

CHESHIRE EAST COUNCIL

REPORT TO: Children and Families Scrutiny Committee

Date of Meeting:	19 June 2012
Report of:	Lorraine Butcher Strategic Director of Children, Families and Adults
Subject/Title:	School Finance Update
Portfolio Holder:	Cllr Hilda Gaddum

1.0 Report Summary

- 1.1 This report summarises the government's most recent funding reforms for Schools, proposed for implementation from April 2013.
- 1.2 The report also summarises Schools Balances at the end of 2011/12, providing a useful context in respect of the current financial position of Cheshire East schools.

2.0 Decision Requested

- 2.1 To endorse the approach outlined in this paper in respect of changes to schools funding and the impact on Cheshire East schools.
- 2.2 To be aware of the approach being undertaken to review Schools Balances at the end of 2011/12.

3.0 Reasons for Recommendations

- 3.1 The implications of the proposals for reforming schools funding will have a significant impact on all schools. Options available to the Local Authority for implementing these changes will need to be consulted upon with all schools. Endorsement of the approach identified in advance of Schools Forum on 26th June is requested.
- 3.2 Schools have been and will continue to be advised that there is no additional funding available to support Schools from the Local Authority. Colleagues in Children's and Families are asked to be aware of the significant balances held by schools, and to consider this when being approached by schools for financial assistance.

4.0 Wards Affected

- 4.1 All

5.0 Local Ward Members

5.1

6.0 Policy Implications including - Carbon reduction - Health

6.1

7.0 Financial Implications (Director of Finance and Business Services)

7.1 A summary of the more immediate financial implications of the outlined funding reforms have been appended to this report in Appendix A.

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 None at this stage

9.0 Risk Management

9.1 In order to model the implications of the proposed funding reforms, four key workflows have been identified, and four task groups have been convened. A summary of the objectives of each group are outlined below:-

9.2 Work-stream 1: Schools Block

This group will review the delivery of funding through the Age Weighted Pupil Unit, and the ratio of funding between each sector. The current weighting of AWPU between Primary and Secondary sector is based largely on historical formula factors, as devised in 2000/01. This workgroup are looking to lead a review on how AWPU is comprised to ensure that values attributed to each sector remain relevant and appropriate. Tied into this work is the total % of funding which is allocated through AWPU. The DfE are suggesting that an allowable range is defined moving forward. This might be higher than the 63% which Cheshire East currently allocate via AWPU.

Linked into the review of delivery of funding via AWPU is the allocation of lump sums. The DfE state that the preference would be that there is only one lump sum, which is attributable to all schools at the same rate. Lump sums currently used by Cheshire East are £60k for a primary school, and up to £360k for a secondary. The DfE are suggesting allowable lump sums of between £100k-£150k. There would be significant implications for all Cheshire East schools if this was implemented. Review is being undertaken to push as much of the lump sum funding as possible through AWPU, so that any lump sum identified which is attributable to all schools is affordable within the funding available to the Local Authority.

A review of the funding currently held back from Dedicated Schools Grant to fund centrally operations will also be undertaken by this group. On first review, it is clear that not all budgets that are funded centrally currently will be

permitted under the new funding reforms. There appear to be DSG budgets of £2.3m, which currently fund activity within Children's and Families which may not be permitted to be funded from central DSG moving forward.

The use of the refined list of formula factors will also be reviewed by this group, comparing factors currently used, with those factors which will be permitted from 2013/14.

9.3 Workstream 2: Deprivation Funding

The Funding consultation will allow a deprivation factor to be used in the funding formula based on the following indicators; Free School Meal data (FSM), IDACI or both. Current funding delivered through the formula for deprivation is £6.5m, with a further £4.1m delivered via the Pupil Premium. This workgroup will review the delivery of current deprivation funding, and the indicators used, and the impact of changes to the funding distribution across schools using the DfEs specified indicators.

9.4 Workstream 3: Funding for Pupils with High Needs

Currently, funding of £31m is delivered through from DSG for Special Educational Needs, with a further £6m of funding being allocated to Special Schools. Changes to funding, and the framework for delivering High Needs funding will have significant implications. The new arrangements for funding High Needs and the current funding is detailed in Appendix C.

This workstream is likely to be the most resource intensive, and will require considerable support from specialists in this area within Cheshire East.

9.5 Early Years

Changes to the Early Years funding formula will be minimal. However, given the issues with setting and monitoring this budget for 2011/12, a workgroup is now operating to continuously monitor and review this area.

9.6 Key tasks and associated timeframes

9.7 The table below outlines the key tasks and timeframes to be undertaken to ensure that changes to funding are modelled, and their implications are assessed, in preparation for full consultation with all schools.

Task	Date
With subgroups, review options for formula review, and assess their impact	May-12
Present options to Formula Working Group	Jun-12
Refine options for presentation to Schools Forum to provide a steer on those to consult with all Schools on	Late June 12
Consult with all Schools on proposals via e-consultation and school briefings at the start of the Autumn term.	Beginning September - mid October 2012

Formula Working Group to consider final options to go to Schools Forum	Oct-12
Share final options for Formula Change with Schools Forum for approval	Oct-12

10.0 Background and Options

- 10.1 The third stage of the Department for Education's (DfE) consultation on Schools Funding Reform was launched on 26th March 2012, with a closing date of 21st May 2012 (appendix D). The consultation poses 15 further questions.
- 10.2 The proposed reforms for 2013/14 are intended to place Local Authorities well for introducing a national funding formula for the next spending review period (2015/16). The Government's aim is to simplify arrangements around Local Authorities funding formulas to create a more consistent and transparent funding system. It is intended the new system should:-
- Maintain some local discretion,
 - Ensures as much funding as possible reaches schools,
 - Maintains and improves arrangements for equivalent
 - Consistent funding between Schools and Academies.
- 10.3 Following this consultation, next steps will be published in the summer, which finalises arrangements for 2013/14
- 10.4 The main Changes proposed within the Consultation are detailed below:-
- 10.5 A new formula is to be prepared on the basis that as many services and as much funding as possible will be delegated to schools. The vast majority of funding in the future is expected to be pupil led, with as much funding as possible being distributed via AWPU. There will be exceptional budgets for which funds may continue to be held centrally. These are listed below:-
- Where maintained schools agree that a service should be provided centrally.
 - Where there are any historic commitments agreed to be funded centrally
 - Budgets which relate to the statutory functions of the Local Authority.
- 10.6 Local Authorities will only be permitted to apply a single lump sum for each school in the area moving forward. This is a significant change to current arrangements, but intends to create a transparent system, which shows clearly where money is spent.
- 10.7 The current regulations state that Local Authorities must include a deprivation factor in their formula. This requirement will continue but in future LAs will only be able to use, Free Schools Meals (FSM), Income Deprivation Affecting Children Index (IDACI) data or both.
- 10.8 The number of factors within local formulas should be reduced to 10. Cheshire East currently use 19/28 of the available formula factors. The list of

allowed factors outlined in the consultation is appended (Appendix B) to this report.

- 10.9 The Dedicated Schools Grant (DSG) is still to be allocated based on pupil numbers. Funding will now be allocated based on three notional blocks: Schools block, Early Years Block and High Needs Block. The size of each block will be based on previous LA decisions on spend. The Blocks will not be ring-fenced, but DSG as a whole will be ring-fenced.
- 10.10 The notional schools block will be based on October 2012 pupil counts. DSG allocations will therefore be announced in December 2012.
- 10.11 From 2013/14 – there will be a whole new basis for funding Academies and LAs. There will be greater transparency over local formulae to enable the Education Funding Agency (EFA) to fund Academies more efficiently. Academies will be required to supply the LA with the relevant data to determine allocations.
- 10.12 The option to transfer relevant funding for relevant central education services from formula grant into the DfE budget is to be explored. Under this, the DfE would administer funding as a separate grant to authorities and academies on a national basis, proportionate to the number of pupils for which they are responsible. For 2013/14 – by delegating maximum amounts directly to schools, there will not need to be a separate allocation for Academies to cover centrally funded activity. From 2013/14, academies will receive this as part of their budget share, which means Local Authority Central Spend Equivalent Grant (LACSEG), will disappear. A proforma will be issued for LAs to publish how they use their local formula for 2013/14. This would be sent to the EFA at the end of October, and used to calculate Academies budgets.
- 10.13 To reduce the impact of some of the proposed changes, protection arrangements will be put in place. The Minimum Funding Guarantee (MFG) will continue at -1.5% for 2013/14 and 2014/15. Arrangements may loosen thereafter. MFG protects per pupil funding of schools from one year to the next against significant changes in local funding formula. However, this has become excessively complicated. For 2011/12 and 2012/13, MFG has been set tightly – this is controversial for LAs who desire to remove historic anomalies. To make formula changes affordable, gains at a per pupil level will be capped or scaled back. A nationally prescribed maximum gain won't be made, but will be subject to local discretion, after taking account of the affordability of protection.
- 10.14 The consultation recommends that a more effective, sustainable system to be put in place for funding pupils and students who require high levels of specialist and costly educational support. This approach follows the outlined principles:-
- Funding is genuinely responsive to individual pupils and students needs.
 - All providers are funded on an equivalent basis.

- Education funding for pre and post 16 is brought together

The new approach will be based more on actual pupil numbers combined with a base level of funding to offer specialist providers some stability. A place plus methodology will be adopted:-

Core education funding (AWPU) + Additional Support Funding + Top up funding

In this scenario, mainstream providers would contribute the first £6k of additional educational support required by each pupil or student with high needs. Information about the provision for high needs pupils and students available in mainstream settings would be agreed locally and would be set out in the form of a local offer of education provision for high needs pupils and students.

10.15 The consultation identifies that arrangements for the funding of Early Years provision should be simplified. The DfE will encourage and support a trend towards simplifying Early Years Single Funding Formula by producing short, non statutory guidance. This will focus on the message that LAs should allocate and target resources through EYSFF in a way that maximises the impact of free early education.

10.16 There will be changes made to the composition of Schools Forums. Nationally, it is felt that there is the need to secure greater confidence in Schools Forum. Changes are to be made to Schools Forums to make them more focused and transparent, and for those most affected – to have a greater say. Schools Forums will continue to have decision making powers.

10.17 The consultation also proposes significant changes to how Alternative Provision (Pupil Referral Units). It is proposed that £8,000 per- planned place as an appropriate level of base funding for such settings within a place-plus funding approach.

In Cheshire East, the Pupil Referral Unit has been funded for 2012/13 based on the Local Authorities Special Schools Funding formula. Via this formula, individual pupils have been funded at approximately £15k per pupil. There needs to be further review to determine whether £8k represents an appropriate level of base funding.

10.18 A copy of the Local Authorities response to the consultation is attached at Appendix D.

10.19 Schools Carry Forward Balances

10.20 Schools Balances at the end of 2011/12 are £14.962m. As a proportion of total schools delegated budgets of £195.983m – this represents 7.6% (excluding Academies). For 2010/11, total carry-forwards for maintained schools were £9.974m (5.62% of total budgets). Carry-forwards have

therefore increased by 2.01% as a percentage of total schools budgets by the end of 2011/12 (see table below).

	2011/12	2010/11	2009/10	2008/09
	%	%	%	%
Sector				
Primary	8.50%	7.50%	6.43%	6.38%
Secondary	5.73%	2.97%	2.31%	1.97%
Special	14.81%	10.79%	13.16%	11.13%
Total Maintained Schools	7.63%	5.62%	4.63%	4.37%

- 10.21 The value of total delegated budgets for 2011/12, and therefore the monetary value of schools carry-forwards are significantly higher than previous years due to £30m of grants being mainstreamed into schools budgets as part of the 2011/12 settlement
- 10.21 Initial analysis has been carried out to review reasons for the increase in schools carry-forwards. Findings are summarised below:-
- 10.22 Schools are not utilising budgets set resulting in larger than anticipated under spends. This is the case across most budget headings and in some cases amounts are significant, particularly where the expenditure relates to Building Improvement & Tenant Maintenance. This seems to be a trend across a number of schools probably because of the relaxation of the BCM and certainly because of the steep drops in DFC funding.
- 10.23 Schools have been slow to determine how they will spend Pupil Premium funding and in many cases the funding has not been utilised in 2011-12, but schools will spend it in 2012-13.
- 10.24 Schools have received income which they had not budgeted for. It needs to be ascertained whether schools have accrued for any associated costs appropriately. In secondaries, additional income received from external sources is substantial.
- 10.25 Next Steps**
- 10.26 Although the Local Authority has moved towards a regulatory role rather than an enforcer role in term of clawback arrangements, Schools Finance will be liaising with schools to understand why carry-forward balances have increased significantly in percentage terms. Schools will be reminded of their duty to ensure that the Dedicated Schools Grant is used to meet the education costs of children currently within the education system, and that the Local Authority has the option to review current arrangements around balances if deemed necessary.

11.0 Access to Information

11.1 The following people are available to contact in the event of further queries, and additional information

Name: Debbie Torjussen/Fintan Bradley
Designation: Principal Accountant Finance/ Head of Service Strategy
Planning and Performance