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To:	Education Cabinet Committee - 21 November 2012
	Decision 12/01963 - DfE School Funding Reforms for April 2013
Classification:	Unrestricted

<b>Summary</b>	The content of this report provides an overview of the latest DfE School Funding Reforms and the challenges now facing Local Authorities (LA) and schools in its implementation.
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## 1. Background

1.1 In 2011, the DfE commenced a three stage consultation on the reform of school funding. The first two stages were concluded in 2011. The final stage was launched on 26 March with a closing date of 21 May. The third stage consultation was effectively a direction to implement a number of funding reforms from April 2013. The LA and Schools Funding Forum (SFF) response to the consultation in the main questioned the need for many of the changes, the loss of local decision-making, and in particular highlighted considerable reservations around the changes to funding for High Needs SEN pupils. These changes will have the effect of wiping out the impact of much of the work done on our formula over the past few years, particularly in the case of special schools. This was work which had the full support of Kent schools and academies.

1.2 The DfE had suggested that the final stage would take place during the summer of 2012, and the earlier than expected running of the final stage of the consultation is clear confirmation of the DfE intention to move to a simple national funding formula for all schools and academies that will take place following the next spending review in 2015-16. The changes from April 2013 are a significant step in this direction.

1.3 The funding reforms cover three main areas;

- The simplification of Primary and Secondary School funding formulas
- Further delegation of the Dedicated Schools Grant (DSG)
- Reform of funding for High Needs pupils (Place Plus) in Special Schools, Specialist Mainstream Provisions (SMPs)/Units, High Needs SEN pupils in Mainstream Schools and Pupil Referral Units. There will also be a new method for funding Hospital Education Provisions.

Each of these reforms is covered in more detail later in this paper.

1.4 The pace of change has meant a very challenging time table for implementation, the DfE FAQs are now at 110 pages (over 350 questions) which reinforces the view that this is not a straight forward process. There are recent indications that the DfE may be getting concerned about the impact of all their changes. In one sense this is no surprise given all the responses they have had from LAs, school and Academies, but the first public acknowledgment came in a DfE letter in October in which the DfE confirms that the

Department will review the new arrangements and will make further changes in 2014-15 if it finds that the long term consequences for schools are unacceptable.

1.5 The letter also confirms that the Minimum Funding Guarantee (MFG) will continue to apply at – 1.5 per cent per pupil in 2013-14 and 2014-15. To address the concerns that some schools and authorities have raised about a potential ‘cliff edge’ in funding from 2014-15, the letter gives reassurance that an MFG will continue beyond 2014-15. As this falls in the next spending period they are unable to confirm the value of that MFG.

1.6 LAs still needed to consult with both LA maintained schools and academies on the few remaining elements of the formula where there is still local discretion and provide illustrative budgets modelling the changes in funding. Our consultation with schools/academies ran for the period 5 to 28 September and included 12 District based briefing sessions for Headteachers, Finance Staff and Governors. Around 170 people attended the 12 briefing sessions and we have had 15 returns to the consultation, this is a disappointing response from schools and academies. It is likely that the low engagement from schools/academies is simply due to the short time table of implementation and having to run it during September when schools/academies are focusing on the start of the new academic year. Our concern is that due to many schools not engaging in the process it is difficult to determine the level of feelings schools have in relation to the many changes, which we believe will generate a high level of concern when they fully understand the implications. We have continued to talk to schools about the impact of the changes at meetings of KAH, KASS, Bursars and our Area Headteacher meetings.

1.7 LAs will need to have completed the whole process of reviewing the new formula by the end of October, and have to submit a pro-forma to the Education Funding Agency (EFA) detailing the breakdown of our new funding formula as the changes we are required to make now have to be authorised by the EFA before we are allowed to run our formula process.

1.8 The Government’s rationale for change is the need for transparency, equity and fairness in funding for all schools and academies which is something that can only be supported. However, we continue to have serious reservations about what is being done given that most of the funding differences between authorities are largely down to the national distribution of DSG and those differences between schools within authorities have all been agreed by schools. We are still of the view that in their quest for simplicity the DfE will remove the ability to target funding where it is most needed and end up with a system that is too simplistic.

## **2. Funding Reforms Part 1 - The simplification of Primary and Secondary funding formulas**

2.1 From April 2013 the number of allowable factors in a primary school and secondary school funding formula will be reduced from 37 to 12. We currently use 21 factors in Kent. It is important to note that in the short term the impact resulting from the change of factors used to distribute funding will be minimised due the MFG. In the medium to long term the changes will work their way through each schools individual budget and will in some cases cause considerable turbulence in funding.

### *Main changes*

2.2 Schools are currently funded on the number of pupils as at the date of the January census, from April 2013 this will be changing to the date of the October census. DfE have recognised that this may have a detrimental impact on some schools where they have a staggered Yr R January intake. LAs will receive additional DSG funding based on the

increase in Yr R pupil numbers between the previous year January and October census numbers and will be allowed to adjust funding for Yr R pupils to reflect increases in the January pupil intake. Moving the count date forward to October is ultimately helpful for LAs as the DfE will be able to confirm the amount of Dedicated Schools Grant (DSG) by the middle of December, this will mean that schools budgets will be issued in February/March with a confirmed DSG allocation, whereas budgets are currently issued in March and confirmation of the amount of DSG is provided in July.

2.3 Premises floor area is no longer an allowable factor in the formula. Currently £44m is allocated to primary schools and secondary schools through the Kent formula. The removal of this factor will generate a high degree of turbulence however, some of this will be offset by an increased lump sum.

2.4 Deprivation funding is currently targeted using Mosaic, this is being replaced by Income Deprivation Affecting Children Index (IDACI). Mosaic measures how deprived a pupil is and goes down to household level, whereas IDACI will measure if a pupil is deprived or not deprived and is at Super Output Level (SOL) which is based on returns from 400 families around 1500 people.

2.5 This change is a significant step backwards for Kent as it will not target funding as effectively and will cause a significant level of turbulence. It shows that the movement is more dramatic in primary schools than secondary schools. 26% of primary schools will see an increase in deprivation funding of more than 50% and 9% of primary schools will see a decrease in deprivation funding of more than 50%. The average amount per pupil using IDACI as a factor is now in the range of £231 and £259, compared to the range of £47 to £482 when using Mosaic.

2.6 Currently we use Low Prior Attainment scores to target funding at high incidence low cost Special Education Needs (SEN). For Primary Key Stage 1 (KS1) results are used and secondary KS2 results are used. For secondary there will be minimal change as the factor chosen by the DfE is very similar the one currently used in the Kent Formula. For the primary phase KS1 will be replaced with Early Years Foundation Profile (EYFP) and this will cause a high level of turbulence. Whilst it can be argued as to which is the most appropriate indicator to be used for targeting funding in the primary phase, KS1 results or EYFP results, the concern here is that local discretion is being removed and the change in funding will cause unnecessary turbulence in school budgets. 10% of primary schools will see an increase of more than 50% in High Incidence Low cost SEN funding, and 18% of primary schools will see a decrease of more than 50% in High Incidence Low cost SEN funding.

2.7 There will be no capacity to identify travellers in the new formula, and this is a concern as they are a vulnerable group and general AEN/SEN indicators such as post code (IDACI) and Prior Attainment tend not to pick up this group of pupils.

2.8 We also face the same issue over the funding we target to schools with significant numbers of children from service families. This funding provides additional support to help schools cope with the specific demands/problems arising from the arrival/departure of battalions at the various bases in Kent. The new reforms prohibit us from having this factor any more.

2.9 There can no longer be a curriculum protection or small school factor, however as there is still an allowable lump sum factor that can be set as high as £200k (but must be at the same level for primary and secondary schools). Modelling shows that the optimum level

for protecting small schools (schools with less than 200 pupils) is to set the lump sum at around £120,000. By setting the lump sum at £120,000, 172 schools out of 192 schools with a roll of 200 pupils or less will see an increase in their budget share. The main aim of the new lump sum is to provide protection for schools due to the removal of the small schools protection factor.

2.10 The Minimum Funding Guarantee (MFG) will still exist and has been set at -1.5% for 2013-14 and 2014-15. MFG will be applied in a far more simplistic way with the main change reflecting the amount per pupil a school will receive or have taken away if pupil numbers change from the previous year. Currently any increases in numbers are funded at 80% for primary schools and 87.5% for secondary schools of the average amount per pupil and any decreases are only deducted at 80% or 87.5% of the average amount per pupil. From 2013 all increases and decreases in numbers will be adjusted at the full amount per pupil, this will benefit schools with rising rolls and provide less protection for schools with falling rolls. The rationale provided by the government is that they want to encourage the expansion of successful schools.

2.11 An initial analysis shows that in the overall movement in school budgets 17% of primary schools will see an increase of more than 5%, and 6% of primary schools will see a decrease in funding of more than 5%. The MFG will in the main protect individual school budgets, however a school on the MFG will see a per pupil decrease of 1.5%. It is likely that the unravelling of the changes to school budgets will take many years to fully feed through into individual school budgets, but this will all hinge on future decisions on MFG. On the current assumptions and assuming that this is likely to continue into the next spending review 9% of primary schools will see reduction to their budget for four years. In the medium to long term some schools will see significant changes to their budget. At the most extreme Aylesham Primary will see a fall of 12% in its budget.

2.12 An area of great concern is the treatment of PFI. In Kent we have 11 schools that collectively make a LA contribution towards PFI costs of £7,000,000. The funding is currently allocated to schools then recouped at the same level, this achieves a neutral impact on a schools budget. Currently LA PFI funding is excluded from the MFG, however, under the new funding reform guidance PFI is not excluded from the MFG, but LAs can submit an application to have this removed from the MFG. Kent has requested the removal from the MFG on two occasions and have been turned down. The impact of this is that schools could see an increase or decrease in funding in relation to their number of pupils on roll. The PFI amount recouped from schools ranges between £800 to £1,600 per pupil however, the amount will be fixed that is recouped from a school. For example, if a schools roll decreased by 30 pupils and the PFI amount per pupil is £1,600 a school would see a reduction in their budget of £48,000 ( $30 \times £1,600 = £48,000$ ).

2.13 Submission of budgets to the DfE 18 January 2013 - One implication as a result of calculating and submitting budgets to the DfE by the 18 January is that any decision on uplifting school budgets for pay awards will need to be taken before this date. This will mean that the County Council budget cycle will need to incorporate any decision in respect of pay awards to schools during December, as currently any decision taken post January will not be able to be reflected in a schools budget.

### **3. Funding Reforms Part 2 - Further Delegation**

3.1 From April 2013 the element of funding academies receive that is "equivalent" to the cost of services that are now their responsibility due to converting to academy status, (currently known as the schools LACSEG) will no longer exist. All the budgets that academies received a share of will now in the first instance be delegated to all schools and

academies and for a limited number of these budgets the DfE have decided that the LA can retain them if the Schools Funding Forum agree to 'de-delegate' these budgets for maintained primary and secondary schools only. The DfE have decided that special schools should be treated as academies for this issue and 'de-delegation' is not an option. There is no obvious reason for this. At their meeting on 12 October 2012 the Forum agreed to de-delegate all the budgets where this was permissible. The one exception to this was in respect of Trade Union duties where the Forum have asked for further work to be done and we will be returning to the Forum to discuss that on 7 December 2012. Fortunately there are not too many budgets to deal with as much of this was anticipated last year with our local decision to delegate more.

3.2 Initially the DfE required that pupil growth funding would have to be delegated and then LA schools could de-delegate their share of this funding. The DfE have now reconsidered this and pupil growth funding can be retained by the LA with the consent of the relevant phase members of the SFF. Full criteria for allocating this funding was agreed by the Forum on 12 October 2012, and both LA schools and academies will have access to this funding on the same basis from next April.

3.3 For the remaining non-delegated school budgets the DfE have set criteria where these can still be retained however, the DfE have decided that they cannot exceed the level at which the budget was set in 2012-13, i.e., no new commitments can be made. Budgets will be frozen and where applicable will decrease in the future as commitments are realised, for example termination of employment costs will be delegated to all schools and academies as and when historic commitments have been paid in full. The following are budgets that will not be allowed to increase from 2013-14

- Admissions
- Servicing of schools forum
- Carbon reduction commitment
- Capital expenditure funded from revenue
- Contribution to combined budgets (including expenditure shown under miscellaneous if appropriate)
- Schools budget centrally funded termination of employment costs
- Schools budget funded for prudential borrowing costs.

3.4 This approach makes no sense whatsoever, given the nature of those costs means that there will be increases at times and some of the historic commitment will not be finally paid for decades.

#### **4. Funding Reforms Part 3 - High Needs SEN Funding "Place Plus"**

4.1 High Needs SEN Funding is the area of greatest change and is causing the most concern. From April 2013 a standard approach for funding - Place Plus - will be applied to all High Needs SEN pupils in Special Schools, Resourced Provision/Units, Mainstream schools without a Resourced Provision/Unit and PRUs. On the face of it, it would appear to be a simple system for funding High Needs SEN pupils, however Place Plus will be applied differently in each type of provision and consequently will present a different challenge. The actual change will cause turbulence in funding, greater complexity in calculating funding rates and an increase in administration and bureaucracy in schools and LAs.

4.2 Place Plus will comprise of three components:

- (1) Element 1 (E1) or "Core Education Funding" = This will vary depending on the type of provision, but generally will be set a level of around £3,000 or £4,000.

- (2) Element 2 (E2) or “Additional Support Funding” = £6,000.
- (3) Element 3 (E3) or “Top Up Funding”. This element will be the additional funding over and above Elements 1 and 2 that is needed to meet the pupils assessed need.

The combined funding from 1, 2 & 3 is known as the “Pupil Offer” or “Funding Offer”.

4.3 Special Schools, Resourced Provision/Units and PRU’s will be funded on a number of places (E1 & E2). Funding for all provisions will also be triggered on the number of pupils actually placed (E3) in the provision based on the additional need of the pupil, and the DfE are requiring that this will be paid in or close to the real time movement of the pupil, on a monthly basis.

#### *Special Schools*

4.4 The new system will also introduce instability into budgets. Special Schools currently know that they will receive a set budget that will be funded from one source (the LA) for the financial year, and subsequently they can plan the resource of the school knowing that there is stability in its funding. This will no longer be the case as funding will come from a number of sources and element 3 will now vary. This will impact upon a school’s ability to plan its staffing as whilst element 3 funding may change on a monthly basis, a school cannot make staffing changes or cost reductions so easily. It could mean schools having to hold larger reserves to smooth this out (but where would those reserves come from?) or employ more agency/temporary staff who, whilst more expensive, will give greater flexibility.

4.5 Some of the issues special schools will face include the following:

- (a) Turbulence in funding – Element 3 of the schools funding will now follow the pupil on a monthly basis, so if the school is not at full capacity then they will lose funding. Element 3 funding will vary from school to school, and in a residential school could be as high as £80,000 per pupil, so the movement of one or two pupils will be financially significant.
- (b) Different funding rates – The overall need type funding rate of the pupil will be at the same level regardless of whether they are a Pre or Post 16 pupil, however E1 will be different for a post 16 and pre 16 pupil, post 16 will be based on the 16-19 national formula for the individual provision. The implication of this is that E3 will need to be set at a different rate for Pre and Post 16. Post 16 rates could change during the financial year as there are two academic years that overlap the financial year April to March.
- (c) Different sources of funding – E1 & E2 will be paid by the LA for maintained schools and E1 & E2 will be funded by the Education Funding Agency for Academies (EFA). E3 will be paid by the commissioning LA, where a school has a Other Local Authority (OLA) pupil, the school/academy will need to collect this funding from the OLA. This will be an extra task and cost for schools, and for some will also have significant cash flow implications
- (d) Administration- Each month the LA commissioning the place in the school will need to reconcile with the school the number of pupils on roll, this funding will then follow the pupil. Special Schools that have OLA pupils will need to make contact with the commissioning LA and collect funding for the individual pupils placed in their school, in Kent we have around 140 pupils placed in our special schools. Currently the LA carries out this process (known as recoument) on

behalf of all Special Schools, this will not exist in the future and all Special Schools will be responsible for directly collecting the funding in relation to OLA pupils placed in it.

4.6 A process for calculating this has been agreed with Kent Association Special Schools (KASS) Executive.

### **Resourced Provision/Unit**

4.7 All High Needs SEN pupils in mainstream schools, regardless of whether they are in a unit or not, are currently funded on actual numbers. There are four different need type funding rates based on the day rate for special schools. The funding rate per pupil is reduced depending on the number of pupils with the same need type in the school which takes into consideration the economy of scale associated with the resources needed to support pupils with a similar need.

4.8 From April 2013 a Resource Provision/Unit will receive guaranteed funding for a number of places this will consist of Elements 1 & 2, and top-up funding for the number of pupils placed in the Resourced Provision/Unit will follow the pupil in or close to the real time movement of the pupil (monthly). Schools will no longer receive any elements of funding in their main school budget for Resourced Provision/Unit pupils, all Resourced Provision/Unit pupils will be solely funded through a separate Resource Provision/Unit budget.

4.9 A working group made up of school headteachers and LA officers has recommended a process for funding Resourced Provisions/ Units from April 2013. This recommendation is based on the current levels of funding allocated to High Needs SEN pupils. In the longer term work will need to be carried out in conjunction with the current SEN review that will base the funding rate on the costed provision of the Resourced Provision/ Unit.

4.10 The points outlined in 4.5 above will also be common to Resourced Provisions/Units.

### *High Needs Pupils in Mainstream Schools without a Resourced Provision/ Unit*

4.11 This is going to be a substantial challenge and will cause discontent with schools if it is not applied in the right way. There are number of problems around the implementation which stems from the fundamental concept of applying Place Plus. In a mainstream school the DfE expectation is that E2 will come out of the schools existing notional AEN and SEN budget. Put simply, if we fund at comparable rate for a Resourced Provision/Unit pupil and a pupil in a mainstream school without a Resourced Provision/Unit (logic would suggest that this will be the case) the mainstream school would in the future be £6,000 worse off per High Needs SEN Pupil.

4.12 The DfE guidance defining a High Needs SEN pupil is a pupil requiring provision that costs more than £10,000 per annum. The DfE have deliberately chosen a financial threshold to define a pupil with high needs, as opposed to an assessment based threshold. There are currently pupils that are not assessed under the IAR criteria in Kent that would meet the new DfE definition of a High Needs SEN pupil, and the LA is looking at ways of defining these pupils, but this will take time to adapt our current system. For example an ASD pupil that does not meet the current criteria to trigger IAR funding, may have an assessed need of over £10,000. This is a fundamental change to how we categorise and fund High Needs SEN pupils.

4.13 The DfE in setting the recommended level of contribution at £6,000 for E2 have recognised that this will have a disproportionate impact on some schools where High Needs SEN pupils are placed but have a relatively low notional AEN/SEN budgets. Where this is

the case LAs can agree a clear and transparent policy that will allow schools to have their notional AEN/SEN budgets topped up to a level that recognises the disproportionate contribute of funding towards the cost of a High Needs SEN pupil.

4.14 The mainstream High Needs SEN working group (made up of Headteachers and LA officers) have recommended a method of topping up the notional AEN/SEN budget for schools where they are disproportionately affected by the £6,000 contribution for element 2. The basis of this recommendation is to retain stability based on the current method of allocation applied by Kent for High Needs SEN pupils. The recommendation in the short term (April 2013) is to retain the current rates and IAR criteria and to reimburse notional AEN/SEN budgets using agreed criteria.

## **5. *Alternative Provision - PRUs***

5.1 PRU's will be funded at £8,000 per place and an amount of top up funding per pupil (E3) for all pupils placed in the PRU. Determining the top up rate and tracking the pupil will be more problematic than a Special School due to the turnover of pupils in the Unit and on our current PRU structure we will have different rates for each PRU.

5.2 The DfE have recommended that the top up funding (E3) for permanently excluded pupils is paid termly and fixed term exclusions are paid on a daily rate. This is going to present a considerable challenge, not only in setting the appropriate rate (E3) but also the administration of tracking and paying pupils. This will worsen as PRUs become delegated schools with bank accounts and cash flow to consider, let alone conversion to academies.

### *Pupils in Hospital Education*

5.3 By hospital education, the DfE mean education provision offered to a pupil as a result of the pupil having been admitted to a medical facility as a result of their medical needs. In other words, provision where the admission and commissioning is health-led, rather than local authority- education led.

5.4 All LAs will have their DSG top-sliced at a rate of £8,50 per pupil and this will form a national cash envelope for funding pupils in Hospital Education. The contribution Kent will make is around £1.9 million and its cost of funding Hospital Education is around £2.4 million. The difference between the £1.6 and £2.4m (£0.8m) will in effect cover the cost of Hospital Recoument that no longer exists under the new funding system.

## **6. Conclusion**

6.1 These reforms are probably the most radical since the introduction of local management and simply turn upside down much of what we have developed and agreed locally with Kent schools for many years. The proposals are not fully developed and unnecessarily rushed given the continued operation of MFG. The root cause of many of the financial variances between schools/authorities that the DfE wish to address is the national distribution of DSG funding and that fundamental issue is simply left to one side. For some schools, particularly special schools, there are going to be considerable administrative challenges. It is already possible to identify some of the consequences of this but based upon past experience of wholesale DfE changes there will be many more unintended ones. This does seem to have prompted the recent DfE letter promising to review the impact of all the changes.

6.2 Whilst most of the changes being made are directed by the DfE, there are some aspects of all the changes to the formula, such as the proposed method to manage pupil



growth set out in paragraph 3.3 – that will require a final decision by the Cabinet Member for ELS.

## **7. Recommendations**

7.1 Education Cabinet Committee to note:

7.2 Cabinet will be taking the final decision on changes to the school formula at its meeting on 3 December 2012.