

**MINIMUM FUNDING GUARANTEE**

Report of the Director of Children's Services

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**1. Purpose**

- 1.1 To provide information about the reasons for increases in MFG protection funding between years.
- 1.2 To seek the support of the Forum for the Authority's approach in respect of Minimum Funding Guarantee exceptions for 2016-17.

**2. Summary**

- 2.1 This paper reviews the reasons why MFG protection has increased at some schools between 2014-15 and 2015-16. It also provides information about the MFG exceptions for 2016-17 identified so far and the process for finalising MFG exceptions for 2016-17.

**3. Recommendations**

- 3.1 The Forum is asked:
  - to note and comment on the reasons why MFG protection has increased between 2014-15 and 2015-16 at certain schools;
  - to support the MFG exceptions for 2016-17 so far identified, which are outlined in section 8;
  - to support the process outlined in section 9 for finalising the MFG exceptions for 2016-17 to be submitted to the DfE;
  - to support the approach in respect of MFG protection for Samuel Ryder, set out in section 9.1.2;
  - to agree to bring the next meeting of the Forum forward to Wednesday 23 September.

## **4. Background**

- 4.1 The Forum considered a report about the amounts of MFG protection in budget shares at its April meeting. MFG protection (excluding the impact of capping) totalled £4.2m in 2015-16 of which the largest allocation of £1.8m was in respect of Samuel Ryder academy. Forum requested that further analysis be done on why the amount of MFG protection funding has increased at some schools between years.
- 4.2 No information has yet been received from the DfE about school funding arrangements for 2016-17. However, if the timetable for last year continues to be followed, then the Authority will be required to submit applications for exceptions to the normal operation of the MFG by 30 September.
- 4.3 This paper suggests a process for finalising the MFG exceptions to be submitted. Some have already been identified but others are expected to be developed over the summer.

## **5. Analysis of schools with increasing levels of MFG protection**

- 5.1 An exercise has been undertaken to look at all schools where the MFG protection increased by more than £10,000 between 2014-15 and 2015-16. There were 16 schools in this category, 13 primaries, 2 middles and 1 all through/secondary.

### **5.1.1 Primaries**

For all the primary schools in the group, the increase in MFG protection was attributable to a significant reduction in Additional Educational Needs (AEN) funding per pupil between years, mainly due to a lower proportion of pupils eligible for free school meals (FSMs). As a result the average funding per pupil in these schools' budget shares reduced by more than the 1.5% reduction built into the MFG.

It is likely that changes to the AEN factors used in budget shares, for example allocating more funding according to Income Deprivation Affecting Children Index (IDACI) scores, or a switch to "Ever 6" rather than census free school meals data, would cause the levels of AEN funding to be more stable between years. However, in the short term such changes would create funding turbulence and thus increase MFG protection.

It is not clear to what extent reductions in FSMs data are attributable to the introduction of universal infant free school meals (UIFSMs) and the challenges that this has created in ensuring that all eligible pupils are registered for FSMs. The October 2014 census, on which 2015-16 budget shares were based, was the first census after the introduction of UIFSMs.

The Authority is introducing measures to make it easier for all eligible pupils to be registered for FSMs. It is suggested that a useful approach would be to monitor the latest FSMs data of schools that had major reductions between

October 2013 and October 2014 to see if FSM levels are now recovering and whether these schools are taking up the initiatives to boost FSMs registration.

#### 5.1.2 Middles

The two middle schools in the group were affected by the DfE's changes in eligibility for the sparsity factor. Both schools qualified for sparsity funding in 2014-15 but not in 2015-16 and, as a result had an increase in MFG protection. This is a one off situation.

#### 5.1.3 All through/secondary

The one all through/secondary school in the group is Samuel Ryder which had an increase in MFG protection of £0.5m. Samuel Ryder is considered in more detail below.

### **6. MFG exceptions in 2015-16**

6.1 For 2015-16 Hertfordshire applied for three MFG exceptions. Two of these were approved, in respect of all through schools and the use of one off resource.

#### 6.1.1 Secondary schools becoming all through schools

Hertfordshire has two secondary schools becoming all through schools, Samuel Ryder academy and Simon Balle academy. It is inappropriate to fund the new primary pupils at the MFG unit value based on the existing secondary pupils. This would not happen with a new primary school or the expansion of an existing primary school.

The DfE therefore agreed an MFG exception to address this issue. The calculation methodology for this MFG exception was specified by the DfE, in order to standardise it nationally, and was as follows, with a separate calculation for each school:

- a) The 2014-15 pupil numbers were reprofiled between primary, KS3 and KS4 to match the profile of pupils for 2015-16;
- b) The notional AWPU funding implied by the reprofiled 2014-15 pupil numbers was calculated and an average amount per pupil derived from this;
- c) This was compared with the AWPU funding and the average amount per pupil based on the actual 2014-15 pupil numbers.

The difference in the amount per pupil multiplied by the total 2014-15 pupil number equalled the reduction in the MFG baseline.

#### 6.1.2 One off resource

£9.4m of DSG carry forward has been used to support the general Schools Budget in 2015-16. When the budget was set, it was anticipated that DSG carry forward would continue to be used to support the Schools Budget in

2016-17, but that the amount was likely to reduce from the 2015-16 level. Thus an element of the carry forward being used in 2015-16 was potentially a one off.

The use of one off resource to support budget shares is an issue because the MFG will to an extent protect this higher level of funding in future years. However, once the carry forward is used, the Authority will not have the resource to sustain this funding level.

Hertfordshire applied for and was granted by the DfE a MFG exception to exclude a portion (£3m) of the carry forward being used in 2015-16 from the 2015-16 MFG calculation. This MFG exception does not automatically resolve the issue of carry forward forming part of the MFG baseline in future years and in fact it slightly increased the budget shares of schools on MFG protection in 2015-16.

However, there is some evidence that, having acknowledged that funding is outside the MFG in one year, the DfE will agree to exclude it from the MFG in the next. This would prevent this element of the carry forward forming part of the MFG baseline for future years.

The amount of funding excluded from the MFG in 2015-16 was 25.6% of the increase in the AWPU for inflation and teachers pensions, equating to the following amounts:

Per primary pupil	£16.45
Per KS3 pupil	£19.37
Per KS4 pupil	£25.57

plus London fringe uplift where applicable.

## **7. Falling Rolls Protection in the MFG baseline**

- 7.1 One 2015-16 MFG exception application was not approved, relating to falling rolls protection in the MFG baseline.
- 7.2 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.

In view of this, the Authority made this application conditional on the MFG exception not being applied to Samuel Ryder's grant from the EFA. As a result it was rejected by the DfE.

Given that this has resulted in a loss of £0.9m to the Hertfordshire Schools Budget in 2015-16, the Chair of the Forum wrote to the then Schools Minister, David Laws, on behalf of the Forum, to raise the issue. In his response David Laws commented:

"When we recoup funding from local authorities, we recoup the funding allocation calculated by the local authority in the authority pro forma tool for each academy. In almost every case, this is a lower amount than that subsequently paid to the academy, although as you have noted, in the case of Samuel Ryder, the amount recouped, including the locally calculated protection, is more than the protection paid to the academy. I can understand that this is unfortunate from the local authority's perspective. However, we have no plans to change our methodology."

It should be noted that we are aware of at least one other example in Hertfordshire where substantially more is recouped from Hertfordshire's DSG by the EFA than is paid by them to the Academy in question.

## **8. MFG exceptions already identified for 2016-17**

8.1 The MFG exceptions agreed in 2015-16 continue to be relevant in 2016-17.

### **8.2 Secondary schools becoming all through schools**

It is intended to request a continuation of this MFG exception on the same basis as in 2015-16. This will apply to Samuel Ryder, Simon Balle and any other secondary schools becoming all through during 2016-17.

### 8.3 One off resource

As mentioned above, the 2015-16 Schools Budget is supported by £9.4m of carry forward DSG. This resource is one off and will not be able to be sustained indefinitely. Therefore in due course the Schools Budget will need to reduce to reflect this.

At this stage it is not clear exactly what the profile of reduction will be by financial year but it is likely that the reductions will commence in 2017-18 rather than 2016-17.

Therefore it is intended to apply for an MFG exception to keep the £3m out of the MFG calculations in 2016-17 (Schools would continue to receive the funding but it would not be taken into account in the MFG calculations.)

This is in anticipation of an application to exclude it from the MFG baseline in 2017-18.

8.4 The Forum is asked to support these two MFG exceptions.

## 9. **Development of other MFG exceptions**

### 9.1 Falling rolls protection in the MFG baseline

9.1.1 It is estimated that the cost of MFG protection resulting from this issue will rise as pupil numbers in the affected schools grow. The gap between the amount of MFG protection for Samuel Ryder deducted from Hertfordshire's DSG and the MFG protection actually received by Samuel Ryder, is projected to increase.

A preliminary estimate is as follows:	2016-17	Increase
MFG protection recouped from Hertfordshire's DSG	£2.3m	£0.5m
MFG protection payable to Samuel Ryder	£1.1m	£0.2m
Difference	£1.2m	£0.3m

It is increasingly clear that this position is not tolerable, for two reasons:

- Paying £1.2m more to EFA than is received back, in the context of the rapidly and seriously increasing pressure in school budgets, cannot be justified against the government's stated policy aims of placing a floor under per pupil funding at the level of each LA;
- The level of funding recouped from Hertfordshire's DSG in respect of Samuel Ryder is becoming unjustifiably high.

- 9.1.2 Further work will be done on this issue over the summer, including consultation with Samuel Ryder on the best way forward. It is therefore not practical to outline a detailed proposal at this point. However, it is intended to adopt the following approach.

Officers will have discussions with the EFA and Samuel Ryder with the aim of achieving an outcome that reduces the cost to Hertfordshire's DSG while safeguarding the financial position of Samuel Ryder. The Authority is committed to consulting Samuel Ryder before proposing any changes that might disadvantage its funding; at the same time we cannot necessarily guarantee to continue indefinitely to provide excess funding to the EFA in respect of Samuel Ryder at the expense of all Hertfordshire schools. We will report back to 23 September meeting at which point it is expected the Forum will have to make a decision on the issue. In the meantime, the Forum is asked to identify any extra information that it would want at that point to inform its decision.

## 9.2 Other MFG exceptions

Given that the school funding arrangements for 2016-17 have not yet been announced, it is possible that the Authority will identify further MFG exceptions over the summer.

## 9.3 Timescale

In order that the Forum can review the MFG exceptions developed over the summer before submission to the DfE, it is suggested that the next meeting of the Forum is brought forward to the 23 September. The summer funding consultation is expected to be relatively low key because no major formula change is being proposed. The consultation would therefore be timetabled so that the result can be reported to this Forum meeting.

## **10. Conclusion**

- 10.1 In recent years the cost of the MFG has been reduced by the fact that Hertfordshire has funded inflation each year, increasing school budget shares by more than the flat cash assumed by the DfE. This has meant that it is less likely that an individual school would have a reduction in its budget share of more than 1.5% per pupil between years and thus attract MFG protection. Given that it is expected that inflation will not be funded in future years, the cost of the MFG is likely to increase.
- 10.2 It is suggested that the pros and cons of moving to AEN formula factors that offer more data stability between years, and thus would be less likely to generate MFG protection, should be included in any wider review of the funding formula which is undertaken for 2017-18.
- 10.3 The Forum is asked to agree the recommendations in section 3.