

Schools Funding Formula

1. Purpose of report

This report considers the work of the sub-group that the Schools Forum set up to consider the new funding formula proposed by the DFE. It is not intended that this report will repeat those discussions but will highlight the main areas of concern and summarises the conclusions the sub-group reached. The Forum are asked to endorse these as being suitable for the basis of consultation with schools.

2. Recommendations

1. To note the proposals made by the sub-group.
2. To agree that schools should be consulted
3. To endorse the sub group conclusions as described in the consultation document(booklet) on
 - A) The new formula as described in Section 1a
 - B) Conversion of our current formula factors into the new factors in section 1b
 - C) The SEN Matrix funding proposals in section 2
 - D) The delegation and de-delegation of central budgets and the setting up a mutual fund / growth fund as described in section 3
4. The changes to the Early Years Single Funding Formula in section 4
5. Support the proposal to set up a group to look at banding frameworks for SEN children and ask officers to bring terms of reference for this group to the next meeting.

3. Background

3.1 In the spring of 2011 the Department for Education 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 by making the formula as simple and transparent as possible.

3.2 This was then followed by a second and finally a third consultation in March 2012. This consultation ran until 21 May 2012. The DFE asked Local Authorities to undertake a review of their funding formulas in June accepting the response to the consultation may not be available when starting this work but that many parameters for reform had been set.

3.3 The Schools Forum at its meeting on the 17 May 2012 set up a small working group to consider the proposals and how a new simplified formula could be introduced in Lewisham. A consultation with schools in September would lead to a final formula proposal for the September meeting of the Forum. This would meet the deadline set by the DFE to return to the Education Funding Agency a description of the new funding formula by the end of October.

4 Overall Principles

The sub group established some overriding principles in order to design the formula

- Unless prevented by the regulations the funding quantum in Primary and Secondary schools should stay the same.
- That wherever possible any turbulence in schools funding should be minimised.

The sub-group approached the task by looking at the Formula factors that are currently used and will no longer be allowed under the new regulations. Appendix 1 shows these factors, a description of how they operate now and a proposal from the sub-group of how they will be handled in the future.

The final Lewisham formula proposals are show in the Appendix 3, which is a draft of the schools consultation document. This also shows details of the central budgets that now need to be delegated to schools and whether the sub-group feel they should be de-delegated and held centrally. The financial modelling of the proposals will be tabled at the meeting.

5. Main areas of debate

One of the overriding concerns of the sub-group was that the DFE had set the new requirements in a way that allowed little scope for local discretion to the formula, the

only scope was to change the funding rates that attached to the formula factors. The other concern relates to the times scales involved in undertaking the work.

6. Mainstream funding formula

6.1 Deprivation Funding – The balance between free meals and the IDACI.

DFE proposals provide that deprivation funding can be based on two indicators:

- a. free school meals (FSM) data (which could be either straight FSM or Ever 6 as used for the Pupil Premium);
- b. IDACI (Income Deprivation Affecting Children Index) data; or
- c. both

If the IDACI indicator is used then it must be allocated on a banding system

Band 1	IDACI score lower limit	IDACI score upper limit
1	0.20	0.24
2	0.25	0.30
3	0.30	0.40
4	0.40	0.50
5	0.50	0.60
6	0.60	1.00

The sub-group discussion was mainly around the balance of the funding between the two allowed indicators of Free Meals (ever 6) and the IDACI. Modelling has been undertaken in line with the initial principle that any changes should create as little variation as possible from the current funding. The rates of funding quoted in the attached consultation document seem to find this “best fit”. However that it is not to say they are right.

The funding allocated through the deprivation factor is £15m currently and does warrant close scrutiny. The data sources and funding calculations are given in Appendix 1.

The Income Deprivation Affecting Children Index (IDACI) is an area based (post code area) measure that covers children aged 0-15 living in income deprived households. This is defined as either families receiving Income Support or income-based Jobseeker's Allowance or Pension Credit (Guarantee) or those not in receipt of these benefits but in receipt of Child Tax Credit with an income (excluding housing benefits) below 60% of the national median before housing costs. The Income Deprivation Affecting Children Index is expressed as the proportion of all children aged 0-15 living in income deprived families. Appendix 2 shows two charts, Chart 1 maps Key Stage 2 attainment by IDACI score. It shows that as the IDACI score rises (which denotes higher levels of deprivation) the proportion of pupils achieving Level 4 at both English and maths falls. From the data underpinning this analysis, 68.8% of pupils with an IDACI score greater than 0.18 achieve the national average, which is 12.1% lower than pupils with an IDACI score of less than 0.18, where 80.9% of pupils achieve the national standard.

Chart 2 shows that it is only pupils with an IDACI score of around 0.15 where the percentage of pupils achieving 5+A*-C at GCSE, including English and maths is at or above the national average of 59%. From the data underpinning this analysis 50% of pupils with an IDACI score greater than 0.15 achieve the national average of 5 A*-C at GCSE, which is 19.5% lower than pupils with an IDACI score of less than 0.15, where 69.5% of pupils achieve the national standard.

6.2 Nursery Abatement

The level of funding required in primary schools is currently subject to a nursery abatement. This abatement will no longer be possible and consideration will need to be given to the implications of this. The original abatement ensured that the Early Years Single Funding Formula had a consistent funding methodology across all the providers: nursery schools, nursery classes and the private, voluntary and independent sectors. To ensure consistency all settings had funding built into them for management costs. This caused a problem with Nursery classes in primary schools as the mainstream funding formula also had management costs for the nursery built into it, hence there was an element of double funding. To overcome this an abatement was made to the mainstream funding formula.

If the funding for these costs were transferred from the Early Years formula it would remove the double funding that would otherwise occur, but would introduce

inconsistencies in the Early Years formula as PVI and nursery school rates would be unaffected.

If the Early Years formula rates are left unchanged and the adjustment is made to the Primary formula, this will see the movement of funding from schools with nurseries from those without and some double funding will remain.

6.3 Post 16 funded through the DSG

6.31 Post 16 abatement

The purpose of this adjustment is to make sure that no double funding occurs between ISB allocations and 6th form grant from the EFA. The current allocation method removes a proportion of funding, equal to the proportion of 6th form pupils in the school, from allocations whose data cannot be adjusted to exclude 6th form costs. For example, the business rates bill covers the whole school it is then abated by the percentage of the pupils in the sixth form, as this funding is provided for by the Education Funding Agency (formerly YPLA) in the per student funding rates.

6.32 Former standards funds given to Post 16 students

These funds were formerly distributed via School Standards Grant, School Development Grant, School Lunch Grant, Ethnic Minority Achievement Grant and part related to post 16 students. The method of allocation is through Pupil Numbers and FSM Eligible Pupil Numbers

6.33 The proposed method of allocation

The removal of the abatement will mean that extra funding has to be found for Post 16 schools. There are two possibilities; this can either be offset against 6th form funding these schools already receive or it can be taken from non 6th form secondary schools. It is proposed in the consultation to do the former, as this creates the least turbulence.

6.4 MFG and capping gainers

6.4.1 The DfE accept that the new funding system will cause considerable turbulence in the funding system and have agreed that in order to make any formula changes affordable schools gains at a per pupil level can be capped or scaled back. The DfE feel this would avoid the situation where gaining schools inevitably take time to incur extra expenditure, and balances rise as a result. At present, transitional

arrangements can be applied to changes in specific factors, but there is no general equivalent to the MFG to limit gains. DFE believe that setting a prescribed maximum gain should be a local decision, taking into account the affordability of protection.

The problem we have is that under the current MFG calculations there are so many schools losing that the protection becomes very expensive. Currently, the protection needed is £2.4m and the only way to fund this is by reducing the basic entitlement, which would subsequently require more protection.

It would seem some form of capping is needed in order to fund the protection for schools with falling budgets. A similar scenario existed when we merged the former standards funds into the Dedicated Schools Grant. The way the calculation worked then was that no school was permitted to gain more than 4% and it was this figure that was built into the funding models.

In this instance it is proposed that a cap be applied to schools whose increases exceed both (a) a set percentage increase of the schools 2012/13 budget and (b) a set percentage increase per pupil. This recognises the differences between small and large schools and takes into account budget increase caused by expansion.

The percentages will be set at a level that provides sufficient resources to fill the funding gap caused by the MFG protection.

6.4.2 Exclusion from the Minimum Funding Guarantee (MFG)

There will be an opportunity to request exclusions from the MFG although they will only be approved for exceptional cases and on a much more limited scale than in previous years.

The guidance explains exclusions will only be considered if there is a significant change in a school's circumstances or pupil numbers. For example, if there has been additional funding in a school's 2012-13 formula budget for pupil number growth in the following academic year. In this case, the pupil numbers to which the funding relates are not included in the count on which the MFG is based.

The EFA will only consider applications where the inclusion of a factor in the MFG will lead to significant and inappropriate levels of protection. The DFE have not as yet defined inappropriate.

The examples that we are consulting on are as follows

- 1) Curriculum Protection
- 2) Expanding schools
- 3) Transitional Protection

7. Special Education Needs – High Needs Block

7.1 SEN Matrix

This proposal has caused more concern than most and as we discussed at the last meeting, the DFE wish to see schools contribute the first £10k to the needs of a pupil with high needs. Such pupils may or may not have a statement of special needs.

The DfE have confirmed that the consultation documents refer to the total cost of the support for the pupil, including basic provision. If a pupil needs additional support of £12,000, the total cost of the pupil will be that plus AWPU say £16,000, assuming the AWPU is £4K. DFE say that the school has to make the basic provision it makes for all pupils and then contribute £6,000 to the additional cost. The discussions in the sub-group treated the £6,000 in the same way; as if it is part of the core provision support of the school. Thus rather than add just the £4000 to the statement (or our matrix level) in order to reach the total cost, we would add the full £10,000.

The sub group looked at the two examples below and felt example 1 offered the least funding turbulence for schools. In example 2 it was felt that parents would not understand that part of the matrix or financial support for the statement had been delegated to schools and the funding provided by the school was £20k rather than the £10k quoted in the DFE documents

7.2 Example 1

Current Method	Revised Method																
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">AWPU</td> <td style="text-align: right;">£4,000</td> </tr> <tr> <td style="height: 20px;"> </td> <td> </td> </tr> <tr> <td>AEN + Collab.</td> <td style="text-align: right;">£6,000</td> </tr> <tr> <td style="background-color: #e0ffe0;">School Contribution</td> <td style="text-align: right;">£10,000</td> </tr> </table>	AWPU	£4,000			AEN + Collab.	£6,000	School Contribution	£10,000	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Basic Entitlement</td> <td style="text-align: right;">£4,000</td> </tr> <tr> <td style="height: 20px;"> </td> <td> </td> </tr> <tr> <td>Deprivation & Lo Need SEN</td> <td style="text-align: right;">£6,000</td> </tr> <tr> <td style="background-color: #e0ffe0;">School Contribution</td> <td style="text-align: right;">£10,000</td> </tr> </table>	Basic Entitlement	£4,000			Deprivation & Lo Need SEN	£6,000	School Contribution	£10,000
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Matrix	15,700
Total Funding	£25,700

Matrix	15,700
Total Funding	£25,700

7.3 Example 2

Current Method	Revised Method
AWPU £4,000	Basic Entitlement £4,000
AEN + Collab. £6,000	Deprivation & Lo Need SEN £6,000
School Contribution £10,000	School Contribution £20,000
Matrix 15,700	Matrix 5,700
Total Funding £25,700	Total Funding £25,700

The difference between the funding of the current matrix level and the new matrix level would come from the extra delegation of the first £10,000 of all statements, but when allocated on the basis of indicators like FSM and prior attainment, the school would not necessarily receive exactly £10,000

7.4. Special Schools and Resource Bases in mainstream settings

The funding reforms for special schools and resources bases are probably the most radical as this provision will no longer be funded under a formula. The sub-group asked that we hold separate meetings with the Headteachers of these two groups to

discuss the proposals and gain their views. A meeting was held on the 25 June 2012 with the representatives of Resource Bases and on the 27 June 2012 with Headteachers of Special Schools

The current proposals by the DFE are very tightly defined and there is little scope for local discretion. Longer term the DFE feel there will be a need for banded funding frameworks with local tariffs to ensure the effective operation of the place-plus funding approach. The DFE are encouraging authorities to work with maintained and state-funded providers, as well as with other authorities that commission provision from the same settings, to develop effective, transparent banded funding frameworks with local tariffs. We already have some form of local banding frameworks in relation to high-level SEN provision in schools but not to the extent the DFE now suggest, but we would need to develop local banding frameworks in areas such as Alternative Provision and Learning Difficulty and Disability (LDD) settings.

The groups felt that it was important that this work should commence but urged caution and would wish to see the outcomes before any decision was made on implementation. It would seem appropriate that the Schools Forum set up a High Needs sub group. It would also seem appropriate that this group looks at the technical matters as to how the pupil led element of the proposals will be funded. Whether this will be on a monthly basis, half termly or termly basis and how the administration of the payments are best handled to avoid unnecessary back office costs.

Discussions with other local authorities will also take place to consider the local tariffs.

8. De-delegation and Mutual Funds

One of the proposals of the DFE is to delegate as much funding as possible to schools. The DFE defined the current central budgets that now have to be delegated to schools but some of these could be de-delegated and handed back to local authority to manage if the schools forum and schools wished. The sub-group discussed the budgets that operate in a similar format as an insurance fund for schools. They are currently held centrally but during the financial year they are given to schools. These funds include the contingency, bulge classes, schools in financial difficulty and maternity. The sub-group in discussing these felt that these were best handled by the Schools Forum operating a mutual fund on behalf of schools.

If the Forum agree to this, the terms of the mutual fund will be brought to the Forum meeting in November. It will comprise three funds: contingency, maternity and a growth fund to cover expansion in planned places in all schools.

The full proposals for delegating and de-delegating budgets can be seen in the consultation document (Appendix 3 section 3).

9 Early Years Single Funding Formula

The consultation document asks Local Authorities to review their EYSFF to consider whether they can be simplified. The Lewisham formula is relatively straight forward in that it comprises a funding per hour element, a derivation factor and a quality factor, although some difficulties around the quality factor have emerged from its operation.

Some settings have found that their OfSTED judgements have changed from good or outstanding to satisfactory. Consequently the funding is reduced at the start of the following financial year. The impact of this has been to create a cliff edge effect for the funding. In the case of PVI's. this is more difficult for settings to manage if the OfSTED judgement is late in the financial year as there is a sudden and potentially significant drop in funding. If the judgement is made in the Summer Term then the setting would have two terms in which to manage the situation.

To avoid this disparity it is proposed to allow the provider to have the higher funding level to the end of the next full term following the OfSTED judgement, then it would reduce to the lower level.

For example

- | | | |
|-------------|---|--|
| Spring Term | - | OfSTED Judgement – setting is judged Satisfactory rather than Good |
| Summer Term | - | Funding still based on good judgement and setting in receipt of quality factor |
| Autumn term | - | Funding changes to remove the quality factor funding |

There would also be the possibility if sufficient capacity exists within the School Improvement Team for a setting to buy in an assessment of whether they have improved their satisfactory rating .

10. Other items

10.1 Pupil Led Funding

The DFE are not, at this stage, going to prescribe that there should be a minimum percentage to be allocated through age-weighted funding or a minimum percentage to be allocated through all pupil-led factors. They believe the new delegation

requirements will lead to significant increases in funding at school level and the impact of this should be understood first before making this change.

10.2 Primary/secondary ratio

The DFE are not, at this stage, prescribing constraints on the primary/secondary ratio, but state that authorities should be aware of where they are within the range in case the ratio is limited from 2014-15. We cannot say at this stage what constraints might be set in future as we will first need to review the 2013-14 data.

Under our formula proposals the ratio is 1:1.36. In the original consultation the DFE quoted that they would like to see the ratio at 1:1.27. This equates to a movement of £3.25m between sectors. The DFE proposal was based upon the average position across the country at the time of preparing the consultation on funding reforms.

10.3 Free early education for two year olds

The funding of early education for two year olds will transfer to the DSG from 2013-14. The DFE will issue a separate consultation on how this funding could be allocated to local authorities.

11 Consultation

The timescales imposed by the DFE are extremely tight and will mean that the consultation will need to be undertaken in way that we would want to promote. Legally the Forum does not need to consult schools but it would be best practice to do so.

However, it will probably not feel like a consultation as schools will not have genuine choice about the formula and the factors used. The discretion is about attaching appropriate funding rates to the given factors.

It is important that schools are fully aware of these proposals, as not only will they create radically different budgets for some schools but they will be implemented next April and so the consequences will need to be addressed and planned for without delay.

The timetable would be to

- Send out the consultation papers on 13 July 2012
- Hold four consultations meetings during the period 10th to 18th September 2012. (Schools will be encouraged to complete the questionnaires at the meetings.)
- Feedback will be tabled at the Schools Forum meeting on the 20th September 2012.

- Submit funding formula for EFA proposal 31 October 2012.

The draft consultation documents are in Appendix 3.

12. Next steps

At the meeting on the 20th September the Schools Forum will need to agree the funding formula, this will allow the required return to be sent to the Education Funding Agency. Funding rates will be provisional until the pupil numbers from the October census are confirmed. The actual rates will then need to be finally confirmed to the EFA by mid-January 2013.

The Local Authority will also need to agree the Special Schools and Resource Base planned numbers. While these are not funded from the schools block, as the DSG in total still funds all the SEN provision and there are expected to be cross subsidises, final school funding rates cannot be set without knowing the High Needs requirements.

There is other work that, at this point in time, has not been undertaken but will need to be completed during the Autumn Term. These cover

1. The terms of reference for any mutual fund
2. Any new service level agreements for schools
3. Funding for the pupil referral unit
4. Funding for outreach

13. Conclusion

This consultation will fundamentally change the way all schools are funded across the country. The principle adopted by DFE is one of simplicity and transparency which overrides everything else and there is a concern that the needs of pupils will not be met. This is radically different and the timescales are such that full analysis of the impact on schools and standards has not been undertaken yet.

While the changes we will see implemented next April will change schools funding, we need to consider what could prove even more radical when the DFE start to implement a nationally run funding system, where the intention is to ensure that similar pupils, no matter where they go to school in the country, attract similar levels of funding. This first step in April is to pave the way for this broader reform.