

16 July 2012

Agenda Item: **7****REPORT OF THE CORPORATE DIRECTOR FOR CHILDREN, FAMILIES AND  
CULTURAL SERVICES****THE IMPLEMENTATION OF A REFORMED SCHOOL FUNDING SYSTEM  
FOR 2013-14 IN NOTTINGHAMSHIRE****Purpose of the Report**

1. This report provides the Children and Young People's Committee with an overview of the reforms to the school funding system from 2013/14, an update on the work to prepare for the local implementation in Nottinghamshire of the reformed funding system and seeks approval of the proposed new membership of Nottinghamshire's Schools Forum.

**Information and Advice**

2. During 2011, the Department for Education (DfE) held two consultations on school funding reform. Both consultations were aimed towards creating a system that provides funding to local authorities, schools and academies on a fair and transparent basis.
3. The papers, '*School funding reform: Next steps towards a fairer system*' and '*Reformed funding system: Operational implications guidance for Local Authorities*', were published on 26 March 2012. In these the DfE has set out its intention to implement significant reforms to the current school funding system from the 2013/14 financial year.
4. A short consultation was included as part of the papers, asking for views on a limited number of questions, this closed on 21 May 2012. The results of the consultation were announced on 28 June 2012 in the paper, '*School funding reform: Arrangements for 2013/14*', supported by an update of the operational guidance document.
5. The DfE papers identify that Schools Forums have a significant role to play in supporting the implementation of the reformed funding system. Schools Forums were put in place to support local authorities on matters relating to school budgets and must be consulted on any changes to these. An extraordinary meeting of the Schools Forum was called on 26 April 2012 to:
  - provide an overview of the school funding reforms
  - set out the implications of these for the schools budget
  - suggest a way forward to manage the implementation process in Nottinghamshire.

6. At this meeting, the Schools Forum agreed to establish a working group to consider three strands of work that are fundamental to implementing the reforms, namely:
- the reconstitution of the Schools Forum
  - a review of the local funding formula (schools block and early years block)
  - the funding arrangements for high needs (SEN) pupils.
7. The working group presented a report at the Schools Forum meeting on 27 June 2012, with their initial proposals on the three areas outlined above. A further meeting of the working group will be held on 17 July 2012 to consider the latest paper on the outcome of the DfE consultation and some additional modelling. A final report on the recommendations from the working group will be presented to the Schools Forum on 6 September 2012. The agreed proposals from the Schools Forum will be incorporated into a consultation on the proposed changes with all bodies affected by them.
8. 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. Elected Members will also have a key role to play in the implementation of the funding reforms
9. The papers set out how the DfE intends to reform the current funding system and outline five key objectives of a reformed funding system:
- 1) *to move towards a national funding formula*
  - 2) *to simplify local funding arrangements*
  - 3) *to make improvements to the way local areas are funded*
  - 4) *to improve the arrangements for funding pupils and students with high needs*
  - 5) *to improve the arrangements for the funding of early years provision.*

### **National funding formula**

10. This still remains the longer term aim of the DfE. The Government has recognised, however, that the transition from the current system to a national formula needs to be managed carefully to avoid unnecessary turbulence for schools. A national formula, therefore, will not be introduced until the next spending review period in 2015/16, although significant changes will be made at a local level from 2013/14.

### **Simplifying local funding arrangements**

#### **Reconstitution of the Schools Forum**

11. The DfE papers refer to improved Schools Forum arrangements to support the decision making process in regard to the implementation of the funding reform for 2013/14. In light of this, the legislation relating to Schools Forums is being reviewed and it is planned to revoke and replace the Schools Forum (England) Regulations 2010. New draft regulations have been published which are consistent with the decisions that have already been announced. It is intended that the new Schools Forum (England) Regulations 2012 would come into force in October 2012. The Education Funding Agency (EFA) has advised that local authorities should review their Schools Forum constitution to ensure that it is compliant with the new regulations.

12. The main change that is required to the composition of the Nottinghamshire Schools Forum is to ensure that school and academy membership is broadly proportionate to the pupil population of these sectors, as at September 2012. In order to avoid having to reconstitute the Forum again at the end of the financial year, it was agreed that the pupil population in the academy sector would be calculated using all known anticipated academy conversions as identified by the monitoring list maintained by the Children, Families and Cultural Services Department.
13. School and academy membership must make up at least two thirds of the total size of the Schools Forum, and can include both head teacher and governor representatives. The remaining membership is made up of up to one third of the total size of non-schools members, with a requirement to have at least one Private Voluntary Independent (PVI) sector early years provider representative and one 14-19 partnership representative.
14. The working party agreed that the reconstituted Schools Forum membership should be established as below:-
- (a) School and Academy membership (broadly based on pupil population):
- 15 Head teacher representatives:
    - 1 maintained Secondary school
    - 5 Academies
    - 7 maintained Primary schools
    - 1 maintained Special school
    - 1 Pupil Referral Unit
  - 5 Governor representatives including:
    - 1 maintained school
    - 1 Academy
    - 1 Special school.
- (b) Non-school membership:
- 2 PVI representatives
  - 2 Diocesan representatives – 1 Roman Catholic and 1 Church of England
  - 1 14-19 partnership representative
  - 2 trade union representatives (1 teaching union & 1 non-teaching union).
15. Procedures for the nomination and election of candidates will be established and facilitated through the relevant Education Trust Boards for the school and academy headteacher membership, the Nottinghamshire Association of Governors (NAGS) for governor membership, and other relevant groups for the non-schools membership.

## **Review of the local funding formula**

16. The local funding formula used to distribute funding to schools will be simplified and requires the majority of funding to be pupil led. Local authorities will continue to receive the Dedicated Schools Grant (DSG) but this will be split into three notional blocks: Schools, High Needs and Early Years. These will be non-ring fenced and based on planned spend on the section 251 statement for 2012/13. The EFA will confirm the baseline funding for each of the notional blocks early in the autumn term.

17. The notional Schools block will be distributed by the local funding formula. From 2013/14, the local funding formula will be distributed via a maximum of 10 criteria (allowable factors), and will be predominantly pupil led. Under current regulations, 37 factors are allowed. The Nottinghamshire formula for 2012/13 has 23 factors.
18. The new formula arrangements will mean that there is no longer a need for a schools budget local authority central spend equivalent grant (LACSEG) calculation as all the funding will be in academy budgets at the outset. The DfE are also considering the transfer of funding for relevant central education services from formula grant into the DfE budget. This would then be distributed as a separate grant to local authorities and academies on a national basis based on pupil numbers. This will be subject to a separate consultation over the summer.
19. Of the 10 allowable factors, one relates to London fringe areas, whilst another relates to the funding gap for PFI contracts which is paid from outside the schools budget in Nottinghamshire. Both of these can thus be discounted. The remaining 8 factors that will apply in Nottinghamshire are:
- 1) *Basic per pupil entitlement*
  - 2) *Deprivation*
  - 3) *Looked after children*
  - 4) *Low cost, high incidence SEN*
  - 5) *English as an additional language (EAL)*
  - 6) *Lump sum (single fixed rate for all phases)*
  - 7) *Split sites*
  - 8) *Rates*

In the final arrangements document published on 28 June 2012, two additional allowable factors were added by the DfE.

- 9) *Post-16 funded by the DSG*
- 10) *Pupil mobility*

These additional factors will need to be considered by the working group as to their relevance in Nottinghamshire.

20. Although it considers that more pupil-led funding gives greater autonomy and funding to schools and academies, the DfE has recognised that the removal of some factors will cause turbulence. Therefore to provide some protection and dampen the changes some schools may experience as a result of the changes to the local funding formula, the Minimum Funding Guarantee (MFG) will continue at minus 1.5% per pupil in 2013/14 and 2014/15.
21. There is no provision in the revised local formula arrangements to limit losses other than through the MFG. However, the DfE will allow local authorities to limit gains as a result of the formula simplification. Any decision to limit gains will need to be made locally between the Authority and the Schools Forum. Clearly, any plan to limit gains beyond the MFG would need to be carefully thought through and funded. In recent years, the previously available flexibility in Nottinghamshire's schools budget has been eroded, either to offset the transfer of costs from the County Council's budget as part of the

recent budget savings, or to fund one-off pressures such as the implementation of job evaluation for schools support staff.

22. In Nottinghamshire, our aim is to develop a funding system that is both compliant with the new regulations and delivers funding in the most fair and transparent way to all Nottinghamshire schools and academies.
23. So far, the working group has mapped the existing funding formula to the new prescribed categories, looked at the various indicators that can be used to calculate different elements of funding (e.g. free school meals, Income Deprivation Affecting Children Index (IDACI), prior attainment levels), and modelled the impact of different weightings and levels of funding attached to these on a selection of anonymised schools.
24. With the level of changes being made in such a short timescale, it is inevitable that the new funding system will result in change. In order to minimise turbulence in the new system as far as possible, some overarching guiding principles need to be established. Five key themes have emerged:
  - 1) *The new funding system provides an opportunity for a more equitable funding formula for all Nottinghamshire schools*
  - 2) *The new system also offers an opportunity to ensure that the notion of 'per pupil funding' is the key driver for distributing money to schools (i.e. that the money follows the pupil)*
  - 3) *The transition period creates turbulence in the system and there is a desire amongst Schools Forum members, the Chairman of the Children and Young People's Committee and the Leader of the County Council to retain as much financial stability as possible for all schools, particularly for the 2013/14 financial year*
  - 4) *Nottinghamshire has a number of small schools <sup>1</sup> and there has been some criticism of the new system in that it does not work in favour of these types of school. As a consequence, consideration will need to be given to this issue.*
  - 5) *There is a degree of local flexibility allowed within the reformed funding system. Consideration will also need to be given to the extent to which this local flexibility is used in Nottinghamshire.*
25. These themes are not mutually exclusive and, together the Schools Forum, Elected Members and relevant Officers of the County Council will need to develop a local approach that strikes the appropriate balance between them, for approval by the Policy Committee.
26. A new pro-forma will be introduced for local authorities to publish their local formula for distributing the 2013/14 Schools block. This will need to be submitted to the EFA by the end of October 2012, following consultation with all bodies affected by the changes and approval by Policy Committee.
27. The EFA will have a significant role in overseeing local funding arrangements. It will ensure that the local funding formula is compliant with the regulations, and distributes funding in a fair and equitable way to all schools and academies. The EFA could require the local authority to amend out formula if they consider it is non compliant.

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<sup>1</sup> Small schools are defined by the DfE as those with fewer than 75 pupils on roll, but defined by Nottinghamshire in the 2002 "Size Matters" report as those with fewer than 100 pupils on roll.

## Improving the way local areas are funded

28. There will be some improvements to the current arrangements for funding local authorities from 2013/14. Funding for schools will continue in the form of the DSG, local authority grant and pupil premium, but there will be some changes to provide earlier notification and greater certainty to local authorities, schools and academies on the level of funding they will receive.
29. As already highlighted in paragraph 16, the DSG will be split into three notional blocks (Schools, Early Years and High Needs). The Schools block will be based on October pupil numbers to allow earlier confirmation in December each year of the level of funding to be distributed through the local funding formula. The Early Years block will initially be based on January numbers but will be adjusted during the course of the financial year to take account of actual pupil numbers, meaning that funding more accurately reflects the pupils that have to be funded. The High Needs block will cover education provision for high needs pupils and students from birth to 25, and will be based on 2012/13 planned spend by the local authority and data held by the EFA.
30. The pupil premium will continue to be allocated as a separate grant to the DSG and is allocated based on free school meal eligibility. In the longer term, the DfE has indicated that the pupil premium will be the main mechanism for allocating deprivation funding for schools as part of a new national formula.

## Funding arrangements for high needs (SEN) pupils

31. The proposed funding arrangements for high needs pupils are in support of the Green Paper on SEN and disability '*Support and aspiration: A new approach to special educational needs and disability*'.
32. High needs pupils are defined as those who require provision not available in mainstream settings which would cost more than around £10,000 per year. The new approach to funding is aimed at delivering funding that is responsive to pupils needs, funds all providers on an equivalent basis, brings together funding for pre and post 16 high needs and provides clear information about the provision available.
33. The new approach 'Place Plus' will be based on actual pupil numbers combined with a base level of funding to provide some stability. The table overleaf shows how funding for all high needs provision under a place plus approach would work:-

	Pre-16 SEN and AP		Post-16 SEN and LDD
	Mainstream settings	Specialist settings	All settings
Element 1: Core education funding	Mainstream per-pupil funding (A/WPU)	Base funding of £10,000 for SEN and £8,000 for AP placements, which is roughly equivalent to the level up to which a mainstream provider would have contributed to the additional support provision of a high needs pupil. Base funding is provided on the basis of planned places.	Mainstream per-student funding (as calculated by the national 16-19 funding system)
Element 2: Additional support funding	Contribution of £6,000 to additional support required by a pupil with high needs, from the notional SEN budget		Contribution of £6,000 to additional support required by a student with high needs
Element 3: Top-up funding	"Top-up" funding from the commissioner to meet the needs of each pupil or student placed in the institution		

34. The overall aim is to ensure that all placements for high needs pupils and students are funded on an equivalent basis and that local authority commissioners are not faced with additional costs when considering where to place an individual.
35. A sub group of the working party has been established to review the impact of the proposed changes to funding for high needs pupils, by considering the current funding system, the implications of the new funding system for all types of provision and the options available for funding these.
36. Generally, the current methodology for funding high needs provision in Nottinghamshire fits with the new proposed funding system for the high needs block as we already have a number of banded funding systems in place. However, as the remit of the local authority for providing top up funding for high needs pupils and students will be extended from 3 to 19, to birth to 25, we need to ensure that any new systems developed are done so in collaboration with providers across the full age range.
37. It is planned to develop an integrated banded system covering children and young people from 3 to 25 in all types of high needs provision. The financial impact of this system is still being modelled.

### **Funding arrangements for Early Years provision**

38. Providers delivering the universal free entitlement of 15 hours a week of early education for three and four year olds are currently funded through the early years single funding formula (EYSFF) by the local authority.
39. There are no substantial changes proposed to this for 2013/14. However, local authorities will be required to complete and publish a pro-forma setting out their EYSFF. The reduction in permissible formula factors for school formulae will also apply to the use of these factors within the EYSFF. There will still be a requirement to have a deprivation factor as part of the EYSFF. The Nottinghamshire EYSFF has been reviewed in light of the changes to ensure that it is compliant with the new regulations.
40. Participation in free early education for three years olds attracts DSG funding. This is based on the higher of the actual number of three year olds who take up their entitlement or an amount equivalent to 90% of the population who are entitled – the 90% floor. This will be reduced to 85% in 2013/14 and removed altogether in 2014/15. The ‘take up’ in Nottinghamshire is currently above the 90% floor, so will not impact on the level of funding received.

### **Timetable for implementation**

41. The pace at which we need to work to ensure the successful implementation of the reformed funding system from April 2013 is governed significantly by the deadlines set by the DfE. A timetable of events and key decisions that need to be made over the coming months is outlined below:

Date	Task
June 2012	<ul style="list-style-type: none"> <li>• Schools Forum to agree proposals for new funding system</li> <li>• County Council to provide local steer on key objectives</li> </ul>

July – August 2012	<ul style="list-style-type: none"> <li>• Nomination and election of new Schools Forum members</li> <li>• Preparation of consultation documents on new funding system</li> <li>• Modelling impact of agreed funding proposals on all affected bodies</li> </ul>
September 2012	<ul style="list-style-type: none"> <li>• Local formula consultation launched (3 September to 1 October)</li> <li>• District consultation events held with all affected bodies</li> <li>• Education Funding Agency (EFA) to confirm baseline funding for 2013/14 for DSG funding blocks</li> </ul>
October 2012	<ul style="list-style-type: none"> <li>• Analysis of consultation responses</li> <li>• Interim update to Children &amp; Young People's and/or Policy Committee</li> <li>• Local funding formula finalised (subject to formal approval by Children &amp; Young People's and/or Policy Committee) and submitted to the EFA</li> <li>• October pupil census takes place</li> </ul>
November 2012	<ul style="list-style-type: none"> <li>• Report to Children &amp; Young People's and/or Policy Committee</li> <li>• Dialogue with EFA regarding local funding formula pro-forma</li> </ul>
December 2012	<ul style="list-style-type: none"> <li>• Pupil census data, schools and high needs block funding confirmed for 2013/14</li> <li>• Model required changes to local formula based on confirmed census data</li> </ul>
January 2013	<ul style="list-style-type: none"> <li>• Final changes to local formula pro-forma submitted to the EFA</li> <li>• Early years block funding confirmed</li> </ul>
February 2013	<ul style="list-style-type: none"> <li>• Maintained school 2013/14 budgets issued by the local authority</li> </ul>
March 2013	<ul style="list-style-type: none"> <li>• Academy 2013/13 budgets issued by the EFA</li> </ul>

## Statutory and Policy Implications

42. 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.

## RECOMMENDATION/S

That the Committee:

- 1) approves the proposed new membership of Nottinghamshire's Schools Forum
- 2) notes progress made so far with the implementation of the other aspects of the schools funding reform and agrees to receive further updates at future meetings.

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**Constitutional Comments (LM 25/06/12)**

43. The Children and Young People's Committee has delegated authority within the Constitution to approve the recommendations in the report.

**Financial Comments (NDR 29/06/12)**

44. There are no financial implications arising directly from this report.

**Background Papers**

School funding reform: Next steps towards a fairer system - Department for Education

**Electoral Division(s) and Member(s) Affected**

All.

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