



**REPORT OF THE CORPORATE DIRECTOR FOR CHILDREN, FAMILIES AND
CULTURAL SERVICES**

**SCHOOL FUNDING REFORM: SCHOOLS BLOCK – LOCAL FUNDING
FORMULA FOR 2013/14**

Purpose of the Report

1. This report seeks approval for the adoption of the Nottinghamshire schools budget funding formula, as recommended by the Schools Forum, for the financial year 2013/14.

Information and Advice

The National Context

2. All local authorities are required to implement a new simplified local funding formula to distribute the Dedicated Schools Grant (DSG) notional Schools Block of funding to all mainstream primary and secondary maintained schools and academies from April 2013. Funding for special schools will be distributed through a separate formula. A consultation on this will take place later in the Autumn term.
3. In accordance with the School Finance (England) Regulations 2012 (chapter 2, paragraph 9), the responsibility for determining the local funding formula for schools lies with the local authority. Prior to agreeing the formula, the local authority must first consult with the Schools Forum and all schools on the proposed changes. The Schools Forum is a representative body from the Nottinghamshire schools and early years community which is constituted to make decisions and give guidance to the Council about the schools budget.
4. Government has given detailed guidance and put in place fixed requirements for how this has to be done. In particular, they have insisted that the number of factors upon which the distribution of available funding can be made must be significantly reduced in order that more funding follows the pupil. In the case of Nottinghamshire this has resulted in a reduction from 23 to 9 factors. There are consequences for this for the schools budget in Nottinghamshire schools. For example, there can no longer be factors for premises, other than for arrangements for the Local Authority to pay the rates on behalf of schools and to make allowance for split sites and official joint use arrangements. Additionally, it is no longer allowed to replicate the funding which has been distributed through a range of historic grants. The upshot of this is that there is unavoidable change in

individual school budget shares. The Council (working with Nottinghamshire's Schools Forum) has sought to limit the impact of this turbulence through a range of measures designed to mitigate and postpone the impact of the changes. As part of these changes, the Council has been required to reconstitute the Schools Forum to reflect changes in schools governance. The constitution and membership of Nottinghamshire's Schools Forum is attached as **Appendix 1**.

5. Members will be aware that the implementation of a new funding formula has caused difficulty within various local authorities. A number of Councils have written to the Secretary of State with their concerns. The Chairman of the Children and Young People's Committee wrote to the Secretary of State in July to outline the concerns felt in Nottinghamshire regarding the inflexibility of the new regulations which fail to recognise the inequity in funding levels across the country and pointed out that the prescription of the factors gives less recognition to local need than should be the case. The letter requested the delay of the reformulation of the funding formula at a local level and urged the introduction of a national funding formula.

The Process Followed in Nottinghamshire

6. Following the announcement of the changes to the school revenue funding system in March 2012, the Schools Forum established a working group to develop a proposed local funding formula for consultation with all parties affected by the changes. The model and consultation document were agreed by the Schools Forum on 6 September 2012, and a formal consultation on the proposals took place between 10 September and 12 October. The consultation was accompanied by a series of nine briefing sessions which Headteachers and Governors of all schools and academies in Nottinghamshire were invited to attend. A copy of the consultation document is attached as **Appendix 2**. As part of the consultation, schools were provided with an estimate of the impact of the proposed changes, modelled using 2011/12 pupil data and not including the proposed protection package, which is described later in this report. The modelling also did not include other significant factors outside of the formula such as the Pupil Premium (£900 per eligible pupil from April 2013). The separation of the funding formula from these other factors followed the modelling methodology required by Government.
7. A full analysis of the consultation responses is attached as **Appendix 3**. This was reported to members of the Forum along with a presentation providing a summary of the consultation feedback at their meeting on 16 October 2012. A copy of the presentation is attached as **Appendix 4**. In the majority of cases, the consultation responses showed a clear indication of if and how individual formula factors should be applied in the local funding formula for 2013/14.

Key Issues Arising from the Consultation

8. There were two key issues that were identified where further consideration was required prior to the Schools Forum reaching a final agreement on the local funding formula to be recommended to Policy Committee.

9. The first issue was raised predominantly by the Headteachers of the secondary sector, who wished to maintain the existing 2012/13 levels of overall funding within the primary and secondary sectors. This could be achieved by altering the primary to secondary funding ratio of the basic per pupil entitlement factor. Currently the ratio stands at 1:1.39, meaning that for every £1,000 received for a primary aged pupil through the basic per pupil entitlement, £1,390 is received for a secondary aged pupil. The second issue was raised predominantly by the primary sector and related to the value of the lump sum applied within the formula. The formula requires that all schools receive a lump sum, ostensibly designed to protect small schools. The responses to the consultation indicated that consideration should be given to increasing the lump sum from £89,000 to £100,000. The application of a lump sum of the same value to all schools makes the setting of this figure critically important, as the larger the lump sum the less funding there is available to distribute through the pupil led element of the formula. When all factors are taken into account (pupil led and other factors) the overall ratio between primary and secondary sectors currently stands at 1:1.27.

Further Modelling

10. To enable Forum members to consider how best to respond to these concerns and ultimately to make an informed recommendation, Forum members requested that further modelling take place. This further modelling demonstrated the impact of increasing the ratio between the primary and secondary sectors above 1:1.39 and increasing the lump sum from the original proposed £89,000 to £100,000. This resulted in there being a total of six models for Forum members to consider. The models showed the impact on individual schools and phases of altering the primary to secondary ratio and lump sum value, as set out below:-

- Model 1 - Per pupil ratio 1:1.39 and lump sum at £89,000 (original consultation model)
- Model 2 - Per pupil ratio 1:1.45 and lump sum at £89,000
- Model 3 - Per pupil ratio 1:1.52 and lump sum at £89,000
- Model 4 - Per pupil ratio 1:1.39 and lump sum at £100,000
- Model 5 - Per pupil ratio 1:1.45 and lump sum at £100,000
- Model 6 - Per pupil ratio 1:1.52 and lump sum at £100,000

11. Between meetings on 16 and 30 October 2012, Forum members agreed to take soundings from the colleagues whose interests they had been elected to represent. Based on these soundings, members would return to the meeting on 30 October 2012, where those eligible to do so would vote for their preferred model.

The Complexity of the Task and the Application of a Package of Protection

12. The application of a limited number of allowable factors, the options on the primary and secondary ratio and the lump sum produces significantly different outcomes between the primary and secondary sectors. Broadly, a greater lump sum protects the interests of smaller primary schools at the expense of larger primary and secondary schools. Owing to the effect caused by the loss of historic grants and current premises factors, the application of the current 1:1.39 primary

to secondary ratio would result in a shift of funding from the secondary to primary sector of approximately £7.5m. If the lump sum were raised to £100,000 and the 1:1.39 ratio maintained, the movement of funding from secondary to primary schools would amount to approx £8m. One of the original underlying principles agreed at the outset by the Schools Forum had been the desirability of minimising significant turbulence.

13. In order to minimise the impact of the transition from the current formula to the new, a range of measures has been agreed by the Schools Forum. These are in addition to the Minimum Funding Guarantee (MFG), which the Government has put in place and which will limit the loss of the pupil led element of funding to 1.5% of a school's budget between financial years. The effect of these measures is to provide a package which will postpone the full impact of both gains and losses over a period of three financial years. The measures include:

- a gains cap that will limit the gain of any school on 2013/14 to 5% of the pupil led element, with the funding generated by the savings being redistributed through the new funding formula. The gains cap will rise to approximately 7.5% in 2014/15 and 10% in 2015/16 to allow the changes to be phased in gradually; and
- utilising any one-off savings in the overall schools budget.

14. However, these mechanisms in themselves would be insufficient to prevent there being a loss of funding for some schools in the first year. Therefore, to supplement these measures, the County Council budget proposals for 2013/14 include a provisional sum of £2m to contribute to this transition package.

15. **The overall impact of this package is that no school will lose on the pupil led element of its budget in 2013/14.** The package will then taper over the following two financial years (2014/15 and 2015/16), at which point the Government has given a commitment to the introduction of a national formula.

The Recommendation of the Schools Forum

16. At its meeting on 30 October 2012, the Schools Forum agreed a recommended model for the Policy Committee to consider. In respect of the key issues arising from the consultation, i.e. the ratio and the lump sum, the Forum agreed to recommend Model 6, as set out in paragraph 10 above. This provides for a ratio of 1:1.52 and a lump sum of £100,000.

17. The effect of the model proposed is to move approximately £1m from the secondary to the primary phase. This results in a new overall ratio between the primary and secondary sector of 1:1.26. The proposed formula fulfils all of the detailed requirements of Government and gives some protection to small primary schools. The full set of recommendations is set out in Table 1 below:-

Table 1

<u>Description of formula factor</u>	(for further information about these factors, please see Appendix 2)	<u>% total funding</u>
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1. Basic per pupil entitlement (mandatory factor) <ul style="list-style-type: none"> • Separate rates will be applied between KS3 and KS4, although this will not alter the agreed primary to secondary ratio • The primary to secondary ratio of 1:1.52 (model 6) will be applied 	82.16%
2. Deprivation (mandatory factor) <ul style="list-style-type: none"> • Ever6 Free School Meals (FSM) and Income Deprivation Affecting Children Index (IDACI) will be used to distribute funding • Total funding will be split on a 50/50 basis between the two indicators • The same rate of funding per pupil will be applied for both the primary and secondary sectors 	3.24%
3. Looked after children (optional factor) <ul style="list-style-type: none"> • This factor will be applied in the formula for 2013/14 • The rate per eligible pupil will be £3,000 	0.25%
4. Low cost, high incidence SEN (optional factor) <ul style="list-style-type: none"> • This factor will be applied in the formula for 2013/14 • The same rate of funding per pupil will be applied for both the primary and secondary sectors 	4.36%
5. English as an additional language (optional factor) <ul style="list-style-type: none"> • This factor will be applied in the formula for 2013/14 • The same rate of funding per pupil will be applied for both the primary and secondary sectors 	0.25%
6. Pupil mobility (optional factor) <ul style="list-style-type: none"> • This factor will be applied in the formula for 2013/14 • The same rate of funding per pupil will be applied for both the primary and secondary sectors 	0.04%
7. Lump sum (optional factor) <ul style="list-style-type: none"> • This factor will be applied in the formula for 2013/14 • The value of the lump sum will be £100,000 per school (Model 6) 	7.80%
8. Split site (optional factor) <ul style="list-style-type: none"> • This factor will be applied in the formula for 2013/14 • The existing qualifying criteria and rates payable will be maintained in line with the current funding formula for 2012/13 	0.19%
9. Rates (optional factor)	1.55%

<ul style="list-style-type: none"> • This factor will be applied in the formula for 2013/14 • The current arrangement of paying rates centrally for maintained schools will continue. For academies, the Education Funding Agency (EFA) will pay the academy once the actual rates paid are known 	
10. Joint use (exceptional factor) <ul style="list-style-type: none"> • The use of this factor has been approved by the EFA and will be applied in the formula for 2013/14 for all schools and academies which have official joint use agreements • The existing qualifying criteria and rates payable will be maintained in line with the current funding formula for 2012/13 	0.15%
11. Rental of school accommodation (exceptional factor) <ul style="list-style-type: none"> • The use of this factor has been approved by the EFA and will be applied in the formula for 2013/14 for all schools which pay rental costs that exceed more than 1% of their total budget share • The existing qualifying criteria and amounts payable will be maintained in line with the current funding formula for 2012/13 	0.01%
<u>De-delegation of funding for maintained primary and secondary schools</u> <ul style="list-style-type: none"> • There is a limited list of services that the local authority can continue to retain centrally for maintained schools only through de-delegation • Funding for the following services will be de-delegated for both the maintained primary and secondary sectors: <ul style="list-style-type: none"> <i>a. Support for minority ethnic and underachieving pupils</i> <i>b. Administration of free school meals eligibility</i> <i>c. Licences and subscriptions</i> <i>d. Staff costs / supply cover (trade union facility time)</i> • The funding for these services cannot be de-delegated for academies and will be included as part of their budget calculation • For the primary sector only, a contingency will be retained for previously agreed transitional protection for amalgamating primary schools 	
<u>Pupil growth fund</u> <ul style="list-style-type: none"> • A pupil growth fund of £0.500m will be established for the primary sector to support the maintenance of infant class sizes (maximum 30) within current regulations. The criteria for allocating funds from this fund will be agreed by the Schools Forum 	
<u>Application of a gains cap</u> <ul style="list-style-type: none"> • It has been agreed that a gains cap of a minimum of 5% per pupil will be applied to the local funding formula for 2013/14 	

Other Options Considered

18. Five other options (Models 1-5 inclusive) were considered as outlined in the report. The majority view of the Schools Forum was that the recommended option has the benefit of giving protection to small primary schools whilst minimising the shift in funding from the secondary to the primary phase.
19. The only other model that was subject to a vote at the Schools Forum Meeting was Model 4, but this was not supported. There was no support to consider any other models, including the potential compromise option, Model 5.
20. However, because of the significance of the longer term impact of these changes upon some schools, it is recommended that the Forum should continue to review the position in the light of the emerging national picture and its responsibilities to consult about Nottinghamshire's schools budget formula annually.

Reason/s for Recommendation/s

21. Council is required to decide upon the redistribution of the schools budget through a new funding formula which complies with current regulations and must have regard to the consultation with schools and the recommendations of the Schools Forum.

Statutory and Policy Implications

22. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

23. The quantum of funding distributed to schools overall is unaffected by changes in the formula. However, there are financial implications for individual schools and the effect of these has been minimised and postponed by the protection package outlined in the report,

RECOMMENDATION/S

That the Committee:

- 1) approves the recommendations of the Schools Forum, as described in paragraph 17 (Table 1), to distribute available funding between Nottinghamshire schools and academies in 2013/14.
- 2) requests the Schools Forum to keep options concerning the size of the lump sum and the primary to secondary ratio under review over the coming months so that

further adjustments may be made, if necessary, for the financial year 2014-15 in the light of national developments in the funding of schools.

- 3) notes the transitional funding package set out in paragraphs 13 to 15, the impact of which means that no school will lose on the pupil led element of its budget in 2013/14.

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Constitutional Comments (LM 03/11/12)

24. The Policy Committee has delegated authority within the Constitution to approve the recommendations in the report.

Financial Comments (NDR 02/11/12)

25. The financial implications of adopting the proposed formula for the 2013/14 financial year are set out in paragraph 23 and throughout the report.

Background Papers

None.

Electoral Division(s) and Member(s) Affected

All.

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