

Consultation on School funding reform: Next steps towards a fairer system

1. Purpose of the Report

To agree the draft response to the Department for Education (DFE) consultation on the proposed schools funding system.

2. Recommendation

- The Forum considers the attached draft response to the consultation.
- A small working party is set up to consider the new formula prior to the next Forum Meeting on the 12 July

2 Background

- 2.1 The Department for Education in the spring 2011 consulted stakeholders on reforming the schools funding system. Their aim is to create a funding system that is fair, logical and distributes funding towards pupils who need it most. They felt the current funding system makes the objective to raise the aspirations and attainment of all pupils difficult to achieve. They wished to see good schools expand more easily so that more pupils can benefit, funding to follow pupils, for pupils with additional needs to attract additional funding and for schools to understand how their budgets have been calculated.
- 2.2 This was then followed by a second consultation in July 2011 considering a national funding formula for the distribution of funds to local authorities from which each local authority and Schools Forum would agree a formula to distribute funding locally to individual. The view was whatever the funding model it needed to be clear and transparent, support the needs of pupils and enable schools to make informed decisions about their provision. The Department for Education published a statistical analysis of the responses but have not provided details any conclusions they subsequently made.
- 2.3 The latest consultation document was issued on the 26 March and runs until 21 May 2011. The changes proposed are complex and technical, the consultation period does not last for the usual 12 weeks limiting the scope that Schools Forum can consider the proposals. The DFE feel making the timeframe shorter than normal will enable an earlier announcement in the summer about the outcome.

The consultation considers

- The future of the Dedicated Schools Grant.

- The ways that schools within each local authority are funded
- The arrangements for funding pupils and students with high needs
- Simplification of the arrangements for the funding of early years provision
- The role of the Schools Forum
- The role of the Education Funding Agency

The full document can be found on

<http://www.education.gov.uk/consultations/downloadableDocs/School%20funding%20reform%20-%20Next%20steps%20towards%20a%20fairer%20system%20Mar%202012%20FINAL.pdf>

2.4 The DFE believe the reforms will mean they are well placed to introduce a national funding formula during the next Spending Review period(2015/16).

3. Details

The consultation document is complex and in places technical, the purpose of this paper is not to discuss every reform proposed in detail but highlights the important aspects and identify areas of concern which are then built into the response to the consultation document.

3.1 The future of the Dedicated Schools Grant .

The DFE have not revisited how each Local Authorities Dedicated School Grant is calculated apart from considering transferring part of the Formula Grant into the schools funding system.

The proposal is to switch the formula grant that is currently paid to councils for some education services currently funded outside of the Dedicated Schools Grant. It is expected the following budgets are the most likely to be included

	Full Budget £
Central Support Services (pupil support, music and outdoor education)	396
Education welfare service	1108
School improvement	1521
Asset management education	568
Statutory/Regulatory duties(7.0.1)	1180
Redundancy	124
Monitoring national curriculum assessment	34

This funding then will be held by the DFE, some given to academies and the rest handed back to Local Authorities on a national basis through an additional grant on top of the Dedicated Schools Grant. It is important any adjustment reflects the pupils actual in academies in the local authorities and not on a standard rate across the country. We have seen in the past significant reductions in funding despite only having one school forming an academy under the current coalition government policies.

One of the concerns in handing back this funding to Local Authorities is that no account will be made for Area Costs which will mean funding is transferred out of London and the South East.

The consultation does propose splitting the Dedicated Schools Grant into three spending blocks called Schools, Early Years and SEN.

The budgets in each of these spending blocks can be seen in Appendix A. The whole of the schools block will be delegated and schools (Head teachers rather than the Forum) will be invited to hand the funding back to the Local Authority if they so wish.

Impact

It is impossible to gauge this as there are no details of a possible national funding formula.

There is a concern that with greater delegation of budgets to schools and with schools able to elect to hand back funding the LA to manage, schools will be exposed to greater risk. This is true of the funding that acts in an insurance like way such as the schools contingency funds. If a number of schools do not agree to hand the funds back then this could limit the ability of LA's to support schools

Areas of concern

Area cost adjustment

There is no discussion about area costs, although worrying that the document talks of funding SEN pupils at a standard rate of £10k across country and likewise a standard lump sum rate. Inner London Authorities receive significant levels of funding through the Area Cost Adjustment. This is essential as the principle of fair funding is that the schools funding system should allow equal opportunity for all pupils to fulfill their full potential. The cost of not only salaries, but recruitment, retention and high turnover of staff in London need to be recognized. As we have seen with the pupil premium having standard rates across the country this impacts on what can be delivered with the funding in London and the South East due to the higher wage costs.

PFI costs

Local authorities with significant number of PFI schemes incur additional costs and it is important that this is recognized in the national formula

3.2 The ways that schools within each local authority are funded

The consultation proposes the new schools funding formula are based on ten factors. The current legislation allows funding formula to have 37 factors in their formula although some of these factors can be broken down further into sub elements. In Lewisham we have 29 factors in our formula.

The proposed formula factors are as follows

- 1) A basic per-pupil entitlement – which allows a single unit for primary aged pupils and either a single unit for secondary pupils or a single unit for each of Key Stage 3 and Key Stage 4
- 2) Deprivation measured by FSM and/or the Income Deprivation Affecting Children Index (IDACI)
- 3) Looked after children;
- 4) Low cost, high incidence SEN;
- 5) English as an additional language (EAL) for 3 years only after the pupil enters the compulsory school system;
- 6) A lump sum of limited size;
- 7) Split sites *1
- 8) Rates *2
- 9) Private finance initiative (PFI) contracts; and,
- 10) For the local authorities who have some but not all of their schools within the London fringe area, flexibility to reflect the higher teacher cost in these schools. This does not apply to Lewisham.

*1 This factor can replicate our own current split site factor

*2 This does not quite equate to our current funding as it is proposed to disallow the Post 16 abatement on rates, hence an element of double funding will occur.

The funding formula will be based on October pupils numbers rather than the current January count; there is one exception to this which is early years which will be based on the January count initially.

The impact

It is difficult at this stage to see the exact impact of these proposals and only broad themes can be currently considered. The detailed revisions to our funding formula will be brought to the Schools Forum meeting in July before consultation

takes place with schools. The section below entitled “Next Steps” describes a possible timetable.

The current proposals appear on the surface to transfer resources to the primary sector, reduce funding for small secondary schools and increase funding for junior schools proportionately more than other primary schools. Detailed modeling will need to take place in order to confirm this or otherwise.

Concerns – Proposed factors

Standard basic entitlement rate across all pupils in a sector

We feel there are differences in needs between the key stages. Reception classes have greater needs in terms of staffing such as extra teaching assistants and nursery support staff. The Key Stage 4 curriculum often has smaller classes and greater resource needs for some subjects especially for the sciences, arts and vocational subjects.

Our current formula has a marginal difference (£100 per pupil) at Key Stage 3 and 4. It more significant between reception and Key Stage 1 at roughly £800 per pupil.

Standard lump sum across all schools

We feel that the structures of Primary and Secondary schools are different. Secondary schools are generally much larger organization, have greater management costs, greater premises costs and larger administration requirements. Some these costs are fixed and this needs should be reflected. Smaller secondary schools often have higher average costs due to the need to offer a full curriculum to a smaller number of pupils resulting in smaller classes and the need to employ specialist teachers in the more specialist curriculum subjects. This can create surplus capacity in the timetable. The effect is likely to be more significant in Secondary Schools due to wider variation in the size of schools and the proposals do not allow any other form of protection to small schools

Free meals or IDACI (Income Deprivation Affecting Children Index)

The proposals define that either straight free meals (or “ever 6”) can be used or a banding system (set nationally) link to the IDACI.

We currently use the IDACI in the early years funding formula and is a proxy indicator of the number of children in households in receipt of means tested low income benefits within an area.

It is difficult to see how this approach will fit with local need for statutory age pupils currently and will need to be considered further at the next Forum meeting when discussing the formula in more detail.

Concerns – Omitted factors

Pupil mobility

One of the determinants on the outcomes for children is the number of school moves they make, under the proposals we cannot reflect this need.

3.3 The arrangements for funding pupils and students with high needs

This is perhaps the most radical of the proposals within the consultation document and where the most significant change will occur. The proposals cover mainstream, special and independent schools and have different proposals for each. The consultation implies that there will be further consultation in this area

The DFE proposals link to the development of the local offer as proposed in the SEN and disability Green Paper Those green paper proposals seek to improve choice and transparency for families and give them more control of the resources to meet the needs of their children. The DFE intend that their proposals should support parents in this aim.

In terms of the financial support for pupils with additional needs the DFE want to establish a common position across all authorities and schools. To ensure that there is clear, locally-agreed information with regard to the contribution that mainstream schools will make to provision for high needs pupils from within their notional SEN funding.

They also wish to avoid what they consider a perverse incentive for Local Authorities to place SEN children in their own maintained special school settings rather than those of other providers due to the use of place led funding. It is also claimed that the changes will improve the relationship between LA's as commissioners of provision for children with SEN and the providers.

The proposed funding system is described as a place-plus approach which is based on part funding a pre-determined number of places now and then topping it up with actual costs provided by the commissioning local authority from within its High Needs Block. This would be paid on a per-pupil basis, or on a real-time movement of the pupil, and would flow directly between the commissioner and the provider. This funding would be based on the assessed needs of the pupil. Pending any changes to assessment practices following the introduction of Education, Health and Care Plans, any statutory assessment of a pupil's needs would be carried out as it is at present under the current statutory assessment framework.

In summary the way the system is planned to operate in the different sectors are as follows

Maintained Schools

Children with SEN – Schools will be expected to meet out the their budget the initial costs of the sen support, this will be the pupil's basic entitlement of £4,000

plus a sum of £6,000. The sum of £6,000 comes from a statistical analysis undertaken by PriceWaterhouseCoopers of schools' budgets and expenditure and represents the average level of support identified in their study. It is not an activity based costing of the support that might be expected to be put in place for a pupil with SEN. It is proposed to be a standard amount across the country and does not reflect area costs. A local authority would then top up this sum if the assessed cost of the sen support is greater. The assessment of costs of support may or may not be based upon a statement depending on local arrangements. Currently in Lewisham the full cost is met by the LA rather than a top up if the statement is Matrix level 6 and above.

Special Schools

It is proposed that each planned place in a special school will be funded at £10k. The LA would then top this up for each place occupied. The top up is calculated by the LA and school agreeing the budget for the forthcoming year and dividing the total costs agreed by the expected number of places that will be filled to come up with a unit cost. The top up is the unit cost less £10k. As a result there will be no formula based funding of special schools. It also means that two special schools supporting ASD for instance would receive different levels of top up for providing the same support to a similar pupil.

The planned places will be the number that the school is built to accommodate. The expected number of places will be the result of host LA decisions about the number of children to place in the school plus those from any other LA.

As a consequence the business arrangements for maintained special schools will look more like those for an independent/ non maintained special school. The DFE intend that the subsequent budgets for a special school using this approach should not be more than 1.5% below its current funding level.

Resource bases

The approach here is as for maintained special schools. An agreed number of places will be funded by the LA at a sum of £10k then if a pupil has greater needs a top-up will be made to the schools budget. The top-up calculated in a similar way to that for special schools

Independent Special Schools Budget

The proposals in this area appear to be that the EFA would provide the base level funding of £10k and the commissioners (LA) would provide the top-up sums. It is however possible that the EFA will fund these schools direct based upon the commissioning decisions of LA's!

SEN Support Services

Where special schools provide outreach services for example these are to be explicitly commissioned as SLA s rather than the funding being provided as part of the school's funding formula.

Post 16

The intention is to replace the three different approaches for post 16 SEN funding with a common arrangement. Mainstream funding or element 1 will be provided by the equivalent of the current Education Funding Agency (EFA) funding per student/ course.

Element 2 broadly equivalent to Additional Learning Support(ALS) in the current EFA system will provide funding of £6000. The aim is that elements 1 and 2 are the equivalent of £10k in the pre 16 system. The students attracting this would be based upon past year's data and be the equivalent of planned places in special schools and resource bases.

Element 3 is the top up funding which results from the conversations between commissioner and provider. In the current system this funding would have come direct from EFA to some providers, in this new scenario the LA is commissioner.

Observations

It is difficult to gauge the effect of these proposals but there are a number of possible concerns

Concerns

While the needs of pupils across the country can be represented on a standard matrix the costs in meeting those needs are not standard across the country or between providers. There are good reasons for variations e.g. wage structures and the cost of living in the south east. The amounts paid to the independent sector cover all costs such as capital maintenance costs and a return on capital invested. In a LA context maintained schools have their capital needs dealt with separately as a result there will continue to be a lack of comparability in charges to the commissioner.

These proposals try to bring together the need and the cost of meeting those needs as a standard. This could disadvantage one sector.

SEN home to school transport costs are not considered in the proposals as it is met out of the general fund. As a commissioner of places these costs need to be considered alongside the placement costs to make a value for money decision in the round. SEN Home to School transports are potentially part of the future "local offer" under the green paper proposals but these reforms appear not to allow for that.

The proposals for the EFA to meet some costs in the independent special schools sector seems odd as it could drive decisions by the commissioner to place children in this sector as they are not meeting the full cost of the placement.

The proposals are built around money following the pupil which ties in more with personalised budget. The proposals around special schools though look

confusing where the minimum funding guarantee still applies. It gives the impression that funding will have to follow the pupil but the MFG implies a special school cannot have funding taken away. This would amount to double funding and cannot be value for money.

The success of these proposals though will be whether schools and parent understand them and feel they are fair. Parents will like the simplicity although schools particularly mainstream school may find it hard to come to terms with the size and assumed contribution to an SEN placement. It will also set up an expectation on the part of parents and the LA that schools can validate how they have spent the £10,000 before seeking top up financial support.

The administrative burden falling on schools and local authorities must not be overlooked especially in times of reducing back office costs. Transferring resources around the system to follow pupils is costly especially when the sources of funding come from different agencies whether this is the school, EFA or the Local Authority. With proposals that short term placements are not included in this transfer seem to just highlight some of the generalisations and ad-hoc nature of the proposals which will not help, but likely to concern the providers.

3.4 Simplification of the arrangements for the funding of early years provision

Generally our current scheme is in line with this but there is a concern that the deprivation will be based on free meals or the IDACI banding. Our current formula recognises the incidence of deprivation and funds some institutions particularly the nursery schools at proportionally much higher rates.

3.5 The role of the Schools Forum

The consultation document states that the DFE wish to strengthen the role of the Schools Forum, some of the plans are sensible and indeed we already undertake most of them especially around openness, membership and publication of the Forum business.

Concern

Some of these proposals may weaken the forum

Funding formula

The proposed funding formula limits the distribution of resources to 10 factors which will constrain the scope to which Schools Forum can direct funding. There is still some discretion though, such as in the area of split sites but otherwise decision making is limited to setting the funding rates There are also a complex array of ratios between sectors and factors that will mean further limits on decisions.

The ratios include

- Primary to secondary 1:1.27

- Proportion allocated via basic entitlement 60% or pupil led factors at 80%
- Limits on the size of the lump sums
- Fixed banding ratios for deprivation
- Minimum Funding Guarantee

Further the Education Funding Agency has observer status proposed on the Forum and has to agree each year the funding formula

Centrally retained expenditure

Some centrally held budgets under the proposal will now have to be delegated to schools although it is possible for the Local Authority to manage these funds if schools wish. This decision appears to rest with individual schools rather than Forum but elsewhere it appears to be a Forum decision.

Membership of the Schools Forum

The DFE wish to ensure that maintained primary schools, maintained secondary schools and Academies should be represented on Forums in proportion to the number of pupils in those types of schools. They also will confine the voting arrangements to allow only schools members and providers from the private, voluntary and independent sector to vote on the funding formula. They will also have observer status at School Forum meetings. The DFE feel this will enable them to support the local process and to provide a national perspective!

Concern

The above proposals do not feel that they will be strengthen the role of the School Forum and may have the opposite impact. The funding formula and agreeing the central expenditure limit are two key elements of the role of the Forum and it seems the remit of the Forum in the future will be on considering the balance control mechanism, if they wish although there no requirement currently, considering schools in deficit and monitoring the SEN block expenditure.

3.6 The role of the Education Funding Agency(EFA)

It is proposed they have observer status on the Schools Forum and have to agree all local formulae. There is an increasing desire to have a national overview and influence on the work of the Schools Forum. The danger in this is whether an external agency can have a true understanding of the local needs of the children in Lewisham and act as a barrier to the wishes of schools.

3.7 A draft response is shown in Appendix B for members to consider

4. Next steps

The DFE wishes that the proposed simple formula is introduced in 2013/14. The proposal is a major change, the funding allocated to schools is significant at over

£200m and any changes need to be given proper consideration. The timetable to this is short.

The proposed timetable is as follows

date		
12 July	Schools Forum meeting	Consider draft proposals
Summer		Re-work proposals
September	Consult school	
20 September	Schools Forum meeting	Consider school responses
15 November	Schools Forum meeting	Agree new formula

The forum may wish to set up a working party to consider proposals before the July meeting as there maybe a risk that proposals taken to that meeting are not agreed. If that is case the whole timetable will be in jeopardy.

5. The following have not be considered in detail in this document

- Alternative provision
- Hospital Tuition
- MFG Operation
- Practical implementation of delegation / de-delegation of services such as how contingency funds operate
- Academies and Free School arrangements

6 Conclusion

This consultation could fundamentally change the ways all schools are funded across the country. The principle adopted is one of simplicity and transparency and this overrides everything else and there is a concern that the needs of pupils will not be met.

It is disappointing that the consultation response is light on asking questions on the proposed formula and almost signals that this is the route the DFE have decided upon whereas the detailed questions on the special school funding could imply they are more uncertain in this area.

The current funding formula that Local Authorities operate have grown over many years often to address the concerns of schools in ensuring they meet the needs of pupils. This has contributed to their complexity and it is right to sit back and consider whether they are fit for the future. There are roughly 160 local authorities and there are probably none that operate a formula proposed in this document. That is not to say it is wrong but it is radically different and its acceptance will only happen if schools and parents feel that it is meeting the needs of their children. Understanding the formula is one thing but it needs to be fair and provide equal opportunity to all.

It is disappointing the DFE have not provided notional school budgets as they promised in the last consultation, likewise there is no mention of capital and the proposals of devolved formula capital and the James review which it would see sensible to link these into the proposals.

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