty	£115,000	-	£115,000
Multi professional assessment centre – based at Margaret Wells Furby Children’s Centre in Great Hollands	£156,850	£9,110	£165,960
Free milk – net cost of free milk to eligible children.	£11,210	-	£11,210
Special Educational Needs and other support e.g. Special Educational Needs Co-ordinators.	£147,390	-	£147,390
Early Years Development Officer funding for 1 fte development officer supporting early years providers in tracking and monitoring children’s early years progress to ensure school readiness.	£35,000	£1,290	£36,290
Out reach: To support delivery of sufficient places.	£28,000	-£10,400	£17,600
Early Years Pupil Premium	£63,710	-	£63,710
Total Early Years Block Budget	£5,183,000	£13,000	£5,196,000