

DERBYSHIRE COUNTY COUNCIL

SCHOOLS FORUM

19th June 2012

Report of the Strategic Director for Children & Younger Adults

Formula Simplification and Associated Matters

1. **Purpose of the Report**

To update the Schools Forum on the potential LMS formula considerations for 2013-14 and to advise on the proposed next steps.

2. **Information and Analysis**

2.1 **Background**

On 26th March 2012 the Secretary of State for Education published a DfE consultation "School Funding Reform: Next steps towards a fairer system." The consultation, which ran until 21st May 2012, set out a range of proposals to reform schools' funding over the short to medium term.

At the time of writing the government's final decisions on the funding regulations for 2013-14 were still awaited. This report assumes that the original proposals will largely go ahead.

As previously reported to the Schools Forum the government intend four major changes to take effect from April 2013, namely:

- (i) the delegation framework across local authorities will be placed on a more consistent footing;
- (ii) the LMS formulae for mainstream schools will be simplified, with a maximum of 10 nationally prescribed indicators;
- (iii) a standardised national approach to special schools' funding will be implemented; and
- (iv) there will be delegated budgets for Support Centres (Pupil Referral Units).

A National Funding Formula remains the government's objective for implementation in the next spending period which commences April 2015.

2.2 **Mainstream schools**

The issues arising from item (i) above have been partially addressed and schools have given the Authority a clear view on their preferences for delegation and/or re-pooling (see previous agenda item).

The main focus of development for mainstream schools is now to create LMS formulae, which will reflect both existing and required future delegations from April 2013.

By way of a reminder, the 10 permitted mainstream indicators are as follows:

- | | |
|---------------------------------------|----------------------------------|
| (1) Per Pupil (AWPU) | (2) Deprivation |
| (3) Looked after Children (LAC) | (4) Low cost, high incidence SEN |
| (5) English as an Additional Language | (6) Lump sum of a limited size |
| (7) Split site | (8) Rates |
| (9) PFI contracts | (10) London fringe costs |

Decisions on the final shape of the LMS formulae are a matter for the Authority, having consulted with the Schools Forum and schools. However, the discretion of the Authority is limited as the framework prescribes the formula indicators that may be used. The only real flexibility is whether or not to use all of the indicators in the national list and to determine the relative importance of the ones chosen i.e. the value of the multipliers.

Until the government provides feedback from the consultation with local authorities it is difficult to indicate the likely shape of the LMS formulae. Specifically, the modelling requires answers to the following points:

- (i) Will separate pupil values be allowed for Key Stages 1 and 2?
- (ii) Will separate pupil values be allowed for Key Stages 3 and 4?
- (iii) Will a Key Stage 5 pupil value will be allowed?
- (iv) Where within the range £100-150k will the maximum block allowance be set?
- (v) Will the block allowance for primary and secondary schools have to be the same value for all schools in both sectors?
- (vi) Will there be a requirement to delegate a minimum proportion of the quantum via AWPU or pupil led factors?
- (vii) Will the DfE's proposed Low Cost High Incidence (LCHI) counts be changed to better reflect the whole school population?
- (viii) What will be the actual basis for determining MFG entitlement?

Whatever decisions the government determine, there is likely to be significant turbulence in the budgets of many individual schools budgets when the new and existing formula allocations are compared. An initial model based on current delegation levels excluding rates, PFI, split site and high cost SEN has been regressed against block, pupil numbers, free school meals counts and LCHI SEN data. The resultant multipliers gave primary and secondary block allowances of £100k and £419k respectively. The biggest gains were £58k (prim) and £198k (sec) and the largest losses of £30k (prim) and £84k (sec) after MFG.

It should be emphasised that the above model assumes a degree of flexibility that may not actually be available next year e.g. differential sector block allowances and/or at levels which the DfE are unlikely to sanction. The model's purpose is merely to provide an example of the potential outcomes that may arise from formula simplification.

The importance of the absence of final DfE guidance cannot be overstated. For example if the LA were required to set a standard block allowance across all primary and secondary schools then this would have major repercussions locally.

If the block were set at the lower end of the allowable range then small primary and/or secondary schools would potentially lose significant levels of funding. Equally, if the block allowance were set at the higher end, this would severely disadvantage larger schools and potentially over fund the smallest primary schools.

Schools which lose funding will, in the medium term, be protected by the Minimum Funding Guarantee (MFG). The MFG rates for 2013-14 and 2014-15 have been set at minus 1.5% per pupil. Thus, assuming no change in pupil numbers, a school's reduction in budget is essentially limited to minus 1.5%.

Further modelling to take account of the additional delegation to schools will be undertaken once the DfE have clarified the requirements for 2013-14. A draft schematic for modelling the resources is attached as Appendix A.

Several complications are already clear. The full delegation of broadband costs to primary schools cannot be targeted unless the Education Funding Agency (EFA) allows an exceptional site factor. Even if such a factor was to be approved, under the current DfE proposals it could only apply to no more than 5% of the Authority's schools, i.e. 20 schools. However, short term protection might be possible depending on the basis on which costs are added into the 2012-13 comparator budgets for MFG purposes.

Another issue is the rents budget which has traditionally been used to support schools with limited buildings of their own. This funding has to be delegated and schools will have to rely on MFG for protection unless a case can be made for an exceptional circumstances factor.

The primary catering budget will be included in the quantum to be delegated but the allocation at individual school level will not be identifiable. In any event, given the limited range of formula factors available, the allocation at individual school level is likely to differ from the historic levels of spend. Again protection might be available as the 2012-13 comparator budget will include an allocation based on current spending, thus schools which lose under this element of the formula will potentially trigger MFG.

A draft formula will be constructed over the summer with a view to seeking the views of schools and Schools Forum in September/early October 2012. Final decisions on the formula will have to be agreed by Cabinet in late October/early November as the DfE expects LAs to complete a pro-forma summary of their formulae by 31 October 2012.

In order to provide some initial guidelines it would be helpful if Schools Forum could consider and offer views on the following issues:

- (i) the extent to which the current balance of funding between the primary and the secondary sectors should be retained;
- (ii) the extent to which the new formulae should seek to reflect the current distribution of funding at individual school level (excluding MFG);

- (iii) the level of support, or otherwise, for exceptional circumstances formula factors e.g. Broadband;
- (iv) the extent to which advantage should be taken of any flexibilities that the DfE may allow, e.g. differential Lump Sums if appropriate;
- (v) Where appropriate, whether actual costs be recognised in the 2012-13 baseline so that schools are protected against significant funding; turbulence, e.g. catering and broadband;
- (vi) Whether or not the LA should attempt to use all of the available formula factors or just a selection.

2.3 Special Schools/ERS

The proposed funding of special schools (and ERS provision) is completely different to the model envisaged for mainstream schools. The key points are as follows:

- Special schools' funding will form part of the new High Needs Block
- Core funding will be based on a nationally set rate of £10k per place, provided by the host LA
- A top up per pupil funding will be payable by the commissioning LA

A pictorial representation of the funding flows has been provided by the DfE and is attached as Appendix 2.

The top up funding will have to include an element to cover the additional delegation to schools e.g. catering, free meals, special staff costs, etc. Unlike the mainstream sector, there is no provision in the regulations for funding to be re-pooled for special schools. The Authority will, though, seek to offer special schools the option to buy back into services which, for other sectors, can be re-pooled.

In simple terms, the anticipated basis for calculating a special school's allocation is as follows:

- a. Determine 2012-13 baseline budget (formula plus share of central items)
- b. Determine number of places purchased for 2012-13
- c. Multiply places in b. by £10k
- d. Compare budgets in c. and a. and divide the difference by the number of pupils to determine the per pupil top up
- e. Adjust the top up as appropriate to account for the fact that some SEN profiles cost more than others

Under this methodology, if the number of pupils and places remains constant between 2012-13 and 2013-14 then the special school's budget would also remain unchanged. However, the pupil top up rate would be by agreement between the school and the commissioning LA and would follow the pupil in "real time" i.e. reflecting the movements of children between schools on at least a monthly basis.

The DfE have proposed MFG protection arrangements for special schools but, at the time of writing, the methodology is not entirely clear. Further information will be reported to the Forum as soon as the position has been clarified.

2.4 Alternative Provision (AP)

The model for AP is similar to that for special schools in that each AP will be funded on the basis of an agreed number of places at a proposed rate of £8,000 per place with a top up from the commissioner. The commissioner could be a local authority or a school and the amount payable would reflect the real time movements of the pupil.

The anticipated basis for calculating a Support Centre's allocation is as follows:

- a. Determine 2012-13 baseline budget (formula plus share of central items)
- b. Determine number of places purchased for 2012-13
- c. Multiply places in b. by £8k to arrive at base entitlement

The difference between the base funding and the current spend (around £11k per place) will be reflected in a top up per pupil. This funding can be retained within the High Needs Block for the Authority to use as commissioner of provision. This is likely to be the outcome for 2013-14 to ensure that provision is maintained. However, longer term, funding may be delegated to mainstream schools through the formula to encourage schools to take on more of a commissioning role.

The Education Act 2011 provides for Support Centres to have delegated budgets from April 2013 with control placed in the hands of the relevant management committee. Final regulations relating to delegated budgets and control over staffing for Support Centres will be published later this year and come into force in April 2013.

3. Early Years/Other matters

The DfE have now confirmed that LAs can retain the Index of Multiple Deprivation (IMD) as an indicator within their Early Years Single Funding Formulae (EYSFF). As such Derbyshire's EYSFF can remain unchanged for 2013-14. One further point to note is that the government has determined that funding for early education for two year olds will transfer to the Dedicated Schools Grant (DSG) from 2013-14. Details will be provided later in the year about how the funding will be distributed amongst LAs.

Clarification has also been sought from the DfE on some further matters. The first relates to the support given to the capital programme from the Dedicated Schools Grant. Currently around £3.5m is taken from the DSG to fund planned maintenance projects. The DfE guidance is ambiguous on the future treatment of this funding. One interpretation is that once the current commitments have been honoured the funding cannot be re-committed to new projects but must be released into the ISB (delegated). If this is the case then the funding will be included in the formula work and the Authority will look to amend its Derbyshire Property Package to re-define school and LA responsibilities.

Similarly the funding of redundancy costs from the DSG is unclear. The guidance seems to suggest that once the current (2012-13) commitments have been met the funding must be released to the ISB. If correct the costs of redundancy would become a local authority pressure outside of the DSG for 2013-14.

4. Next steps and future timescales

Over the summer work will continue to devise a new funding formula for mainstream schools in line with the DfE's final guidance. A briefing paper will be published at the start of September 2012 for schools and the Forum to comment on. This paper will set out the changes and invite comments. However the "consultation" aspects may be somewhat limited given the restricted nature of the Authority's discretion on formula matters.

A meeting of the Forum will be arranged for September to consider the paper and offer views to the Council.

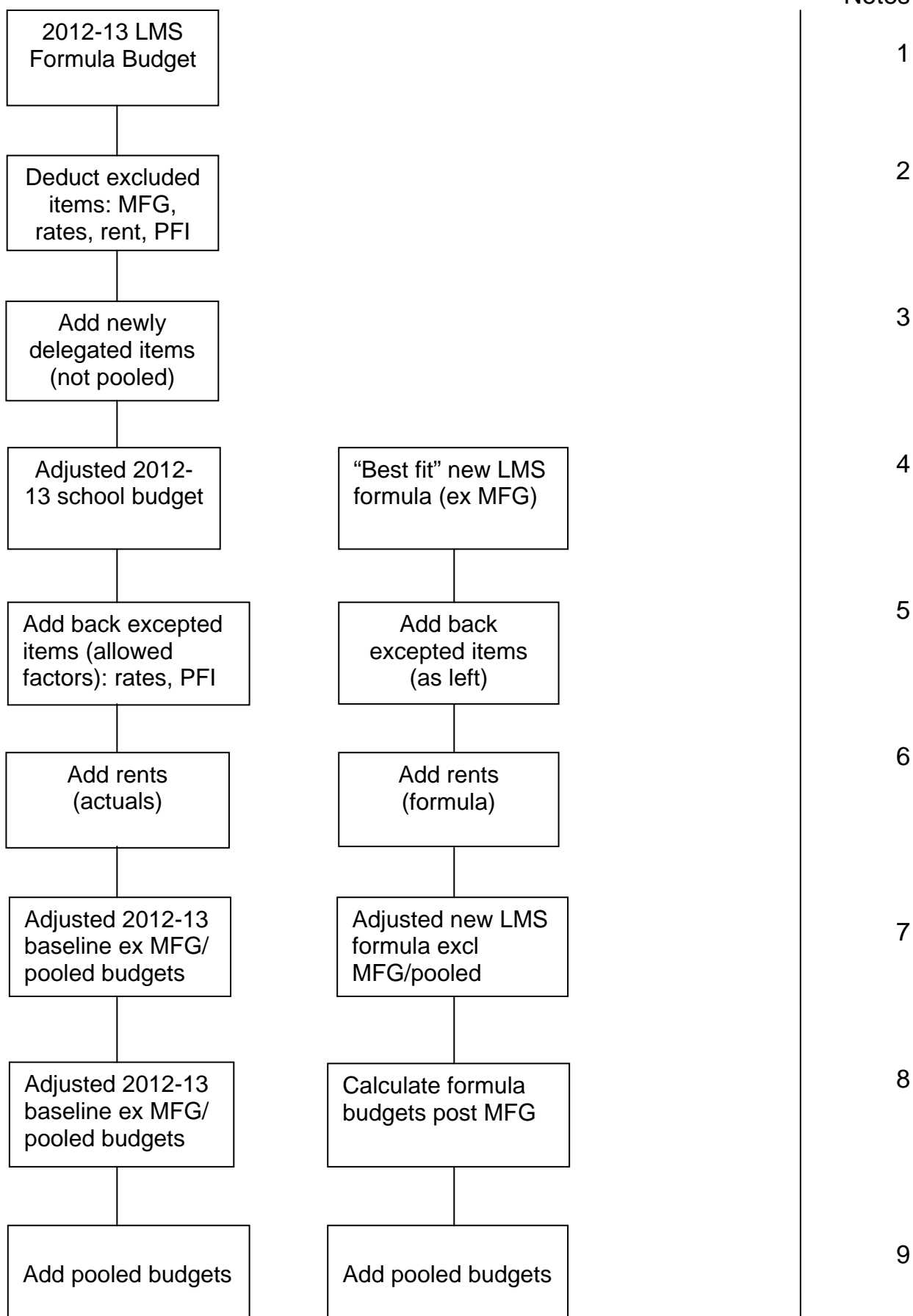
5. Other Considerations In preparing this report the relevance of the following factors has been considered: prevention of crime & disorder, equality of opportunity, finance, human resources, legal & human rights, environmental, health, property and transport considerations.

6. Background Papers Government consultation "School Funding Reform: Next steps towards a fairer system".

7. Strategic Director's Recommendation

The views of the Forum on the report are welcomed.

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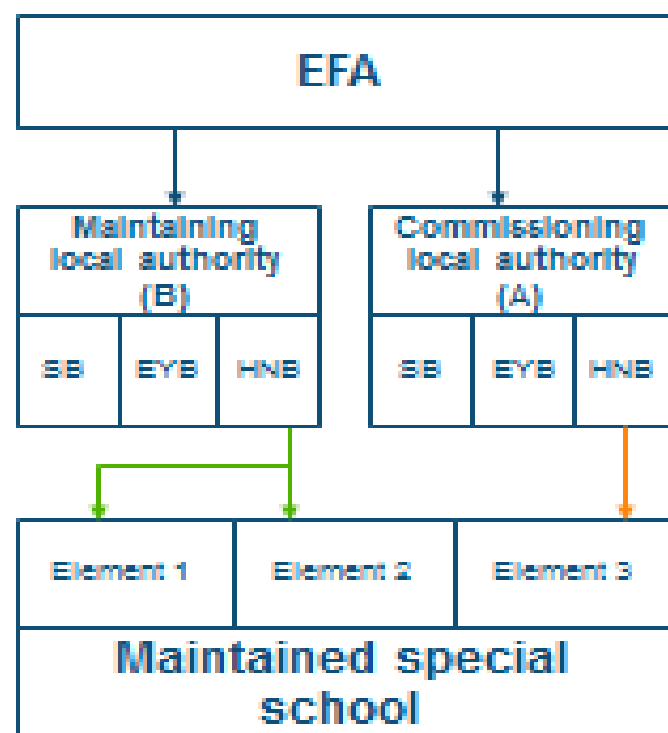
Notes

1. This is the 2012-13 LMS formula budget.
2. These items have been deducted because the new LMS formula should not attempt to replicate their distribution (e.g. MFG) or they are separate allowable factors (rates/PFI).
3. These are the budgets which will be delegated to schools from April 2013 and which have not been re-pooled. One consequence of this approach is that it will not be possible to identify within the new formula how much has been delegated to a school for each new responsibility.
4. The 2012-13 adjusted baseline will then be regressed against indicators selected from the national list to get the best “fit”.
5. Rates and PFI are added back at this stage to ensure their distributions are not distorted by the regression analysis as they are paid on an actual/contractual basis.
6. Rents – this will be added to the baseline as an actual but on the formula side by uplifting one or more multipliers. Rents would be left out of the regression analysis as it is arguable that the indicator should largely be dispensed with anyway following the delegation of other premises costs via pupil numbers and block allowances. Inclusion in the 2012-13 baseline will provide some protection to schools which currently receive this funding.
7. This gives the 2012-13 quantum both on current formula plus central allocation basis (as is) and proposed new LMS formula (to be)
8. Changes between the current and proposed funding to ensure the minus 1.5% MFG requirement is met.
9. Add in pooled budgets – same figure on both sides. This will help ensure that the amounts added to each school’s budget as part of the delegation process and the amounts deducted as a result of any decisions to re-pool are the same.

N.B.

Some or all of these stages may have to be adjusted to ensure that the resultant formula meets the DfE’s requirements e.g. a “best fit” model may have to be compromised if the block allowance exceeds allowable levels or the formula fails to meet an AWPU % threshold.

Funding flow: Placement in a maintained special school (2)



• This diagram represents the funding flow for a maintained special school in instances where the commissioning local authority is not the maintaining authority – for example, where local authority A places a pupil in a special school maintained by local authority B. This diagram would also represent the funding flow for special units / resourced provision in mainstream maintained schools.

• For the special school, elements 1 and 2 of the school's funding would be passported through the maintaining local authority. The EFA will make an initial one-off adjustment to the High Needs Block of the commissioning local authority so that the commissioning authority was meeting the full cost (elements 1, 2 and 3) of the placement.

• The school would then deal directly with the commissioning local authority with regard to the top-up funding, and would receive this direct from the commissioning authority. These direct funding relationships will replace the current system of inter-authority recoupment.



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→ Place-led
funding
→ Pupil-led
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