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**SUMMER CONSULTATION -
PROPOSED CHANGES TO THE FUNDING FORMULA FOR 2016-17**

Report of the Director of Children's Services

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1. Purpose

- 1.1 To seek the agreement of the Forum to proceed to consultation with proposed formula changes for 2016-17.

2. Summary

- 2.1 This paper outlines proposed changes to the funding formula for primary and secondary schools for 2016-17.

3. Recommendations

- 3.1 The Forum is asked:
- to support proceeding to consultation with the formula changes outlined in section 5 of this paper;
 - to give a view regarding the relativity between the lump sum and the secondary split site factor, as described in section 6;
 - to support the timetable for a wider funding review next year if a national funding formula (NFF) is not going to be introduced.

4. Background

- 4.1 The DfE has not yet made any announcements about school funding arrangements for 2016-17. It is not yet known whether or when a NFF may be introduced and therefore, pending clarification of this key issue, no major

formula change is proposed for 2016-17. However, if it becomes clear that a NFF is not likely to be in place in the next few years, the Authority is likely to want to review the Hertfordshire funding formula.

Although no major change is planned in 2016-17, several detailed issues have arisen in operating the existing funding formula and it is proposed to consult on changes to address these. The issues relate to:

- retrospective adjustments to funding where it has been based on estimated pupil numbers,
- criteria for the secondary split site factor,
- eligibility criteria for the rent factor.

In addition, a school has raised a concern about the value of the secondary split site factor and the Forum is asked to give a view on the principle underpinning the current value of this funding factor.

5. Formula Changes for Consultation

5.1 Retrospective adjustments when pupil number funding is based on estimated numbers.

5.1.1 Authorities are now required by the DfE to estimate pupil numbers when calculating budget shares for:

- schools in their first year of opening;
- schools which have opened in the last 7 years and are still adding year groups.

In Hertfordshire in 2015-16 this affected 8 free schools.

The precise method of estimating pupil numbers is at the discretion of each local authority but Hertfordshire has used an approach recommended by the DfE, where the funded number is calculated as the sum of the following:

October 2014 census number x 5/12 plus
an estimate of the October 2015 number x 7/12.

Estimates were obtained from the relevant schools. Estimated numbers were also used for additional year groups at schools extending their age range, (Bridgewater, Simon Balle and Samuel Ryder).

5.1.2 The general DfE expectation is that where estimated pupil numbers have been used, the Authority will make a retrospective adjustment in the following financial year so that schools are funded appropriately if actual numbers turn out differently to estimates. Such a retrospective adjustment effectively constitutes an additional factor in the funding formula. However, it is not a requirement to have a retrospective adjustment. The advantages and

disadvantages of a retrospective adjustment in respect of estimated pupil numbers are as follows:

Advantages:

- ensures that schools with estimated numbers in due course receive the level of funding appropriate to the actual number on roll.

Disadvantages:

- creates more funding instability for the affected schools if retrospective adjustments are significant;
- could be inconsistent with other funding streams, for example if a recently opened school was in receipt of diseconomies funding determined by reference to a budget share based on the estimated pupil number;
- inconsistent with the approach used in the Growth Fund where an expanding school is allocated additional funding based on the increase in its Published Admission Number (PAN), in order to guarantee the funding necessary to staff additional classes.

It is proposed to introduce in 2016-17 a retrospective adjustment to pupil led funding in 2015-16 budget shares, which has been calculated according to estimates. This will be the difference between the pupil led funding in the 2015-16 budget share and what the school would have received had it been funded according to the actual average 2015-16 pupil numbers (i.e. October 2014 x 5/12 plus October 2015 x 7/12).

The calculation methodology for the 2016-17 retrospective funding adjustment would be as follows:

- a) Calculate the total pupil led funding in the 2015-16 budget share (including AEN factors and London fringe uplift);
- b) Divide (a) by the 2015-16 budget share pupil number to calculate the funding per pupil;
- c) Calculate the difference between the estimated and actual October 2015 pupil numbers x 7/12 to derive the over or under estimate in the funded pupil number;
- d) Multiply (b) by (c) to determine the adjustment to be made in 2016-17.

In the secondary sector a separate calculation will be made for KS3 and KS4 pupils. It is not intended to apply a retrospective adjustment to any schools which are in receipt of diseconomies funding from the Authority based on the estimated numbers.

A point to note is that the EFA, when it calculates the grant allocations payable to free schools, and to any other academies funded on estimates, will not necessarily use the same pupil estimate as is used by the local authority. Similarly any retrospective adjustments in free schools' or academies' grants will also not necessarily be based on the methodology used by the Authority.

However, the Authority must consult on and establish a methodology to use in the budget shares it calculates in respect of all Hertfordshire schools and academies, including free schools. For academies and free schools these budget shares will be used to determine the deductions from Hertfordshire's DSG for academies' recoupment.

5.2 Criteria for the secondary split site factor

5.2.1 The current eligibility criteria are as follow:

A lump sum allocation of £200,000 is made to secondary schools (including any all through schools that are created through secondary schools establishing primary departments) with their main teaching sites (excluding sports facilities) separated by more than 0.3 miles, by the shortest road route measured from the main vehicle entrance.

5.2.2 Two schools meet the criteria, Barnwell and Hertswood, each of which receives a £200k split site allocation. However, the new types of schools currently opening, for example University Technology Colleges and Studio Schools, create the potential for different models of school premises. One free school has recently contacted the Authority to highlight that it has some characteristics of split site operation

In considering the split site criteria, a point to note is that, under consortia arrangements, it has long been the case that pupils from one school may go to another to take a particular subject not available at their own school. This does not constitute a split site. Similarly, DfE guidance states that federated schools and schools with remote sixth forms should not qualify for split site funding.

5.2.3 To clarify the secondary split site factor, it is proposed to add the following to the qualifying criteria:

At least a third of the total number of pupils in KS3 and KS4 must be taught on each main teaching site on a daily basis.

Each main teaching site must be the school's own site.

It is also proposed to change the method of allocating funding to a per pupil basis with a ceiling on allocations of £200,000. The proposed allocation is £250 per pupil. On current pupil numbers there would be no change to the allocations for Barnwell and Hertswood under this proposal.

5.3 Eligibility criteria for the rent factor

The DfE only permits rents that are greater than 1% of the school's budget share to be funded. To avoid perverse incentives, where larger rents would be fully funded but rents just under the threshold not funded at all, Hertfordshire's rent factor funds the amount by which the rent exceeds 1% of the budget

share. Only 3 schools received rent funding in 2015-16, totalling £8k. The current criteria for the rent factor are as follows:

Rents

Funding for the amount by which the rent exceeds 1% of the previous year's (ie 2014-15) budget share. This would apply where a school is obliged to lease additional premises

The new types of school currently opening create the potential for different models of school premises and it is intended to clarify the qualifying criteria for the rent factor by adding the following:

Rent funding will only be allocated in respect of premises whose occupation is unavoidable in order to deliver core education or school lunch provision.

Consideration of funding for any new rent will require prior agreement with the local authority to ensure that the premises meet this definition.

6. Value of the secondary split site factor

- 6.1 The value of the secondary split site factor was set at £200k in 2013-14. The logic for this figure was that £200k was the maximum value that the DfE permitted for the lump sum (the amount of money allocated through the funding formula to each school, regardless of its size). Thus if the split site factor was higher than £200k, the funding formula would be allocating more to a secondary school with two sites than it could allocate to two separate secondary schools.
- 6.2 The maximum permitted lump sum is now £175k so the split site factor does allocate slightly more to a school with two sites than it would to two separate schools. However, broadly the connection between the value of the split site factor and that of the lump sum is retained.

Barnwell school has made representations to the Authority that the value of the split site factor is too low. It has undertaken an analysis indicating that the cost of split site working is approximately £500k, £300k more than the current funding. It would be possible for the Authority to undertake a review of split site costs and include a proposal in the consultation to change the value of the split site factor. However, this would break the link between the values of the split site factor and the lump sum.

The Forum is therefore asked to give a view on whether it is appropriate for a split site school to be funded at a higher level than two separate schools. If the Forum's view is that it is not appropriate, then no change will be made to the value of the split site factor. If the Forum considers that a change should be made then the Authority will review the value of the factor and consult on changing it.

7. Wider Formula Review

- 7.1 It is proposed that a wider review of the funding formula should be undertaken next year, with the aim of introducing changes from 2017-18, if it transpires that a NFF is not going to be introduced for school budget shares.

The review would need to start this autumn, in order to give time for analysis work and the preparation of options for the Forum to consider, prior to consultation in summer 2016.

8. Conclusion

- 8.1 The Forum is asked to agree the recommendations in section 3.

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