

FUNDING FORMULA CONSULTATION 2005/06

1.0 Introduction

- 1.1 The LEA is required to consult schools annually on possible changes to its funding formula. This is carried out for the Brent formula during the autumn term when schools are invited to comment on any proposed changes and to suggest changes of their own. The results of the consultation are reported to Members early in the new calendar year when the Executive is asked to approve the funding formula for the following financial year.
- 1.2 Proposals for funding formula changes for the consultation process usually come from four sources: DfES regulations, schools' comments since the previous consultation, the Schools Forum and officers' suggestions.
- 1.3 The Schools Forum met on 6th July 2004 and took a view on each of the issues. The Forum will meet again on 6th December 2004, when it will further consider these and any other issues together with the responses to this consultation process and will put its proposals forward to Members. Responses to this consultation process will also go separately to Members. The Schools Forum does not replace the consultation process with schools; it is an important addition to it. Comments on the issues raised in this paper (or any other formula related issues) are invited to be submitted to me by Monday 15th November 2004 at the address set out in paragraph 8.0.

2.0 Issues

- 2.1 The issues on which we are consulting with schools are listed below. More details appear in the sections that follow, including the views of the Schools Forum. You are, of course, free to suggest any further changes that you consider appropriate.
- 2.2 The description of the current funding formula is included within the Section 52 Statement. The relevant section of the Statement is included as Appendix A to this document for ease of reference.
- 2.3 The issues identified so far are:
- NNDR in Foundation Schools (Section 3)
 - Non Statemented SEN (Section 4)
 - SEN funding (Section 5)
 - Diseconomies of scale in smaller schools (Section 6)
 - Increasing Free School Meals Funding (Section 7)

3.0 NNDR in Foundation Schools

- 3.1 The devolved funding formula includes a factor for National Non Domestic rates (NNDR). The factor is intended to cover the cost of each school's actual NNDR bill so that the charge has no impact on the rest of the budget. This is a standard element that most, if not all, LEAs have in their funding formulae. This factor works for all non-former Grant Maintained (GM) schools where the allocation is the actual NNDR paid. Voluntary Aided (VA) schools that were not former GM schools get 100% rate relief and therefore get no allocation through this element of the formula.
- 3.2 The position with regard to former GM schools is different and more complicated. As GM schools, they were entitled to 100% mandatory rate relief. However, GM schools were not entitled to reclaim VAT and so when schools became GM during the 1990s they had a potential increase in costs in relation to those items on which VAT was charged and where they had previously had the VAT refunded through the LEA. In order to compensate for this increase in cost, the DfES ruled that although the schools would get 100% rate relief, the GM schools' funding formula (still based initially on the LEA's) should continue to have an element for NNDR that allocated to the schools the full NNDR cost as though they were still paying it. The additional income generated as a result of retaining the NNDR allocation in full was intended to compensate the school for having to pay VAT. This arrangement continued into the development of the Common Funding Formula, the basis on which Brent's GM secondary schools were funded until they became maintained schools in the 1999/00 financial year.
- 3.3 When the former GM schools became Foundation schools or VA schools again in 1999/00 they all became maintained schools (i.e. schools funded directly through the LEA's funding formula) and were once again able to reclaim VAT through the Local Authority. However, the funding that the schools received through the LEA's funding formula was less than they would have received as GM schools and so former GM school protection was introduced as a further formula factor to protect the schools from significant budget reductions. All Brent's former GM schools received protection, the majority up until the 2003/04 financial year. One of the aims of both the DfES and the Council was to get former GM schools out of protection as quickly as possible (i.e. to reach a position where their funding through the Brent formula was greater than the former GM protected level). As Foundation schools, the former GM schools are entitled to, and are receiving, 80% mandatory rate relief. However, if the NNDR allocation element of the formula had been reduced to reflect that relief, the effect would have simply been to increase the level of former GM protection even more and it would have taken even longer to bring the schools out of protection.

- 3.4 The position now is that most of the former GM schools came out of protection in 2003/04 and former GM protection no longer exists in 2004/05 (although it has to some extent been replaced by the minimum funding guarantee required by the DfES and which applies to all schools).
- 3.5 A further complication is that in order to provide some savings to partly compensate for the SEN overspending in 2003/04, the former GM schools were granted discretionary rate relief and the budget allocation reduced accordingly. Because of the way the central government grant system for rate relief works, the saving to the Council was only 5% of the total rate bill for each school and so that was the amount by which the formula funding was reduced.
- 3.6 For 2004/05, therefore, the former GM schools are being funded through the formula for 95% of their full NNDR bill, but are only required to pay 15% of it – giving them additional funding equivalent to 80% of their NNDR bill (the mandatory relief element).
- 3.7 It is proposed that the operation of the formula for NNDR in respect of former GM schools is revisited and consideration be given to regularising the position, which affects 6 primary and 11 secondary schools. The obvious way to regularise the position would be simply to reduce each former GM school's NNDR allocation to the 15% that they are required to pay. This is, however, too simplistic a position since the schools have come to rely on the additional funding and to remove it in that way would undoubtedly cause many of them budget difficulties. It is, though, also true that the present position allocates additional funding to those school on a somewhat arbitrary basis that bears no relationship to pupil numbers or any other specific factor of need.
- 3.8 Appendix B to this paper shows the overall position for each school. In summary, the former GM primary schools are receiving £91,656 more than their NNDR bills in 2004/05 and the secondary schools £566,112 (column H in the Appendix). Column B of the Appendix shows the rateable value for each school, column C the full rate charge and D the amount actually due from the school (15%). Column E is the weighted pupil allocation (WPA) for each school for 2004/05 and F the full NNDR as a percentage of the WPA. Column G shows the actual NNDR allocation for each school for 2004/05 after allowing for the 5% discretionary relief adjustment and (for secondary schools) the sixth form adjustment. H shows the total allocation less the 15% payment that remains to be made (i.e. the "extra" element of the NNDR allocation) and I expresses that extra amount as a percentage of the WPA. Column J shows the impact of a 2.01% increase in each secondary school's WPA and K the variance between that and the "extra" NNDR funding (see paragraph 3.10 below). Columns L and M show the impact and variance of a 2.25% increase in the secondary WPA (again see paragraph 3.10 below for the rationale behind this calculation).

Secondary

- 3.9 It is potentially easier to deal with the position with regard to the secondary schools than that for the primary schools. The secondary former GM schools are in the majority in that sector and so a common solution applied across the sector would only affect (beneficially) two other schools – Wembley High School (the only remaining non-former GM maintained secondary school) and JFS (recently moved to Brent and only brought into rating in 2004/05). One way of allocating the additional NNDR funding to the secondary schools would be to increase the pupil weighting for the sector and add the £566,112 into the weighted pupil allocation.
- 3.10 There are two issues related to the above proposal. Firstly, Wembley and JFS would also gain (not a reason for not doing it, but it would cost more than the £566,112 if the other schools were not to lose out) and secondly, the NNDR additional allocation is not the same percentage of each school's weighed pupil allocation. The average percentage of the extra NNDR to the weighted pupil allocation is 2.01% (see Appendix B column I). This covers a range of 1.45% to 3.18%. The 3.18% is Cardinal Hinsley, which has significant falling rolls. If the secondary weighting were to be increased by 2.01%, some schools would gain and others lose overall as shown in the Appendix (column K). A higher percentage than 2.01% could be applied to reduce the number and amount of the reductions, but that would again cost more. An increase of 2.25% would protect all but two schools from any significant loss and would require an increase in the weighted pupil allocation of £757,193 – which is £191,081 above the current budget provision available (see column M in the Appendix).

Primary

- 3.11 The position with regard to the six primary schools affected by the former GM NNDR allocation is more complicated. Not only does the NNDR additional allocation represent a much broader range of percentages against each school's weighted pupil allocation, but also the fact that there are relatively few schools involved means that the cost of producing an additional allocation that will protect those schools will also impact across the whole of the primary sector and will be proportionately much greater.
- 3.12 It is unlikely to be possible to address this difficulty by identifying a new formula allocation base that just impacts on those six schools. It is therefore suggested that the formula allocation for former GM primary schools should simply reflect the actual NNDR payment that they will be required to make and that the funding be amended accordingly from 2005/06.

3.13 Schools are asked to take a view on the above issues and make proposals in relation to paragraphs 3.10 and 3.12 above that will that will be referred back to the Schools Forum in December.

4.0 Non Statemented SEN

4.1 There was considerable debate during the consultation on the 2004/05 funding formula concerning the allocation of the non-statemented SEN factor. One of the main reasons for the need for a change was that the introduction of the categorisation of pupils as being at School Action or School Action Plus superseded the previously applied SEN audit and that the use of the new data, which was collected for each school, would save a considerable administrative burden on both schools and the LEA centre.

4.2 In the event, it was agreed to move forward with an interim arrangement for 2004/05 and to review this as part of the 2005/06 formula consultation process. The interim arrangement was to fund schools on the basis of School Action and Action Plus numbers, with no differentiation between the two categories, with 3.5% maximum loss compared to the 2003/04 allocation and that the number of pupils at School Action and Action Plus should be capped at 30% of a school's roll unless the schools can demonstrate that it is reasonable for them to be higher.

4.3 The alternative options that had been considered and rejected were as follows:

- Allocation based on total numbers of pupils at School Action and Action Plus. No differentiation made in funding terms between School Action and Action Plus. Numbers of pupils at School Action and Action Plus to be ascertained through PLASC returns.
- Allocation based on the same indicators as currently used for the needs-led factor within the formula. This is Free School Meals for primary schools and Cognitive Assessment (CAT) results for year 7 for secondary schools.
- An allocation based on equal weighting for the following indicators:
 - Numbers on roll
 - Free School Meals entitlement
 - Mobility

- 4.4 Following consultation with schools on each of the above that was inconclusive, although a slight majority favoured the first option, a further option was considered at the Schools Forum:

A funding allocation based on differential funding for School Action and School Action plus (at 1 and 1.5) with 3.5% maximum loss compared to the 2003/04 allocation.

This would have resulted in a few schools gaining significantly, but the majority of schools would have been protected at 96.5% of their 2003/04 allocations. The drawback to this proposal was that it did not achieve the main aim of moving away from the previous (historical) funding methodology since effectively most schools have protected allocations that would be linked to the historical data. The option that was adopted for 2003/04 was similar to this but did not have differential funding for School Action and Action Plus. This allocation method resulted in far fewer schools being protected and thus most schools move more swiftly onto the new funding base. It was therefore accepted as the best model mathematically that could be used for 2004/05.

- 4.5 The 2004/05 methodology was agreed on the understanding that further work would be carried out to assess a more accurate methodology for using School Action and Action Plus data to allocate the resources between schools. This further work would be carried out during 2004/05, would involve Head Teachers from both the Schools Forum and the Head Teachers Devolved Funding Group and would come to conclusions that could be used for the 2005/06 allocation of this formula factor.
- 4.6 This consultation paper is intended to continue the process of reviewing the allocation of this factor and suggestions are invited as to other allocation models.
- 4.7 There would seem to be three main principles to explore:
- To use the School Action and Action Plus data from the PLASC returns but to make any adjustment or further modification to the data that seems appropriate
 - To use other statistical data
 - To use a combination of the above
- 4.8 The other formula factors use a variety of other data and so the likelihood is that using other data will tend to replicate another factor at least to some degree.
- 4.9 The Head Teachers Devolved Funding Working Group have suggested that it would be helpful when considering the non-statemented SEN

factor (and possibly other factors where specific pupil needs are taken into account) to have data as to the percentage of Action and Action Plus pupils in each class in each school. This information, taken from the January 2004 PLASC returns, has been produced as Appendix C1 to this paper. There are separate pages for primary/nursery data and secondary school data. The shaded area in the secondary data reflects City Academy and sixth form data that is not directly relevant to the Brent funding formula.

- 4.10 Also included (in appendix C2) are bar charts showing the average percentage for action, action plus and a combined figure in each year group. Any conclusions drawn from this analysis need to be treated with caution, but for primary they show an increasing percentage as the pupils grow older in both School Action and Action Plus, with School Action increasing less swiftly after year 1, when it tends to level off. School Action ranges from a quarter to a half of School Action Plus. In secondary, the position is more of a plateau, with less change through the year groups. It must be remembered that this is a very crude average of the averages and the position of an individual school could vary significantly from this generalisation.
- 4.11 Schools are asked to consider the above and to make any proposals or comments to amend the 2005/06 funding formula. These will be modelled where possible and referred to the Schools Forum at its meeting in December. This issue should be considered in conjunction with decoupled SEN funding (section 5 below)

5.0 SEN Funding - Decoupling

- 5.1 As part of the review of Special Educational Needs, LEA officers have been carrying out a review of the methodology for funding statements of SEN through the funding formula and the non-statemented allocation that was detailed in the previous section of this document. As a result of this work, a new methodology has been devised that, if adopted, would take the place of both the non-statemented factor and relatively small value statements. Using 2004/05 data, this would shift about £1.6m from the statemented pupil allocation to the non-statemented pupil allocation. The rationale for this is dealt with below and a model setting out how the amended methodology might work is provided at Appendix D. There are a number of possible variations to the proposal and comments are welcome with any further suggestions, but only one model has been used so as to make the overall methodology as clear and simple as possible.
- 5.2 The methodology that is being suggested has been used in various forms in other LEAs and is called decoupling. The basic principle in relation to the Brent formula is that payments to schools for specific statements would only be made for statements above a certain value. For the purposes of the model a figure of £6,500 has been used, but it could be set at a higher or lower level. The funding that remains from

the stated pupil allocation after funding statements with a value above this cut-off point would be added to the non-stated funding allocation and the total would be allocated to schools using a separate allocation method. Schools would be expected to fund the needs of pupils with statements below the cut-off point from this allocation. Special schools and schools with special units would be funded for statements below £6,500 where they related to pupils in the special school or unit. It is suggested that the allocation of the balance of stated funding and non-stated funding should be on the basis of a combination of pupils achieving below national average Key Stage level 1 (primary) and with a Cognitive Assessment Test (CAT) mean score of 90 or less (secondary) and entitlement to free school meals (FSM).

- 5.3 Three year rolling averages would be used for both Key Stage, CAT and FSM data. It is suggested that the allocation should be 75% based on Key Stage/CAT results and 25% FSM. Because nursery pupils do not take key stage examinations, the FSM numbers for the four nursery schools would be multiplied by four. This would compensate for their not having a Key Stage allocation and for the fact that FSM is only funded as a quarter of the total. Because the Key Stage and CAT results of primary and secondary schools cannot be directly compared, the funding will need to be allocated separately to each sector. This has been done by splitting the funding (the 75%) between the sectors in the same proportion as the Age Weighted Pupil funding, with a 25% uplift to primary to reflect the need for early intervention.
- 5.4 The rationale for using Key Stage 1 data is that it is the earliest available source of assessment data for pupils. Where there are linked infant and junior schools, the same data is used for both. The rationale for using the CAT data is that the tests are applied to all secondary pupils at Year 7, at the point when the pupils first come into the school.
- 5.5 The model at Appendix D sets out how the above might work based on 2004/05 funding levels. Special schools would not receive funding through the decoupled factor since for them to require additional stated funding it should reflect a need in excess of their basic level of provision and the funding will therefore still be allocated.
- 5.6 The rationale for the above approach has a number of strands:
- It reduces the number of statements and associated bureaucracy
 - It bypasses delays/costs inherent in the formal assessment process, thus allowing earlier, more cost effective intervention
 - Funding is not so directly tied to individual pupils, allowing more flexible use of funds
 - It ensures a consistency in the allocation of funds since distribution is not dependent on the varying approaches of individual schools to pursue statements

- It could be argued that this is a fairer and more robust way of allocating non-statemented SEN funding than the current model based on school action and action plus data (see Section 4 above)
- It provides a larger and more consistent basis for funding that is not dependent on individual statements and this will assist schools in their long term planning.

5.7 The 75/25 split in the funding is intended to reflect the broad balance between learning-related and other needs covered by decoupled statements. FSM is employed as a means of taking account of the impact of density as well as the level of certain types of needs, particularly behaviour-related.

5.8 Each primary school's national curriculum score is calculated on the basis of:

- The number of pupils working towards level 1 multiplied by 2
- Plus the number of pupils disapplied, multiplied by 2
- Plus the number of pupils at level 1 (unweighted).

For the model, Key Stage 1 results have been used retrospectively to fund KS1 pupils and projected forward to fund Key Stage 2 pupils.

5.9 Because the model shows the impact of allocating the 2004/05 level of resources, there will inevitably be some schools that gain and some schools that lose under the new model. It should be remembered that the overall level of funding will increase and so the negative variations would not be so great as shown in the model. However, schools may feel that some sort of protection factor should be built in to the new proposal and schools are invited to comment on whether they would wish to see some form of protection and if so how much and for how many years.

5.10 A further option could be to incorporate the needs-led funding allocation (just over £0.5m) within this factor, since it also uses much the same data (FSM and Cognitive assessment Test (CAT) results). However, it might be felt prudent to consider this for 2006/07 once any new arrangements as suggested here have been tested.

6.0 Diseconomies of scale in smaller schools

6.1 There has been concern expressed that the funding formula no longer properly reflects the resource requirements of smaller schools. In particular, the small schools (e.g. stand alone infant and junior schools) have a small number of classes and pupils and therefore do not have so much flexibility as other schools in reallocating staffing resources to cover absence and other needs. Although the lump sum – which reflects each school's requirement to have a certain basic group of non

teaching staff irrespective of the number of pupils – goes some way towards addressing this issue, it was felt that it does not fully address the diseconomies of scale related to curriculum/pupil driven costs. The small school factors that were part of the previous Brent funding formula were removed as part of the review that streamlined the formula and schools may feel it inappropriate to consider increasing the number of factors. However, it is an issue of concern and both the Schools Forum and the Head Teachers Devolved Funding Group agreed that it should be raised as part of the consultation process on the 2005/06 funding formula. Schools' views are therefore sought as to the size of the problem and potential solutions.

7.0 Increasing Free School Meals Funding

- 7.1 Concern has been expressed at the impact of the changes to many schools' school meals arrangements following the need to revise them as a result of the tendering exercise earlier this year. As schools will probably be aware, it was not possible to enter into a large multi-school contract for school meals and as a result schools are making their own arrangements. This has been found to be more expensive than the previous contract and both the Head Teachers Devolved Funding Working Group and the Schools Forum felt that additional funding above inflation should be allocated through this factor.
- 7.2 Schools are therefore asked to give an assessment of the effect of this change. The Forum can then take this information into account when making its recommendations to the Council in respect of 2005/06 school funding and, if it wishes, propose that the school meals factor value be increased to reflect schools' views.

8.0 Responses

Responses to the issues raised in this paper (or any other formula related items) are invited to be submitted by Monday 15th November 2004 to Martin Stratford, Assistant Director – Planning, Information and Resources, Education, Arts and Libraries Department, 4th Floor, Chesterfield House, 9 Park Lane, Wembley, Middlesex HA9 7RW.

9.0 Summary

9.1 In summary, comments are invited on the following issues:

Issue	Section	Question
NNDR in Foundation Schools	3	<p>Do you agree with the proposal in paragraph 3.10 and if so, what percentage should be applied to the secondary weighted pupil factor?</p> <p>How should the situation with regard to former GM primary schools be addressed?</p>
Non Statemented SEN	4	<p>What changes should be considered to the formula for allocating Non-statemented SEN?</p>
SEN funding - Decoupling	5	<p>Do you agree with the broad principles for a decoupled SEN factor?</p> <p>Is £6,500 a reasonable cut-off point for continuing to fund specific statements?</p> <p>Is the 75/25 split for Key Stage and FSM data reasonable?</p> <p>Is the methodology for calculating the Key Stage data reasonable?</p> <p>Is the proposal for compensating Nursery Schools for not receiving a Key Stage allocation reasonable?</p> <p>Should there be a protection element built in to the new factor, and if so for how long?</p> <p>Should the needs-led factor also be incorporated within the decoupled SEN factor?</p>
Diseconomies of scale in smaller schools	6	<p>Is there an issue around diseconomies of scale for smaller schools?</p> <p>If so, what changes to the funding formula should be considered to address the issue?</p>
Increasing Free School Meals Funding	7	<p>What has been the impact on your school of the new school meals contract arrangements and how should this be addressed for 2005/06?</p>

10.0 List of Appendices

Appendix A 2004/05 Funding Formula

Appendix B NNDR Analysis

Appendix C1 Analysis of school action and action plus data

Appendix C2 Bar chart analysis of school action and action plus data

Appendix D Illustrative Model showing SEN decoupling