

EDUCATION FUNDING REFORM

Allocations of DSG to Local Authorities

The Department for Education (DfE) has recently published the arrangements for allocating the Dedicated Schools Grant (DSG) to local authorities from April 2013. These arrangements are the first steps towards the planned introduction of a National Funding Formula (NFF) during the next Spending Review period, and are intended to ensure that pupils across the country are funded at a similar level. While most of the arrangements have been subject to consultation and discussion since last July, a further short consultation, which closes on 21st May, has been published to gain views on some of the more detailed proposals.

In 2013-14 the DSG will be allocated to local authorities using a greatly simplified method. Local Authorities will continue to receive allocations for each pupil based on previous funding levels, but the funding will be allocated in three notional blocks; Schools Block; Early years Block and High Needs Block.

The three notional blocks will not be ring-fenced and will be based on planned spend by local authorities in 2012-13. The **Schools Block** will be based on **October** pupil numbers (currently January numbers are used) which will mean that school budgets can be set earlier. This will also mean that individual school budgets will also be calculated using October pupil numbers. The **Early years block**, and budgets for Early years providers will continue to be based on January numbers as the Early years census only takes place once a year, in January. The **High Needs block** will cover funding for education provision for high needs pupils and students from birth to 25. The 2013 High Needs block will use as a baseline the 2012-13 budgeted spend on high needs pupils and students. This will be drawn from the 2012-13 S251 budget statements and the 2011-12 information on high needs students aged 16-25 in FE providers and independent specialist providers held by the YPLA.

The government is also considering removing the funding received for central education services from the Formula Grant received from the Department for Communities and Local Government, and creating a new Department for Education Grant to be paid on a national basis to local authorities and Academies.

Individual School Budgets

In order to prepare for the introduction of the NFF, all local authorities are required to review and simplify their local funding formulae during the financial year 2012-13. The new simplified formulae will be used to calculate school budgets for the first time in 2013.

The new formulae will be greatly simplified with a maximum of 10 factors which have been set out by the DfE. The formula used on the Island currently comprises 30 different factors. The factors which will be allowed in the new formulae are as follows:

- i. A basic per pupil unit which allows a single unit for primary aged pupils (*the current IW formula uses 2 units*), plus either a single unit for secondary pupils or a single unit for each of KS3 and KS4 (*the IW formula currently uses 2 units*).

- ii. Deprivation measured by FSM and/or the Income Deprivation Affecting Children Index (IDACI). (*The current IW formula uses these factors plus the Indices of Multiple Deprivation (IMD) and Tax Credit data*). The government is proposing that authorities introduce a banding system for allocating deprivation funding using IDACI scores i.e. the higher the pupil scores on the IDACI index, the more funding that pupil attracts.
- iii. Looked After Children (*the IW formula does not currently allocate funding specifically for Looked After Children*)
- iv. Low cost, high incidence SEN – based on achievement recorded in the EYFSP for primary pupils and achievement at level 3 or below at KS2 for secondary pupils.
- v. English as an Additional Language (EAL) for 3 years only after the pupil enters the compulsory school system.
- vi. A lump sum of limited size. Because the new funding formula will not include any premises related factors, it is proposed that the lump sum should be of a size that will cover these costs; the government is suggesting that the lump sum should be within the range of £100k to £150k. The lump sum will be the same for all mainstream schools regardless of size or sector.
- vii. Split Site Allowances
- viii. Rates
- ix. Private finance initiative (PFI) contracts; and
- x. For the 5 local authorities who have some but not all of their schools within the London fringe area, flexibility to reflect the higher teacher cost in these schools.

The consultation asks whether local authorities and Schools Forums should be able to agree separate per pupil rates for KS3 and KS4 pupils.

Respondents are asked whether they agree with the proposals on deprivation banding and how they think this could be implemented locally.

The consultation also asks where within the £100k to £150k range the upper limit for lump sums should be set.

Factors ix and x do not apply to Island schools and so the new IW local funding formulae will comprise a maximum of 8 factors.

The government is also considering the introduction of a minimum threshold for the percentage of funding distributed through the basic per pupil entitlement and has published 3 options for consideration:

- a. Setting a minimum threshold that applies to the basic entitlement only, suggesting that 60% represents a reasonable starting point for this threshold. (*In 2012-13, the IW Age Weighted Pupil Units (AWPU's) represented 80% and 86% of primary and secondary school budgets respectively*).
- b. Setting a minimum threshold that relates to all of the pupil led factors (and would therefore include basic entitlement, deprivation, looked after children, low cost SEN and EAL), suggesting that 80% would represent a reasonable level for this threshold. (*In 2012-13 IW pupil-led*

funding represented 88% and 93% of primary and secondary school budgets respectively).

- c. Not setting a threshold at all at this point and accepting that there will continue to be variation across the country.

The consultation asks which of the above options should be implemented.

Many local funding formulae (including the IW formula) contain factors which introduce an element of protection for small schools which often face viability issues due to the small number of pupils attracting funding. The new arrangements will no longer permit these factors and schools facing these difficulties will be required to consider more efficient organisational structures and operations e.g. federation, merging or becoming part of an Academy chain.

The consultation document also considers whether the ratio between primary and secondary funding should be restricted. Secondary pupils across the country tend to attract more funding than primary pupils and the average is 1:1.27 but this varies between 1:1.1 and 1.1.5 (*The IW ratio is 1:1.25*). However, because the changes in the funding formulae could potentially change these ratios in 2013, the government will not introduce any restrictions on the ratio for 2013.

Under current arrangements, local authorities are permitted to retain centrally an element of the DSG in order to fund services such as SEN support, Behaviour Support, and Support for schools in Financial Difficulties. The new arrangements require local authorities to delegate as much of the DSG to schools and the new formula will therefore need to incorporate the budgets for the following centrally-retained services (within the permitted funding factors):

- Support for schools in financial difficulties
- Allocation of contingencies
- Free School meals eligibility
- Insurance
- Licences/Subscriptions
- Staff Costs – supply cover
- Support for minority ethnic pupils or underachieving groups
- Behaviour support services
- Library and museum services

This requirement will have a limited impact on IW school budgets as schools have for some years received delegated funding for Insurances, Licences and Subscriptions and Library and Museum services. The budget for Staff costs – supply cover relates to the cost of the Professional Association secretaries only; staff absence insurance costs have been delegated for some years and many schools purchase absence insurance from the local authority using this funding. Since the school reorganisation, the remaining budgets have been delegated to all secondary schools in order to bring their funding in line with the Academies.

These services will in future, be delegated to all schools but if all maintained schools in a phase collectively agree (through the Schools Forum), the services can continue to be provided centrally by returning the funding to the local authority. The final delegated budget available to each school would then exclude these amounts.

There are a number of services for which local authorities have a statutory responsibility and these will continue to be funded from a small centrally retained element of the DSG these are;

- Co-ordinated admissions scheme
- Servicing of the Schools Forum
- Carbon Reduction Commitment
- Capital expenditure funded from revenue.

In addition there are some services which historically, the Schools Forum agreed to fund from the DSG:

- Termination of Employment costs
- SEN Transport costs

Local authorities will be permitted to retain funding for termination of employment costs but only at the level of the 2012-13 budget. Funding for SEN Transport will in future be included in the new High Needs Block.

Local authorities are now required to review their local funding formulae and ensure that they comply with the new arrangements and the local plan and timetable for implementing these changes (which will be significant for Island schools) is set out in the action plan which forms an appendix to this document. The DfE will publish a pro-forma on which authorities will be required to detail their proposed new funding formulae. The pro-forma must be submitted to the Education Funding Agency (EFA) for approval by the end of October 2012. This means that the new formula must be devised and consultation meetings held with stakeholders during the summer term 2012.

In order to dampen the changes in budgets that may be experienced by some schools as a result of the new simplified formula and to give schools sufficient time to plan for the effects of any budget reductions, the Minimum Funding Guarantee will remain at -1.5% for the financial years 2013-14 and 2014-15. Local authorities will also be able to implement a capping system for those schools receiving an increase in funding in order to ensure affordability in the first two years of operating the new formula.

Free Schools, University Technical Colleges (UTC's) and Studio Schools; these institutions are currently funded using a simple and transparent formula which gives a lump sum of funding based on averages for school budget shares and an additional amount per pupil eligible for FSM based on an average of all the funding targeted at deprivation. From 2013, free schools, UTC's and Studio schools will be funded using the relevant local simplified formula. The government's Free schools "ready reckoner" currently gives interested partners an easy to use tool to check financial viability. One consequence of moving these schools onto the new formula is that confirmed funding levels for new schools will not be available until the spring prior to a September opening.

The consultation asks what sort of information Free School, UTC's and Studio school proposers need, and at what stages, to enable them to check viability and plan effectively.

Schools Forum

In order to support the changes to school funding, there will also be some changes to the way in which Schools Forums operate. From 2013-14 the Schools Forum Regulations will be amended to:

- Remove the requirement to have a minimum of 15 people on a Forum;
- Limit the number of local authority attendees participating in a meeting unless they are a lead member, a Director of Children's Services (or their representative), or are providing specific financial or technical advice (including presenting a paper to the Forum);
- Confine the voting arrangements to allow only schools members and providers from the private, voluntary and independent sector to vote on the funding formula;
- Require local authorities to publish Forum papers, minutes and decisions promptly on their web-sites; and
- Require Forums to hold public meetings – as is the case with other council committees.

The Education Funding Agency will also be given observer status at School Forum meetings in order to support the local process and to provide a national perspective.

IN the future, the DfE may consider making further changes to the operation of Schools Forums. These may include:

- Setting a maximum cap on the number of members;
- Significant slimming down (or removal) of non-school members; and
- Requiring an independent secretariat to service Schools Forums

Funding Arrangements for 14-16 year olds wishing to study in FE Colleges

With effect from 2013 FE and 6th Form Colleges will be able to make full-time provision for 14-16 year olds and the DfE considers that the colleges should be funded in the same way as schools in the local area. From 2013-14, it is likely that this will mean using the simplified funding arrangements that will be introduced for schools.

The factors that are likely to apply in these cases are:

- a. The Age weighted pupil unit for the relevant age group;
- b. Deprivation;
- c. Looked after children; and
- d. SEN

The EFA will calculate the funding due and the payment will be made in arrears through the normal channels for colleges (Skills Funding Agency for FE Colleges and the EFA for 6th form colleges).

High Needs Pupils and Students

For the purposes on the new funding arrangements, High Needs pupils and students will include:

- a. Pupils aged from birth to 19 with high levels of SEN in schools, Academies and other settings;
- b. Those aged 16-25 with high level learning difficulties or disabilities (LDD) in FE; and
- c. School-age pupils in Alternative Provision (AP)

In line with the proposals set out in the SEN and disability Green Paper, the funding reforms are intended to create an integrated approach to assessment and provision from birth to 25 and to move to a funding approach that is consistent across all provisions for high needs pupils and students in the SEN and LDD sectors.

The new approach to funding for high needs pupils will:

- Be genuinely responsive to individual pupils' and students' needs in a way that balances greater responsiveness of providers funding to actual pupil or student numbers with an appropriate level of funding stability for specialist providers;
- Ensure that all providers are funded on an equivalent basis in order to avoid potential perverse financial incentives
- Ensure that funding for pre-16 and post-16 high needs provision is brought together;
- Provide clear information about available provision for high needs pupils and students in the form of a local offer that will set out clearly what providers will be expected to provide for high needs pupils and students.

The funding reforms will be based much more on actual pupil numbers combined with a base level of funding to give providers a measure of stability. Provision for high needs pupils and students will in future be funded on a mixture of a place and a pupil led basis.

This approach will be called "place-plus" funding and will comprise three elements which can be applied across all provision for high needs pupils and students:

- 1) **Element 1 – Core Education funding**; the mainstream unit of per pupil or student funding i.e. the AWPU for pre-16 pupils and the mainstream per-student funding as calculated by the national 16-19 funding system for post 16 provision in schools and the FE sector.
- 2) **Element 2 – "additional support funding"**; a clearly identified budget for providers to agree additional support for high needs pupils or students with additional needs up to an agreed level
- 3) **Element 3 – "top-up funding"**; funding above elements 1 & 2 to meet the total cost of the education provision required by an individual high needs pupil or student, as determined by the pupil's or student's assessed needs.

Under the new funding arrangements local authorities will receive funding for all high needs pupils and students across the SEN and LDD sectors in the form of a clearly identified notional High Needs Block with the DSG. This will mean that authorities will receive an identified amount of funding from which they, or mainstream school commissioners in the case of some AP, can carry out their statutory duties in relation to high needs pupils and students from birth to 25 years, and commission provision and provide top-up funding to providers.

It is also intended that the creation of the High Needs Block will facilitate the more personalised approach to funding proposed in the SEN and Disability Green Paper. The move to place-plus funding would enable any provision funded from the local authorities notional High needs block, above elements 1 and 2, to be included in a SEN personal budget.

The government expects that education authorities will work with partners in health and social care services in order to pioneer innovative and effective provision and support for pupils and students who also have health and social care needs. In these instances, the government expects that the appropriate forms of support to meet a child's health and social care needs would be funded by the appropriate agencies.

Roles and Responsibilities within a place-plus approach; One of the key components of a place-plus funding approach will be regular, evidence-based dialogue between providers, commissioners and the EFA. Under the place-plus approach, **providers** will be responsible for:

- Delivering the provision for which they have been commissioned for the individual pupils/students placed in the institution, using their professional expertise and judgement;
- Engaging in dialogue with commissioners in relation to individual pupils/students and being accountable for their progress and achievements, e.g. through annual reviews of progress, and in relation to strategic planning of provision; and
- Contributing to clear and transparent information for young people and their families about the provision they offer for high needs pupils and students.

Commissioners will be responsible for:

- Strategic planning of provision for high needs pupils/students, including through dialogue with other commissioners, providers and the EFA so as to ensure that funding for specialist provision is in the right place;
- Commissioning and paying top-up funding for the high needs pupils/students for whom they are responsible; and
- Engaging in dialogue with providers and ensuring that placements of high needs pupils/students achieve agreed outcomes and make appropriate use of public money;
- Where the commissioner is the local authority, it would also be responsible for passporting base funding equivalent to elements 1 and 2, to and reviewing allocations of this funding for, specialist settings that it maintains.

The **EFA** will be responsible for:

- Allocating and distributing the national budget for high needs pupils/students to providers through the allocation of base funding to specialist settings and to local authorities through their High Needs Block
- Where appropriate and in accordance with the determined process, make adjustments to the number of planned places in a particular specialist setting on the basis of evidence from the provider and its commissioners;
- In relation to specialist providers to whom the EFA paid base funding equivalent to elements 1 and 2 directly, convening reviews of the number of planned places in those settings.

The consultation asks respondents to consider the ways in which commissioners can ensure responsibilities and arrangements for reviewing pupil and student progress and provider quality can be managed in a way that does not create undue administrative burdens for providers

In 2012-13, the notional High Needs Block will be calculated using 2012-13 budgeted spend on high needs pupils and 2011-12 information on student numbers and spend for post 16 high needs students. The 2012-13 budgets that will be included in the High needs Block are:

- Delegated budgets of special schools
- Centrally funded provision for individual pupils
- SEN support services
- Support for Inclusion
- Independent special school fees
- Inter-Authority Recoupment
- Pupil Referral Units
- Education out of school
- Delegated allocations relating to individual pupils
- Delegated allocations relating to special units and specially resourced provision in mainstream schools
- Post-16 SEN expenditure
- Adjustments will be made for base funding of high needs places in provision not maintained by the authority but to which it sends pupils
- Additions will be made for budgeted spend on high needs students aged 16-25 in further education providers and independent specialist providers held by the YPLA.

Funding for Mainstream Settings under place-plus; under the place-plus arrangements, mainstream settings will receive elements 1 (core education funding) and 2 (additional support funding) as part of their standard funding. This will mean that in addition to mainstream per-pupil funding, providers will also receive a clearly identified budget from which they will be expected to contribute up to a specified level for the provision required by high needs pupils and students placed with them (element 2). The government expects that mainstream providers will contribute the first £6,000 of additional education support required by each pupil or student with high needs. Local

authorities and providers are expected to develop information about available educational provision for high needs pupils and students in preparation for the introduction of this new funding approach.

Equivalent funding for specialist settings under place-plus; for specialist settings, funding will be arranged in an equivalent manner to that for mainstream settings. For pre-16 provision in schools and academies there will be a base-level of funding that is broadly equivalent to the core education funding and additional support funding received by a mainstream school or academy. i.e. funding equivalent to AWPU plus £6,000 for each high needs pupil or student.

Although levels of AWPU vary from one area to another, on the basis that a mainstream school or academy will receive an average AWPU of around £4,000, on top of which the mainstream school or academy will be expected to contribute the first £6,000 of the cost of a high needs pupil's additional support, the base level of funding for specialist pre-16 SEN settings will be set at £10,000. Base funding will be paid to providers on the basis of an agreed number of planned places in a particular setting.

The Alternative Provision (AP) sector will also receive a base level of funding for each planned place but this will be set at £8,000 per planned place.

National data indicates that the average annual costs of a PRU is between £15k and £18k per place, and that the vast majority of PRU's receive annual funding of more than £8k per place. The government therefore considers that £8k would be an appropriate level of base funding for AP settings.

The consultation asks whether £8k per planned place is an appropriate level for base funding for AP settings within a place plus funding approach.

Once the number of planned places has been agreed for each setting, the commissioner will be responsible for convening a review of the numbers allocated to each setting at least every two years. This will ensure that each provider's funding is appropriate to the numbers of pupils/students who had been and would be placed there, and that empty places or provision that is no longer required would not be funded indefinitely. However, there will not be a rigid requirement that a provider's allocation of places was fixed in place or that a provider's allocation must be adjusted every two years. The purpose of the review will be to ensure that funding for high needs pupils/students is allocated to the right place to meet local need and that empty places or provision that is no longer required is not funded indefinitely. There will therefore be flexibility in the way in which a review of base funding is prompted so as to allow provision to be managed flexibly e.g. if a school has a particularly high or low intake in one year, it may be sensible to allow the school to manage this cohort through the school. There will also be flexibility in the frequency of the review of base funding e.g. to allow swift action to be taken to address an instance in which a provider encounters a significant problem. The review process will ensure that the allocation of provider's base funding reflects not only past trends but also allows commissioners to make decisions based on future need or choices.

The consultation asks whether respondents agree with the proposed process for reviewing and adjusting the number of places for which specialist settings receive base funding and also whether there are any other ways in which this process could be managed in a way that is non-bureaucratic and takes account of local need and choice.

Top-up funding (element 3) for all providers: above the level of funding in elements 1 and 2, top-up funding for students placed in mainstream or specialist settings will be provided by the commissioning local authority from within its High Needs Block. This will be paid on a per-pupil/student basis. This funding will be based on the assessed needs of the pupil/student.

Top-up funding for AP will be allocated using a different method in order to take account of the fact that at present responsibility for commissioning AP rests with the local authority in some cases and with mainstream schools and academies in others. Place-plus for the AUP sector will be similar to place plus for the SEN and LDD sectors in that top-up funding will be provided by the commissioner on a per-pupil basis and will flow directly between the commissioner and the provider.

Where a mainstream school or Academy commissions provision in an AP setting for a pupil, the mainstream school or academy will repay the AWPU received for that pupil to the local authority. For short-term and part-time placements pro-rata arrangements will be put in place for calculating top-up funding, probably on a termly or half-termly basis for short-term placements while part-time placements would be calculated on a daily rate.

The consultation asks whether respondents agree that it would be sensible to calculate pro-rata top-up payments for short-term placements on a termly or half-termly basis, and part-time placements in AP on the basis of a daily rate.

Transitional protection for providers: the reforms to funding for high needs pupils/students represent a completely new way of funding specialist high needs provision and the government is keen to ensure that appropriate transitional protection is put in place to help providers through the process of change. One of the ways in which this transitional protection is ensured is by basing the distribution of the notional High Needs Block in 2013-14 on the basis of 2012-13 financial year budgeted spend on high needs pupils/students and on the 2011-12 academic year information on numbers of post 16 high needs students and levels of spend on their provision. Where high need pupils/students are part way through an educational programme or course in a particular setting, provided they are making expected progress, commissioners will be expected to honour existing commitments to fund those programmes. In order to provide further support to enable commissioners and providers to adapt to the new approach, the government is planning to set a condition of grant relating to the level of top-up funding which will ensure that were all of the high needs pupils in that setting placed by the local authority, the school's total funding for 2013-14 would not be more than 1.5% below the funding that the school received in 2012-13.

The consultation asks respondents to consider whether there are any other ways that will help ensure a smooth transition for providers and commissioners.

Hospital Education; the government is working with the hospital school sector in order to develop a sustainable non-bureaucratic way of funding hospital education and will collect further information and data during 2012-13 in order to inform this consultation

The consultation asks respondents to consider how hospital education could be funded in order for them to continue to provide high quality education to pupils who are admitted to hospital.

Funding Arrangements for Early Years Provision

Providers delivering the universal free entitlement of 15 hours per week of early education for three and four year olds are currently funded by the local authority through the Early Years Single Funding Formula (EYSFF) which is part of the DSG. The DfE and the National Audit Office have both stated that many local authorities have implemented an EYSFF which is so complex that providers and parents find it difficult to understand how the funding is calculated. Local Authorities are therefore required to review their EYSFF and to simplify it by 2013.

Local authorities are required to operate a deprivation factor as part of their EYSFF in order to target additional funding towards supporting disadvantaged children to access high quality, free early education. However, local authorities are currently given freedom in how they operate this funding which means that there is significant variation across the country, both in the level of funding allocated and how deprivation is measured. From 2013-14 local authorities will be required to focus the definition of deprivation on the circumstances of the child and not the setting. The Isle of Wight EYSFF contains a deprivation supplement which is based on the home post code of the child and is therefore compliant with the new requirement although we may have to amend the deprivation indicators used.

In addition to the deprivation supplement, the local EYSFF also contains a supplement for flexibility, and on a transitional basis, a rates supplement for those settings which occupy school premises and until the introduction of EYSFF had not paid rates. From 2013-14, the DfE will not permit the use of premises related factors but the flexibility supplement will be permitted to continue.

The local authority will also be required to complete a pro-forma detailing the factors proposed for its EYSFF and submit it to the EFA for approval.

The element of DSG which relates to participation in free early education by three year olds is calculated using the actual number of three year olds who take up their free entitlement or a number equivalent to 90% of the estimated three year old population whichever is higher. This is known as the 90% floor and it was introduced in 2003 to provide additional resources for local authorities to build capacity and boost take-up when they were rolling out universal free early education entitlement to all three year olds. The Isle of Wight received an adjustment of 72 pupils under this arrangement in 2012-13.

The consultation document proposes removing the 90% floor completely from 2014-15 and using 2013-14 as a transition year by lowering the floor to 85% in that year.

The consultation asks for views on the move to participation funding for three year olds, particularly on how transitional protection for 2013-14 might operate.

Where schools providing early years education have converted to academy status since September 2010, local authorities have been responsible for calculating their EYSFF allocation and making payment to them as with any other free early education provider. The only exception to this, because of the nature of their funding agreements, has been the small number of academies with early years provision which existed prior to September 2010.

The consultation document proposes that in future ALL early years providers, including the early academy converters, should be funded and paid by local authorities through the EYSFF.

The consultation asks for views on whether free early education in all academies should be funded directly by local authorities.

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April 2012.