



Leicester
City Council

WARDS AFFECTED
All Wards

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

**Children and Young People's Scrutiny
Cabinet**

**28 February 2011
7 March 2011**

Schools Budget Strategy 2011-12

Report of the Strategic Director, Children

1. Purpose of Report

1.1. This report considers a range of issues affecting the determination and distribution of the Schools Budget for 2011/12. The Pupil Premium funding is also considered. Cabinet approval is sought to change the local formula for funding schools.

2. Recommendations

2.1. Scrutiny Committee is asked to consider the proposals in this report and to express its views to Cabinet.

2.2. Cabinet is asked to:-

- a) Consider and support the proposals detailed in Section 4 in this report as the guiding principles in determining the allocation of the Schools Budget in 2011/12.
- b) Approve the changes to the local formula for funding schools, specifically relating to:-
 - Mainstreaming a number of grants into the Dedicated Schools Grant (paragraphs 4.2 to 4.4);
 - Introducing the new Early Years Single Funding Formula. There is a legal requirement to have this in place from April 1 2011 (paragraphs 4.13 to 4.16);
 - Introducing a new method of distributing funding related to Threshold Pay (paragraph 4.18);
 - Introducing the new methodology to directly fund schools related to Meeting Individual Needs (paragraphs 4.19 to 4.20);
 - Introducing a new method of distributing funding related to Pupil Mobility (paragraphs 4.21 to 4.23).
- c) Note the need to consider alternatives for the future operation of the School Balance Control Mechanism if the legal requirement to have one in place is removed (paragraphs 4.27 to 4.28)

3. Summary

- 3.1. The Schools Budget pays for Schools, Private, Voluntary and Independent Nursery providers and related costs. It is funded by the Dedicated Schools Grant (DSG) for ages 3 to 16 and the Young People's Learning Agency (YPLA) for Sixth Forms and post-16 Special Educational Needs (SEN). This report highlights the key issues and challenges faced in determining the allocation of the Schools Budget for 2011/12 to schools and central services funded by DSG. The report was initially considered by Schools Forum at its meeting on 27th January 2011 as part of the budget preparations. Schools must be notified of their delegated budgets by 31st March and a Schools Forum meeting is set for 24th March 2011 to finalise the Schools Budget.
- 3.2 Due to the need to finalise pupil numbers and to work through the substantial changes to national funding arrangements, it will not be possible until March 2011 to determine the full impact on individual schools. Schools will be protected through transitional protection for specific methodology or formula changes, and by the Minimum Funding Guarantee (MFG) which is set nationally at minus 1.5%. The average real terms impact on individual schools taking into account cost pressures is expected to be a real terms funding reduction in the region of 5%, partially offset to varying degrees by the Pupil Premium.

4. Report

Budget Strategy

- 4.1 A strategic approach to allocating the schools' delegated budgets is set out in this report to reduce the administration and bureaucracy for schools and the Council; to help schools to know their total funding as early as possible so that they can plan efficiently; and to give schools maximum freedom to use the available funds in a fair and transparent way. The financial settlement is tight in 2011/12, and the Government has indicated the intent to review the whole system of school funding. The proposals are designed to maximise funding stability at school level, in line with national expectations and local discussions with the Schools Forum.

The Dedicated Schools Grant (DSG)

- 4.2 In summary, the Government has kept its commitment to maintain per pupil baseline funding in cash terms, although this excludes a number of current grants with a value of £1.2m. It is estimated that the City will lose £0.6m of DSG as the dual funding of pupils registered to a Pupil Referral Unit and a school comes to an end, and will gain £1.1m on funding due to updated population data on the funding for 3 year olds. However, the DSG funding for the additional 2.5 hours free entitlement for early years is around £0.7m less in a full year than the funding received for the Autumn 2010 and Spring 2011 terms. Therefore the funding available for 3-16 education via DSG is expected to be around £1.4m less than currently. In addition, there is no provision for inflation and other cost pressures, which for schools are likely to be around the 3% mark.
- 4.3 For 2011/12 in order to simplify the school funding system, the DfE has mainstreamed a number of Standards Funds into DSG aggregating to approximately £36m, increasing the

expected total DSG to approximately £240m subject to the confirmation of pupil numbers. These Standards Fund grants include:-

- School Development Grant (including Specialist Schools) (but excluding the amount currently paid via the Area Based Grant, which ends);
- School Standards Grant (including personalisation);
- National Strategies (Primary and Secondary) (certain elements only);
- Ethnic Minority Achievement;
- Diploma Delivery Grant;
- School Lunch Grant;
- 1-2-1 Tuition;
- Extended Schools – Sustainability;
- Extended Schools – Subsidy.

4.4 Funding provided to the Council / schools for the above grants is, in the main, preserved at 2010/11 cash levels albeit without existing ring fence arrangements giving local freedom over how this money is spent. The Government is expected to amend the Schools Finance Regulations to allow the use of current levels of grant allocated to each school as a factor in local formulae for distributing DSG to schools, to support stability in funding at school level if desired locally. In most cases, we expect to replicate the 2010/11 Standards Fund methodology applied to determine allocations to schools for 2011/12, to minimise funding changes at school level; however this is subject to affordability within the overall Schools Budget. This proposal enjoys the support of the Schools Forum, Formula Funding Review Group and other school representatives.

Young People's Learning Agency (YPLA) Funding for 16 - 18

4.5 There are expected reductions to the funding for Sixth Form provision via the YPLA, in line with the national plan to reduce funding for school sixth forms to the level of funding for Sixth Form and Further Education Colleges by 2014/15 along with some other changes. Transition will apply during 2011/12 so that no school loses more than 3% of funding per learner, although schools may be expected to increase volumes for no extra funding and the interplay of the various changes is not yet clear. Greater reductions are signalled for future years.

The Pupil Premium

4.6 The national allocation is one quarter of the £2.5bn promised by 2014/15. The Pupil Premium will generate approximately £5m across Leicester's maintained schools, at the rate of £430 per deprived pupil in 2011/12, defined as pupils registered for Free School Meals on 20 January 2011. This is equivalent to approximately 2.1% on top of our DSG plus mainstreamed Standards Funds. Children who are looked after by the Council will also attract the Pupil Premium.

4.7 The Premium for deprived pupils will be paid to the Council and passed in its entirety to the schools with the named pupils at 20 January 2011. Schools will have freedom to employ the strategies that they know will support their pupils to increase their attainment. The premium for looked after children and deprived pupils in non-mainstream settings will be paid to the Council with "freedoms" for councils to distribute the funding as they see best.

- 4.8 It is now even more in their interests of schools to promote registration for Free School Meals. The Council is working with schools to raise awareness and to simplify the process for registrations across the City, focussing initially on those areas where there is a particular difference between the expected and actual registration levels.

Inflation

- 4.9 It is not expected to be affordable to provide for inflation costs in the funding delegated to schools, other than “pass through” costs such as rates. Schools can however expect to experience some inflationary costs, including the full year cost of the September 2010 teachers’ pay award (an impact of approximately 1% on the teaching pay budget), inflationary pressure on non-pay costs (e.g. fuel costs) and an expected increase of 2% in the employer’s pension contributions for non-teaching staff. Schools will also need to budget for the Council’s Single Status scheme, although most schools will already have been providing for this where applicable, and for additional charges for services traded by the Council. Overall, these could amount to inflationary pressures in excess of 3% at school level.

Efficiency

- 4.10 In its Spending Review statement the Government made reference to the need for schools to make £2.1bn of ‘efficiency savings’ to be released to fund frontline teaching from procurement and back office savings (£1bn) and the public sector pay freeze (£1.1bn). The Council works with schools to improve efficiency and to highlight Government guidance.

The Minimum Funding Guarantee (MFG)

- 4.11 The Government has in the past used the Minimum Funding Guarantee (MFG) to ensure that all schools received on average increases sufficient to meet inflationary pressures in comparison to their previous year’s funding, less any efficiency requirement.
- 4.12 In 2011-12 at school level the MFG has been set at minus 1.5% for pupils aged 5-16, meaning that no school will see a reduction in per pupil funding greater than 1.5%, before the Pupil Premium is applied. The guarantee will apply to a baseline which incorporates all the grants being maintained into the DSG as well as the current delegated budget. DfE advise that a higher guarantee may be set locally if considered desirable and affordable.

The Early Years Single Funding Formula (EYSFF)

- 4.13 We are required by the DfE to implement an Early Years Single Funding Formula (EYSFF) from April 2011 for three and four year olds in the Private, Voluntary and Independent (PVI) settings and three year olds in maintained schools accessing the free entitlement of up to 15 hours per week of nursery education.
- 4.14 The EYSFF was originally due to be implemented from April 2010 and a formal consultation was issued to seek views on the proposals. However, implementation nationally was delayed to April 2011. Representatives of maintained and PVI settings have been part of an EYSFF review group and have agreed that the proposals should be the recommended way of implementing the EYSFF from April 2011.
- 4.15 The proposed new scheme is compliant with the national guidelines and key features are:

- A recognition that there will be “winners” and “losers”, particularly in schools as the funding follows actual children on roll rather than places available;
- A recognition that the new formula will lead to a more efficient arrangement of provision in schools. A recognition that the Council must have active regard to sufficiency of provision in each local area, and be able to allocate additional funding accordingly should the need arise;
- A “base rate” of funding per hour, with additional funding to recognise deprivation, qualifications of staff and national standards such as Every Child a Talker; and
- An intention to at least maintain the overall level of funding for early years across Leicester, subject to the affordability (noting that the economic climate has changed since the consultation).

4.16 The proposed changes in the potential new formula have been modelled, to provide information on how each setting could be affected. Transition, subject to affordability and guidance provided by DfE, will be applied across all funding changes to the Schools Budget.

Local Formula Changes Proposed

- 4.17 The Schools Budget includes Centrally Retained Items; these are a range of education services and support delivered or arranged by the Local Authority, and funding is initially held centrally and then delegated to schools during the year rather than in their initial budgets. Two changes have been identified for 2011/12 which will increase the level of funds directly under the control of schools: Threshold Pay Grant; and, funding provided to support pupils with special educational needs. In addition a revised funding formula for the costs of pupil mobility is proposed.
- 4.18 **Threshold Pay** is payable to teachers who 'cross the threshold' and are promoted to a higher pay scale. It was funded by a specific grant until 2006/07 when it was transferred into the DSG baseline. However the arrangement for allocating £4.9m of funds to schools has remained unchanged. The current process is cumbersome and inefficient for both the Schools and the Council. To simplify the process, to be able to allocate schools the full amount of threshold funding in their delegated budgets at the start of the financial year, it is proposed to amend the method of allocation. The proposals, which are supported by Schools Forum, will reduce administrative costs for the Council and schools. Threshold funding would be based on a 'snap shot' of the number of teachers on the upper pay scale at each school in January each year, from the data held on the Council's systems as opposed to schools submitting a return during the financial year.
- 4.19 **Meeting Individual Needs (MIN)**. This is Leicester City's proposed way of implementing the Special Educational Needs Code of Practice. An extensive consultation process examined a range of proposals to change the way Leicester City currently identifies, assesses and makes decisions about the services for children and young people with special educational needs. This approach is designed to support schools, settings and others in carrying out their statutory duties to identify, assess and make provision for children and young people with special educational needs.
- 4.20 Currently, £11.6m is provided to mainstream schools for supporting pupils with special educational needs (SEN), as part of schools' delegated budgets, based on a number of factors. A further £3.4m is held centrally for subsequent allocation to mainstream schools for

individual pupils with severe and complex SEN, i.e. where a child needs more support. Leicester City holds a higher proportion of the funding centrally than most other Local Authorities. There is an administrative burden for schools and the Council involved in allocating this central support funding. It is also not helpful to schools' strategic planning (particularly smaller schools). For these reasons, it is important to give schools a higher proportion of the funding directly and on a more sustainable basis. The proposed approach, which is supported by Schools Forum, is to allocate these funds directly to schools through a funding formula in their initial delegated budgets. Schools could pool some of their SEN funding with other schools in order to create shared provision, or to provide a contingency to which they can have quick access. The proposals include arrangements for 2011/12 to preserve allocations at 2010/11 cash levels, moderated by any significant changes in specific needs. This approach is designed to safeguard existing arrangements during a one year transition period, during which the arrangements for 2012/13 and subsequent periods will be considered in more detail in the light of emerging Government policy and possible new national funding arrangements.

- 4.21 **Pupil mobility** is 'the total movement in and out of schools by pupils other than at the usual times of joining and leaving' (Ofsted 2002). It exists in all schools, but for some the high levels of mobility make particular demands on school systems, resources, staff and the stable community of pupils. Funding for pupil mobility (known in Leicester City as pupil turbulence) currently amounts to £0.5 million; £0.4 million is allocated to primary schools and £0.1m to secondary schools.
- 4.22 The current methodology was established ten years ago and is an administrative burden upon schools and the Council. It involves a lengthy checking process (which creates anomalies and errors), does not take advantage of the developments in data collection that have taken place in recent years (school census and the ONE database) and there are complexities surrounding the definitions used to determine the allocations.
- 4.23 A new method is proposed that utilises the stability indicator as used in RAISEonline, which provides interactive analysis of school and pupil performance data. This is the nationally recognised model and enables funds to be allocated using existing data, without any further work by the Council or schools. Schools Forum supported this approach in principle. Further work and consultation with schools is ongoing to determine the distribution method and the allocation level for qualifying pupils.

Pressures on the wider Schools Budget

- 4.24 A number of unfunded pressures have been identified on the wider Schools Budget (as opposed to individual schools). These include:-
- City Learning Centres, for which the Area Based Grant funding of £480k will cease. These are to be reviewed to determine levels of usage and future demand. Alternative funding models will be considered, including trading with schools, funding by a school or group of schools, or used for an alternative purpose. It is likely that funding will be required by "top-slicing" the Schools Budget whilst funding arrangements are discussed and agreed. It should be noted that when the City Learning Centres were opened some years ago it was intended that they should become self funding in the future;

- The introduction of the Carbon Reduction Tariff Scheme, for which there will be a cost of perhaps some £300k to the Schools Budget. Subject to the DfE regulations, it is proposed to top-slice DSG to pay for this in 2011/12;
- The costs of Single Status for the City Catering school meals service, estimated in the order of £600k. These will need to be funded by DSG for Free School Meals, charges for paid meals (or DSG) and operating cost reductions. A separate piece of work is being undertaken to consider this;
- Any proposals to allocate additional funding for *Whatever it Takes* and other collaborative initiatives. The Schools Forum is minded to make further provision, if affordable, and in the light of evaluations of the initiatives funded to date;
- School Support and Intervention where individual schools require additional funding (e.g. because of falling pupil numbers, forthcoming closure or a programme to significantly raise standards).

Pressures on individual schools

4.25 A number of unfunded pressures have been identified on individual school budgets. These include:-

- Changes to some national grants, such as the School Sports Partnerships (significantly reduced), the ending of Playing for Success and school-specific funding such as National Challenge, and the uncertainty around Music funding. These total some £1.2m;
- Additional services that the Council will need to trade with schools due to funding changes affecting the Council, and the need for all traded services to cover their full costs. A separate Cabinet report will address this;
- The potential for schools to assume greater responsibility for securing careers advice as the new national careers service starts to take effect from the Autumn;
- Expected reductions to the funding for Sixth Form provision via the YPLA, in line with the national plan to gradually harmonise funding for school sixth form with funding for Sixth Form and FE colleges (see 4.5 above);
- The potential knock-on effect of wider services levels provided by the City Council to children and families, as a direct consequence of significant reductions in grant funding. For example, the Schools Forum commented that children might be less well prepared for starting school, or not as well supported with behavioural issues once at school;
- The impact of an 80% reduction in Devolved Formula Capital to schools and the ending of the Harnessing Technology Grant, which will inevitably push costs onto schools' revenue budgets (albeit perhaps not immediately at some schools).;

Transitional Protection

4.26 It is recognised that the scale of change may unduly impact upon individual schools. The Minimum Funding Guarantee will provide protection to schools by limiting any funding

reduction per pupil to minus 1.5%. Where specific changes will not be covered by the MFG (due to technical rules around its calculation), alternative transitional protection methods are being considered to ensure that individual schools are not destabilised.

School Balances and Reserves

- 4.27 Schools Forum approved in September 2010 a new School Balance Control Mechanism, following consultation. It was intended that this would be applied to school balances held at 31 March 2011 and annually thereafter. The DfE is now expected to make provision in legislation to remove the requirement for a local authority to have a School Balance Control Mechanism in place for March 2011.
- 4.28 This development was considered by the Schools Forum in January 2011. The Forum agreed to reconvene a focus group to consider this and to make recommendations for consideration at a meeting on 24th March 2011. Officers will suggest that a scheme should remain in place, but that the permitted level of uncommitted balances could be increased to enable schools to retain more funds in the light of the significant financial pressures they will experience in 2011/12 and future years. An individual approach would be taken to consider the position of any school with balances over the threshold. Members views on this approach are sought. It should be noted that the formal decision rests with Schools Forum.

Funding for Future Years

- 4.29 The DSG allocation is announced for 2011-12 only. As previously signalled, the DfE will be consulting on changes to the school funding system, and indeed the commentary with the Pupil Premium states that the Coalition's objective is to reform the underlying funding system so that over time deprived children in every part of the country receive the same level of support. Commitments have been given to maintain per-pupil funding in cash terms at national level and to increase the new pupil premium year on year.

5. FINANCIAL, LEGAL AND OTHER IMPLICATIONS

5.1. Financial Implications

The report is concerned throughout with implications for Schools, Private, Voluntary and Independent Nursery providers and central services funded through the Schools Budget. - Colin Sharpe, Head of Finance, Investing in our Children, Tel: 0116 252 7750 colin.sharpe@leicester.gov.uk

5.2. Legal Implications

The report throughout relates to financial issues, which help determine the distribution of the Dedicated Schools Grant. It contains some proposals made by the Council which Schools Forum has a legal duty to be consulted upon and some proposals which Schools Forum and Cabinet has powers to approve. - Kamal Adatia, Barrister, Head of Community Services, Law, Tel: 0116 252 7044 kamal.adatia@leicester.gov.uk

5.3. Climate Change Implications

There are no direct climate change implications in 2011/12, although it is understood that DfE are considering how the Carbon Reduction Tariff Scheme should be accounted for. This report does not contain any significant climate change implications and therefore should not have a detrimental effect on the Council's climate change targets.

Helen Lansdown, Senior Environmental Consultant (Sustainable Procurement)
Tel: 0116 252 6770 helen.lansdown@leicester.gov.uk

OTHER IMPLICATIONS	YES/ NO	Paragraph/References Within the Report
Equal Opportunities	Yes	Section 4
Policy	Yes	Section 4
Sustainable and Environmental	No	
Crime and Disorder	No	
Human Rights Act	No	
Elderly/People on Low Income	No	
Corporate Parenting	No	
Health Inequalities Impact	No	

6. Consultations

- 6.1 Implementing an EYSFF [Start 18/11/2009 Ended 15/01/2010]
Meeting Individual Needs Review [Start 17/10/2010 Ended 17/12/2010]
Threshold Pay Grant [Start 11/11/2010 Ended 17/12/2010]
Schools Forum 27 January 2011

7. Report Author

- 7.1 Colin Sharpe, Head of Finance, Investing in our Children
Tel: 0116 252 7750 colin.sharpe@leicester.gov.uk

Key Decision	Yes
Reason	Is significant in terms of its effect on communities living or working in an area comprising more than one ward
Appeared in Forward Plan	Yes
Executive or Council Decision	Executive (Cabinet)