



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

**SCHOOL FUNDING: AGREEMENT OF THE LOCAL FUNDING FORMULA
FOR 2014-15**

Purpose of the Report

1. This report seeks approval for the adoption of the Nottinghamshire schools budget local funding formula, as recommended by the Schools Forum, for the financial year 2014-15.

Information and Advice

2. From April 2013, all local authorities are required to use a new simplified local funding formula to distribute the notional Schools Block of funding to all mainstream primary and secondary maintained schools and academies. Following a short review of the 2013-14 arrangements conducted by the Department for Education (DfE) in March 2013, the arrangements for 2014-15 were published in mid-June 2013.
3. In accordance with the School Finance (England) Regulations 2013, 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. The Schools Forum established a working group in July 2013 to develop a series of models showing the effects of the proposed changes to the local funding formula for consultation with all parties affected by the changes. The models and consultation document were agreed by the Schools Forum on 13 September 2013, and a formal consultation on the proposals held from 26 September to 18 October 2013. A series of briefings took place to accompany the consultation documents throughout the consultation period. At the recommendation of the Schools Forum, these were mainly delivered at existing area head teacher meetings, with two additional sessions taking place in the north and south of the County.
5. As part of the consultation, schools were provided with an estimate of the impact of the proposed changes, modelled using 2013-14 pupil data. The modelling also included an illustration of the financial impact of the most significant funding stream for all schools outside of the formula, the Pupil Premium, which is rising from £900 per eligible pupil in April 2013 to £1,300 in April 2014. A copy of the consultation document is attached as **Appendix 1**.

6. The consultation proposed that the majority of formula factors continued to be applied on the same basis as in 2013-14. However, there were four key areas in the consultation which focussed on the areas where local authorities were **required** or had the **option** to change the criteria used for distributing funding through the permitted formula factors. The four key areas and associated models were:
- Prior attainment factor (required change)
 - New Sparsity factor for small and rural schools (optional change)
 - Variable lump sum factor for primary and secondary phases (optional change)
 - Continuation of local gains cap application (optional change)
7. A full analysis of the consultation responses is attached as **Appendix 2**. This was reported to members of the Forum at their meeting on 29 October 2013. 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 2014-15.

Prior attainment – low cost, high incidence SEN factor (financial models 1a to 1c)

8. In 2013-14 a total of 4.31% of total funding through the formula was allocated through this factor, with a single unit value in both the primary and secondary phases. The change in criteria for the prior attainment factor means that, based on the 2013-14 data, the percentage of secondary pupils who would attract funding through this factor increases from 9.7% to 23.3%. This change requires a decision to be made on how funding will now be distributed through this factor.
9. The consultation outlined the three options available for 2014-15 for distributing funding through the prior attainment factor:
- Model 1a – maintain a single prior attainment unit rate but reduce this to maintain the same percentage of funding as 2013-14; or
 - Model 1b – maintain a single prior attainment unit rate at the 2013-14 value and increase the overall level of funding through this factor; or
 - Model 1c – operate different prior attainment unit rates in the primary and secondary phases and keep the same percentage of funding as 2013-14.
10. The responses to the consultation showed that 71.4% opted for model 1a, 5.7% for model 1b and 22.9% for model 1c. The Schools Forum vote on this option recommends that financial model 1a is adopted in the local funding formula for 2014-15.

Sparsity factor

11. Sparsity is a new optional factor for 2014-15 to enable local authorities to target funding at small rural schools. Funding may only be targeted at schools that qualify under the DfE's sparsity criteria which measure the distance that pupils live from their second nearest school. In Nottinghamshire only 15 primary schools qualify for funding through this factor.
12. It was proposed not to adopt a sparsity factor in the local funding formula for 2014-15 as very few schools qualified, and due to the impact on all schools and due to the impact of

the national minimum funding guarantee, it could not be assumed that this would generate additional funding for the eligible schools.

13. The responses to the consultation showed that 73.7% of respondents agreed not to adopt a sparsity factor. 18.4% felt that a sparsity factor should be adopted with the remaining 7.9% giving a response of 'not sure'. Of the responses that suggested a sparsity factor should be adopted, the suggested value that should be applied was £10,000 (2 responses). Both responses suggested the sparsity factor should be funded by a reduction in the primary AWPU. The Schools Forum vote on this option recommends that a sparsity factor is not adopted in the local funding formula for 2014-15.

Lump sum

14. In 2013-14, local authorities had to set a single lump sum for all schools with an upper limit of £200,000. The lump sum for Nottinghamshire was set at £100,000 which was estimated to cover the average fixed costs (that the DfE suggest all schools incur irrespective of size, namely a head teacher, administrative and clerical support and caretaking) of a small primary school in Nottinghamshire.
15. For 2014-15, a separate lump sum can be set for primary and secondary schools with an upper limit of £175,000. In order to maintain stability within the formula, the Schools Forum and local authority recommended that the lump sum in both phases was maintained at £100,000. The rationale behind this was that the lump sum was set at £100,000 in 2013-14 in order to protect small schools.
16. The responses to the consultation showed that 81.3% agreed that the secondary lump sum should remain at £100,000.
17. In respect of the primary lump sum, the responses were less clear – 55% of responses agreed that the primary lump sum should be maintained at £100,000 while 40% disagreed, with the remaining 5% not sure. For the 40% that disagreed with maintaining the primary lump sum value at £100,000 for 2014-15, alternative values suggested ranged from £110,000 to £150,000.
18. The Schools Forum vote on this option recommended that the sparsity factor is not adopted in the local funding formula for 2014-15.

Application of a gains cap

19. To minimise the impact of changes to school budgets caused by the changes to the local funding formula required by Government, and to allow schools time to plan for any changes in the level of funding they receive, a national minimum funding guarantee (MFG) operates at a value of minus 1.5% per pupil in 2014-15. This is to ensure that no school loses more than 1.5% per pupil in delegated pupil led funding in comparison to the previous financial year's budget.
20. The cost of the MFG protection has to be funded from the overall funding available for distribution through the local funding formula. As there could be significant amounts of protection required in some areas as a result of formula simplification, local authorities are able to apply a gains cap so that schools cannot gain more than a certain amount per pupil as a result of the new formula. A gains cap works on the same principles as the

MFG; however, instead of providing a ‘top-up’ to formula budget it makes a reduction on any per pupil gains over a certain level. The amount generated by a gains cap is then redistributed through the basic per pupil entitlement of the local funding formula.

21. The application of a gains cap was considered by the Schools Forum as part of the 2013-14 consultation, and it was agreed in principle that a scaled gains cap should be applied over a period of three years against the budgets schools received in 2012-13. The intention behind this transitional support was to allow schools that would lose funding under the new formula arrangements sufficient time to plan for this reduction, and also provide assurance to those schools that would gain funding that this would eventually be fully realised. A gains cap of 5% per pupil was applied in 2013-14 and it was agreed, in principle, that this should be increased to 7.5% in 2014-15.
22. The majority of responses to the consultation (76%) were in support of increasing the cap to 7.5% for 2014-15. As the effect of the gains cap is cumulative, a further cap of 2.5% would be applied for 2014-15. The Schools Forum vote on this option recommended that the further cap of 2.5% per pupil was applied in the local funding formula for 2014-15.

Recommended local funding formula for 2014-15

23. The Schools Forum has decided upon its recommendations to Policy Committee for the construction of the local funding formula for Nottinghamshire schools. The full set of recommendations is set out in **Table 1** below:-

Table 1

<u>Formula factor</u>
Primary to Secondary funding ratio <ul style="list-style-type: none"> • The overall primary to secondary funding ratio will be maintained at 1:1.265 for 2014-15
<u>Pupil led factors</u>
Basic per pupil entitlement <ul style="list-style-type: none"> • The AWPU rates used for 2013-14 will be proportionally adjusted in order to maintain the overall primary to secondary funding ratio of 1:1.265 for 2014-15
Deprivation <ul style="list-style-type: none"> • This factor will continue to be applied for 2014-15 • The same percentage of total funding (3.2%), deprivation indicators and weightings will be used to allocate deprivation funding in 2014-15 • The same rate of funding per pupil will be applied for both the primary and secondary sectors
Prior attainment – low cost, high incidence SEN (financial models 1a to 1c) <ul style="list-style-type: none"> • This factor will continue to be applied for 2014-15 • The principles outlined in financial model 1a will be adopted to distribute funding through this factor • The same rate of funding per pupil will be applied for both the primary and secondary

sectors but this will be adjusted in order to maintain the same percentage of total funding (4.3%) distributed through this factor

Looked after children

- This factor will continue to be applied in the formula for 2014-15
- The rate per eligible pupil will remain at £3,000

English as an additional language

- This factor will continue to be applied in the formula for 2014-15
- The same percentage of total funding distributed (0.25%) will be maintained
- The same rate of funding per pupil will be applied for both the primary and secondary sectors

Pupil mobility

- This factor will continue to be applied in the formula for 2014-15
- The same percentage of total funding distributed (0.25%) will be maintained
- A mandatory qualifying threshold of 10% will apply
- The same rate of funding per pupil will be applied for both the primary and secondary sectors

Non pupil led factors

Sparsity (financial models 2a and 2b)

- An optional sparsity factor **will not be adopted** in the local funding formula for 2014-15

Lump sum (financial model 3)

- This factor will continue to be applied in the formula for 2014-15
- The value of the lump sum will be maintained at £100,000 for both the primary and secondary sectors

Split site (optional factor)

- This factor will continue to be applied in the formula for 2014-15
- The existing qualifying criteria and rates payable will be maintained in line with the current funding formula for 2013-14

Rates (optional factor)

- This factor will continue to be applied in the formula for 2014-15
- The current arrangement of paying rates centrally for maintained schools will continue. For academies, the EFA will pay the academy once the actual rates paid are known

Joint use (exceptional factor)

- The use of this factor has been approved by the EFA and will be applied in the formula for 2014-15 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 2013-14

Rental of school accommodation (exceptional factor)

- The use of this factor has been approved by the EFA and will be applied in the formula for 2014-15 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 2013-14

De-delegation of funding for maintained primary and secondary schools

- Funding for the following services will be de-delegated for **both** the maintained primary and secondary sectors:
 - a. *Support for minority ethnic and underachieving pupils*
 - b. *Administration of free school meals eligibility*
 - c. *Staff costs / supply cover (trade union facility time)*
- For the primary sector only, a contingency will be retained for previously agreed transitional protection for amalgamated primary schools

Pupil growth fund

- A pupil growth fund of £0.600m will be established for the primary sector to support the maintenance of infant class sizes within current regulations
- A pupil growth fund of £0.150m will be established for the primary sector to support basic need growth agreed with the authority
- The allocation of funding for the maintenance of infant class sizes and basic need provision will be subject to criteria agreed with the Schools Forum. These criteria will be considered at the next Schools Forum meeting in December 2013.

Application of a gains cap (financial model 4)

- A further gains cap of 2.5% per pupil will be applied for 2014-15 in order to achieve the cumulative gains cap of 7.5% per pupil proposed in the 2013-14 consultation

Other Options Considered

24. Other financial models were considered as part of the consultation as outlined in **Appendix 1**. The majority view of the Schools Forum was that the recommended option minimises change as far as possible from the principles agreed for the 2013-14 local funding formula.

Reason/s for Recommendation/s

25. 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

26. This report has been compiled after consideration of implications in respect of finance, public sector equality duty, 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

27. 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 as outlined in the report.

RECOMMENDATION/S

- 1) That the Committee approves the recommendations of the Schools Forum, as outlined in Table 1 (paragraph 23), to distribute available funding between Nottinghamshire schools and academies in 2014/15.

Anthony May
Corporate Director, Children, Families and Cultural Services

For any enquiries about this report please contact:

Zoe Maxey
Senior Finance Business Partner – Public Health and Schools
T: 0115 977 2701
E: zoe.maxey@nottsc.gov.uk

Constitutional Comments (LM 01/11/13)

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

Financial Comments (KLA 01/11/13)

29. The financial implications of the report are set out in paragraph 27 above.

Background Papers and Published Documents

None.

Electoral Division(s) and Member(s) Affected

All.

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