

**Report to:** Schools Forum

**Subject:** School Funding Reform

**Date of meeting:** 24th October 2012

**Report by:** Julian Wooster – Director for Children’s Services

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**Purpose of report**

1. The purpose of this report is to update schools forum on the progress being made towards implementing changes to our local funding formulae and to ensure that schools forum is consulted on the proposed changes to the schools funding formula and seek the appropriate approval requirements for the treatment of central expenditure.

**Recommendations**

2. It is recommended that the schools forum:
  - a. Agrees that following confirmation of the 2013-14 DSG, officers will amend the unit values to minimise the impact of fluctuations in funding at the school level. This will be achieved as far as possible by amendment of the values associated with the ‘Basic Per Pupil Entitlement’.
  - b. Agrees the proposed mainstream formula factors, together with the choices that the Council has made in implementing these factors locally, as detailed at paragraph 15 and table 1.
  - c. Agrees the proposal to introduce a financial cap to restrict significant increases in schools funding, as detailed in paragraph 18.
  - d. Approves by phase the treatment of the central expenditure items as detailed in table 2.
  - e. Notes that a further progress report will be presented to the December meeting which will include proposals in relation to the use of the central contingency and for funding growth.
  - f. Agrees the proposal for funding of permanent exclusions set out in paragraph 40.
  - g. Notes the proposals in respect of the high needs block and also that a further report will be presented in December.

## **Background**

3. In March 2012, the Department for Education (DfE) issued its proposal for reform of school revenue funding<sup>1</sup>. The consultation on this document closed on 21 May 2012. At the end of June 2012, the DfE issued the final details of the school revenue funding reform<sup>2</sup>.
4. The school funding arrangements outlined in the documents referred to above are the first step towards the implementation of a national funding formula, which is expected to be implemented during the next spending review period (i.e. 2015-16 onwards). These interim arrangements are intended to simplify the current funding arrangements and will apply from 2013-14.
5. The new revenue funding formula arrangements require as many services and as much funding as possible to be delegated to schools. In addition, the number of factors that can be used in the local formulae to distribute funding is reduced significantly. Whilst the DfE have prescribed the framework that must be used, Local Authorities still have some discretion within this framework in how they allocate the funding to schools.
6. To assist with the development of a funding formula model for Portsmouth City Council, Schools Forum agreed to the creation of working groups to help inform the proposed changes. The working groups included a Head, a Finance Officer and a Governor from each phase. The feedback from the working groups, together with the financial modelling has helped to develop the Local Authority's proposals.

## **Consultation**

7. The consultation to schools on the Local Authority implementation proposals was issued on the 18<sup>th</sup> September 2012 and closed on the 11<sup>th</sup> October. A copy of the consultation document is attached at Appendix 1.
8. In addition to the consultation document, schools were also provided with a spreadsheet which demonstrated the financial effects of the proposals for their individual schools. It should be noted that this was intended to show the budgets on a like for like basis and therefore excluded: (a) any delegation of central budgets; (b) any additional funding for schools for SEN; (c) funding for special units; and (d) funding for early year nursery provision.

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<sup>1</sup> School funding reform: Next steps towards a fairer system, Department for Education, March 2012

<sup>2</sup> School funding reform: Arrangements for 2013-14, Department for Education, June 2012

9. A copy of the provisional school budget pro-forma that we are required to submit to DfE by the 31<sup>st</sup> October is attached at Appendix 2, for information purposes only. The current unit values included in this proforma are based on the information used in Appendix 2 and will therefore change prior to submission in order to include items such as the delegation and de-delegation of central budgets and the additional SEN funding.
10. Schools forum are advised that at this point in the implementation process, the Council is not consulting on the unit values for 2013-14, but rather the principles and factors that it intends to apply in implementing the new funding formula arrangements. Depending on the final Dedicated Schools Grant (DSG) that the Council is allocated for 2013-14, it may be necessary to amend the unit values. If changes are necessary, it is proposed that officers will amend the Basic Per Pupil Entitlement unit values in the first instance. However, if this increases the level of fluctuation in funding officers may need to alter the unit values of other factors to minimise this in accordance with the agreed principles.
11. A summary of the feedback received from the consultation with schools is attached at Appendix 3. Of the 69 Portsmouth schools, 12 (17.4%) replied to the consultation.

### **The Key Principles**

12. DfE have confirmed that the Dedicated Schools Grant for 2013-14 will be based on the 2012-13 allocations. Therefore, the key principles applied by the working group and reflected in the financial modelling - which were previously agreed by Schools Forum in July, were:

***(a) to minimise fluctuations in funding for schools as far as possible prior to the introduction of the national funding formula; and***

***(b) to maintain the funding for each of the phases in the same proportion / percentage split for modelling purposes.***

### **Early Years**

13. Portsmouth City Council introduced the Early Years Single Funding Formula (EYSFF) in 2010/11, one year in advance of statutory requirements. Our current formula is compliant with the new requirements and therefore no changes are proposed.

### **Schools Block**

14. Under the new revenue formula funding arrangements, Portsmouth City Council will only be able to use eleven factors when deciding on how to

allocate funding to mainstream schools. These eleven factors will replace the existing methodologies for allocating the budget share to Primary and Secondary mainstream schools.

15. The table below summarises the eleven factors available to Portsmouth City Council for allocating funding to mainstream schools from the 1 April 2013, together with the details of any allowable choices that have been made by the Council in implementing these factors. The 'Basic Per Pupil Entitlement' and 'Deprivation' factors are mandatory, whilst the other factors are optional.

**Table 1 – Proposals for mainstream formula factors**

<b>No.</b>	<b>Funding Formula Factors</b>	<b>Factor Applied in Formula</b>	<b>Local Discretion Applied *</b> <i>(further details can be found in Appendix-1)</i>
<b>1.</b>	Basic Per Pupil Entitlement	Yes	The Council is proposing to use the option to have different entitlement rates for Key Stage 3 and Key Stage 4, rather than one rate for both.
<b>2.</b>	Deprivation	Yes	The Council is proposing to use the IDACI measure for allocating funding to primary and secondary schools for deprivation, rather than using the Free School Meal data sets.
<b>3.</b>	Looked After Children	Yes	None
<b>4.</b>	Prior attainment as a proxy measure for SEN	Yes	The Council is proposing to use 73 points (rather than 78 points) in the EYFSP as the proxy measure for allocating funding to Primary Schools for SEN.  For secondary schools, the measure is those pupils who fail to achieve Level 4 or above in both English & Maths. There are no local options regarding the measure.
<b>5.</b>	English as an additional language (EAL)	Yes	The Council is proposing to allocate funding on the basis of a higher rate for secondary pupils to reflect the increased support required at this level.
<b>6.</b>	Lump Sum	Yes	None
<b>7.</b>	Split Sites	No	Factor not used.
<b>8.</b>	Rates	Yes	None
<b>9.</b>	Private Finance Initiative (PFI)	Yes	The Council is proposing to continue to fund schools for the estimated affordability gap, through this factor.

<b>No.</b>	<b>Funding Formula Factors</b>	<b>Factor Applied in Formula</b>	<b>Local Discretion Applied *</b> <i>(further details can be found in Appendix-1)</i>
<b>10</b>	Post 16 funding	No	Factor not used.
<b>11</b>	Pupil Mobility	No	Factor not used.

\* For those factors where it is stated 'None', there is no local discretion allowable in relation to how the funding is allocated, except in regards to the unit value of funding applied.

16. The current proposal not to use the 'pupil mobility' factor is based on the following findings, together with the principal of minimising the funding fluctuations for schools.

- a. Firstly, the analysis of the pupil mobility data provided by DfE in the modelling tool showed that of the 52 primary schools, 35 had a mobility rate of 10% or less, of the remaining schools the highest rate was 21%. The average rate for primary schools was 8.5%. All of the secondary schools had a mobility rate of 10% or less. Therefore the mobility rates were not deemed significant or abnormal.
- b. Secondly, the working group discussed the principles of using the mobility factor and it was felt that it was the pupils needs rather than pupil mobility itself that required additional resources. Therefore funding was directed through the Looked After Children and other factors rather than the mobility factor.

17. The Minimum Funding Guarantee (MFG) has been set at minus 1.5% per pupil for 2013-14 and 2014-15. The MFG protects the per-pupil funding that schools receive from one year to the next against significant funding reductions.

18. To ensure the affordability of the MFG protection under the new arrangements, and to minimise fluctuations in funding for schools as far as possible prior to the introduction of the national funding formula, it is proposed that a financial cap be implemented to protect against significant increases in schools funding. It is currently proposed, based on extensive financial modelling, that any gains should be capped at 1.5%, in order meet the objectives above. However, the level of the cap may need to change depending on the final funding position for 2013-14.

19. Without a financial cap to restrict the gains to those schools that benefit under these new arrangements, it would be necessary to amend the funding model by reducing the amount of funding allocated through the formula factors. This is necessary, so that the overall total of school funding remains within the school's share of the DSG.

## **Central Expenditure**

20. The new funding arrangements require the funding for the services listed below to be allocated within the funding formula to schools initially. However Schools Forum can decide by phase (primary and secondary) to de-delegate one or more these items. If Schools Forum does decide to de-delegate one or more of these items, then the funding will be returned to the Council to control centrally.

- Contingencies
- Administration of free school meals eligibility
- Insurance
- Licences or subscriptions
- Staff costs or supply cover
- Support for minority ethnic pupils or underachieving pupils
- Behaviour support services
- Library and museum services

21. The table below sets out the Council's proposals to Schools Forum for the treatment of these central expenditure items. Schools Forum is requested **to approve** de-delegation of the items specified in the table below, together with any relevant overheads.

22. The table also highlights the eligible purposes for which a central contingency can be held under the new arrangements. The parameters and amount for any contingency required in respect of the above will be agreed by Schools Forum separately each year.

**Table 2 – Proposals for treatment of central expenditure items for schools**

<b>No.</b>	<b>Central Expenditure Item</b>	<b>Recommended Treatment</b>	<b>De-Delegation Phase Agreement Required</b>	<b>Service Level Agreement Required</b>
<b>1.</b>	Contingencies	<p>The current level of contingency is £500,000. It is recommended that a contingency is retained for the following remaining eligible purposes where required:</p> <ul style="list-style-type: none"> <li>• Schools in financial difficulties</li> <li>• Additional costs relating to new, reorganised or closing schools</li> <li>• Exceptional unforeseen costs which it would be unreasonable to expect governing bodies to meet.</li> </ul> <p>The parameters and amount for any contingency required in respect of the above purposes will be agreed by Schools Forum separately each year.</p>	Separate approval will be requested at the meeting in December.	No

No.	Central Expenditure Item	Recommended Treatment	De-Delegation Phase Agreement Required	Service Level Agreement Required
2.	Administration of free school meals eligibility	This total cost of this service including overheads is approximately £33,000. It is recommended that this is allocated on a per pupil basis (using AWPU) and de-delegated back to central control.	Primary & Secondary	No
3.	Insurance	This is already delegated to schools, therefore no action required.	N/A	N/A
4.	Licences or subscriptions	The cost of this service is approximately £50,000. It is recommended that this is allocated on a per pupil basis (using AWPU) and de-delegated back to central control, together with an overhead element for the administration costs.	Primary & Secondary	No
5.	Staff costs or supply cover (incl: Long Term Sickness, Maternity, Union Duties, Suspension, Jury Service, etc.	Sickness costs are already delegated and a Service Level Agreement is already in place.	N/A	Yes
		Maternity costs are approximately £540,000. It is recommended that this is allocated on a per pupil basis, (using AWPU) but with appropriate allocation between the school phases. An SLA would be offered and a small administration charge would be applied.	N/A	Yes
		Special staff costs (Union Duties, Suspension, Jury Service, etc) cost approximately £250,000, it is recommended that this is allocated on a per pupil basis (using AWPU) and de-delegated to central control.	Primary & Secondary	No
6.	Support for minority ethnic pupils or underachieving pupils	The cost of this service is approximately £460,000. It is recommended that is allocated on a per pupil basis (using EAL) and de-delegated back to central control. Agreement would be required for each phase.	Primary & Secondary	No Any additional services would require an SLA.
7.	Behaviour Support Services	Estimated value of this service is £1m, which is currently provided through Harbour School. It is recommended that this is allocated using 'prior attainment as a proxy for SEN'. A phased approach as set out below is recommended. For year 1 (2013-14) – De-delegate	Primary & Secondary	Yes, between PCC and Harbour School in year 1.

No.	Central Expenditure Item	Recommended Treatment	De-Delegation Phase Agreement Required	Service Level Agreement Required
		back to central control and continue to provide through Harbour school. In preparation for year 2 (2014-15), schools give early preference to model of provision.		
8.	Library and Museum Services	The cost of this service is approximately £16,000. It is recommended that this is allocated on a per pupil basis (using AWPUP) to primary schools and de-delegated back to central control.	Primary	No

23. In addition to the central expenditure items listed above, the Council is permitted, with Schools Forum approval, to retain the following central expenditure items.

- a. Admissions
- b. Servicing of Schools Forum
- c. Carbon Reduction Commitment
- d. Capital Expenditure Funded from Revenue (CERA)
- e. Centrally funded termination of employment costs
- f. Contribution to combined budgets
- g. Schools budget funded prudential borrowing costs

24. Under the new arrangements, no new commitments or increases in expenditure above 2012-13 levels are allowed. Items f and g listed above are not current expenditure items for the Portsmouth City Council and therefore will not be used under the new arrangements.

25. As the CERA budget relates to one-off items of expenditure, any further expenditure would be deemed to be a new commitment, which is not permitted, it is proposed to delegate this budget on a per pupil basis.

26. Section 5.4 of the consultation document sets out the requirements that must be complied with in order to retain funding centrally for significant pupil growth. It is intended that proposals for funding significant and sustained growth in pupil numbers in presented to schools forum in December.

27. Approval will be sought from schools forum for retaining these eligible central expenditure items in advance of implementing the funding arrangements for 2013-14.



## **High Needs Block**

28. For the purposes of considering funding for pupils and students requiring high levels of specialist provision, the new funding mechanism refers to this group as high needs pupils and students. There is no specific definition of 'high needs', however for the purposes of funding, pupils and students with high needs, are those young people who need educational provision that costs more in total, (including the basic provision given to all pupils and students) than £10,000 per year.
29. This applies to all pupils and students with high needs from birth to 19 with high level Specialist Educational Needs (SEN) and pupils of compulsory school age in alternative provision (AP).
30. Section 4 of the consultation document at appendix 1 sets out the proposed new funding arrangements for high needs pupils. Whilst the key principles are outlined within the consultation document, work is still ongoing to further develop the necessary arrangements in readiness for the 1<sup>st</sup> April 2013. A summary of the proposals for the high needs block funding arrangements is set-out below.

## **Mainstream**

31. Additional funding will be allocated to mainstream schools and Academies (up to £1m) that was previously held centrally by Portsmouth City Council. This additional funding will form part of the Notional SEN budget and will be allocated on a per pupil basis within the 'Basic Per Pupil Entitlement' element of the mainstream funding formula. From the Notional SEN budget mainstream schools and Academies will be required to provide a 'local offer' of teaching and learning for all pupils including those with high need. Mainstream schools and Academies will be required to contribute the first £6,000 of the additional support costs of high needs pupils.
32. Portsmouth City Council proposes to use the additional flexibilities available in order to target additional funding, in exceptional circumstances, to schools and Academies, whose funding based on the formula described, does not adequately reflect the number of pupils with SEN in the school. Consultation with the funding working groups will take place to agree appropriate criteria and amounts of funding to be allocated and the proposals will be presented to Schools Forum for agreement.

## **Specialist SEN Settings**

33. Specialist settings include special schools, special units and resourced provision in mainstream schools and academies that are set aside specifically to provide services to pupils with high needs.
34. Specialist SEN settings will receive base funding of £10,000 per agreed place. The place element of the funding will be passed on directly to maintained providers by Portsmouth City Council. Academies and other

non-maintained providers will receive the place funding from the Education Funding Agency. Top-up funding above this level, will be paid by Portsmouth City Council as the commissioning authority on a per-pupil basis.

35. To maintain stability in the level of funding for Special Schools and in order to maintain the recognition of the higher level of support required for those pupils with the high level of needs, the Council is proposing to adapt the traditional 'A – H' banding mechanism to allocate the necessary top-up funding for pupils in Special Schools, for the financial year 2013-14. The amounts payable at each band have been updated in order to reflect the introduction of the 'place' funding mechanism and in order to maintain the stability of funding for each school, each school will have its own band values.
36. As with the special schools, the special units and resourced provision will also receive place funding of £10,000. However, based on the financial modelling and the feedback from the special funding working group, and in order maintain financial stability for these units, the Council is proposing use the 2012-13 per pupil funding values as the basis for calculating the appropriate top-up rates.
37. These funding arrangements will be reviewed again during 2013-14 and alternative arrangements may be proposed for the following financial year.

#### Alternative Provision

38. The place-plus approach to Alternative Provision (AP) Settings is similar to that for specialist SEN settings. There will be a base level of funding for each agreed AP place of £8,000. Above this £8,000 place funding, top-up funding will be provided by the commissioner on a per pupil basis.
39. In the cases of early intervention, placements to avoid permanent exclusion or fixed term exclusion, the commissioner will be the mainstream school or Academy, whereas in other instances it will generally be the Local Authority.

#### Funding in cases of permanent exclusions

40. Under the DfE proposals mainstream schools and academies will be required to repay the AWPU to the Local Authority. A local arrangement is therefore proposed
  - a. Mainstream schools or academies will be required to pay top up funding for the rest of the financial year in addition to the AWPU.
  - b. Where the exclusion occurs after the October Census, mainstream schools and academies will be required to pay the top up element of the funding to the provider for the rest of the financial year and the following financial year, in addition to the AWPU.

41. The DfE proposal referred to above, creates a perverse incentive for schools to exclude pupils on financial grounds, as it would be cheaper to exclude a pupil and pay the AWPU, than pay the top-up to the alternative provision provider
42. If the proposed local arrangement is not accepted, then the Council would need to retain additional funding centrally within the high needs block, in order to be able fund the additional provision required for these pupils.

### **The next steps**

43. The table below gives an indicative timeline of the key events leading to the implementation of the new funding arrangements from 1<sup>st</sup> April 2013. Some of the dates below come from the DfE's operational guidance for local authorities.

<b>Date</b>	<b>Details</b>
04 Oct 2012	School Census Day
15 Oct 2012	EFA Confirms Local Authority 2012-13 DSG Block Baselines
31 Oct 2012	Local Authorities submit provisional 2013-14 school budget pro-forma to EFA
28 Nov 2012	School census database closed
10 Dec 2012	EFA confirms pupil numbers to be used for Schools Block and Early Years Block. DfE provides updated datasets for pupil characteristics
10 Dec 2012	Local Authorities can start to estimate their 2013-14 DSG
12 Dec 2012	Report on progress to Schools Forum meeting
December	DfE confirms DSG allocations for 2013-14 (prior to academy recoupment)
18 Jan 2013	Local Authorities submit final school budget pro-forma and underlying data to DfE
Feb – Mar 2013	EFA confirms academies budgets by 31 March 2013
Feb – Mar 2013	Local Authorities confirm budgets for their maintained schools by 31 March 2013
Jun 2013	Early Years Block updated for January 2013 Early Years pupil numbers

## **Conclusion**

44. The report highlights the progress being made towards implementing changes to our local funding formulae and is also designed to ensure that schools forum is consulted on the proposed changes to the schools funding formula. It also identifies the areas that require approval to allow further work to progress. It is recommended that schools forum approve the recommendations within this report.