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**AGENDA ITEM**

**4**

**MINIMUM FUNDING GUARANTEE PROTECTION AND CAPPING**

*Report of the Director of Children's Services*

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**1. Purpose**

- 1.1 To give the Forum information about the levels of Minimum Funding Guarantee (MFG) protection and capping in the primary and secondary budget shares and why it arises.

**2. Summary**

- 2.1 The paper provides information about the total amounts of MFG protection and capping in the budget shares in 2013-14 to 2015-16. It also looks at the schools which have been protected and capped in 2015-16 and gives further details about why they are being protected or capped.

**3. Recommendations**

- 3.1. The Forum is asked to note and comment on the issues raised in the paper.

**4. Background**

- 4.1 Minimum Funding Guarantee protection operates according to a formula specified by the DfE and protects school budget shares from reductions between years of more than 1.5% per pupil. It does not protect schools against funding changes resulting from reductions in pupil numbers. In 2013-14 major changes were made to simplify the funding formula that local authorities could

use to calculate school budget shares. The transition from old to the new funding formula, resulting in significant funding turbulence for schools nationally, which was smoothed through the operation of the MFG. The DfE was aware that, as a result, the levels of MFG protection would increase. It therefore made provision for authorities to cap the increases of gaining schools in order to fund the cost of MFG protection. Like the MFG, capping operates on a per pupil basis and the DfE stipulates that the same capping percentage has to be applied across primary and secondary and that the funding released by capping cannot exceed the cost of MFG protection.

4.2 Hertfordshire has operated capping since 2013-14 at the following percentages:

2013-14 3.60%

2014-15 3.34%

2015-16 5.35%

4.3 Annex A shows the amounts of MFG protection and capping that have been included in Hertfordshire primary and secondary budget shares in 2013-14 to 2015-16 and the number of schools affected.

## 5. MFG protection in 2015-16

5.1 The general DfE assumption is that MFG protection will have spiked in 2013-14 with the introduction of the new school funding formula and will be on a gradually reducing trajectory given that the MFG allows budgets to fall by 1.5% per pupil each year. This does to some extent reflect the position as Annex A illustrates. However, there are several reasons why schools attract MFG protection and some are tending to cause MFG protection to go up rather than down.

5.2 Annex B shows the schools that are protected in 2015-16 and the amounts of protection in 2015-16 (and 2014-15 and 2013-14). Overall there are three main reasons for MFG protection.

### 1) Impact of formula changes in 2013-14

These are schools that lost funding as a result of the formula changes in 2013-14 and are still being protected on these losses. Examples of schools in this category are middle schools and small secondary schools.

## 2) Impact of 5% protection factor

The Hertfordshire funding formula which operated until 2013-14 included a factor to protect schools against cash reductions in their budget shares of more than 5% between years. This in effect gave schools some protection to smooth the impact of falling pupil numbers. When the new funding arrangements were introduced in 2013-14 this protection became locked into the MFG baseline. Far from continuing to reduce (and fall out entirely as pupil number rise), this protection causes affected schools to have a high level of MFG protection per pupil and thus their protection increases rather than falls as pupil numbers rise.

Efforts to address this issue through the MFG exception process have been complicated by the fact that academies do not receive the same level of MFG protection as is calculated through the application of the authority's funding formula. There is a particular issue at Samuel Ryder where the MFG protection is £1.8m, largely due to the historic 5% protection issue, but the academy only receives £0.9m of MFG protection in its grant from the EFA. The DfE requires that any MFG exception has to be applied to the academy's funding. Therefore, an MFG exception which reduced Samuel Ryder's MFG by £0.9m would result in the academy not actually receiving any MFG protection at all, which would not be appropriate given its circumstances.

## 3) Data changes between years

The MFG works on a per pupil basis and therefore reflects changes in pupil numbers between years. However, variations in additional educational needs (AEN) data (particularly the proportion of pupils entitled to free school meals) can result in the schools budget share per pupil falling and the school attracting MFG protection.

## 6. **Capping in 2015-16**

- 6.1 The general DfE assumption is that the main aim of capping is to smooth the introduction of the new funding formula in 2013-14 and that therefore capping will reduce over time. However, another issue is variations in additional needs data between years (particularly the proportion of pupils entitled to free school meals). This can result in the schools budget share per pupil rising and thus capping being applied to the school.

Were an increase in AEN data to be the result of a data error, which is then corrected via a retrospective funding adjustment in the following year's budget share, then the capping will smooth the impact of this, by restricting increase

in the school's budget share in 2015-16 and therefore limiting the amount that will need to be clawed back in 2016-17.

## **7. Looking ahead to 2016-17**

7.1 It is not clear whether the MFG protection and capping arrangements will continue in their current form in 2016-17. If they do then in due course decisions will need to be made about on the following questions:

- to continue capping and at what rate? or
- what MFG exceptions to apply for?

7.2 It is suggested that the decision on capping should be informed by the overall budget position but also taking into account the fact that capping provides a backstop against any distortion of budget shares in the event that a school has made a significant data error in the census.

7.3 MFG exceptions should be used to try to ensure that the level of MFG protection is reasonable for the circumstances of the school.

## **8. Conclusion**

8.1 The Forum is asked for its view on the issues raised in the paper.