

2013-14 REVENUE FUNDING ARRANGEMENTS: OPERATIONAL GUIDANCE FOR LOCAL AUTHORITIES

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Introduction

1. This guidance is to assist local authorities and their schools forums in planning the local implementation of the reformed funding system for 2013-14. It covers all aspects of the Dedicated Schools Grant (DSG), including funding for High Needs Pupils/Students up to the age of 25, and replaces the guidance issued in March, taking into account changes in the June announcement and adding more detail where necessary, for example on SEN. It includes more information to allow work to continue quickly on modelling and consultation so that we can collectively achieve the benefits of issuing earlier budgets.

2. We will be consulting shortly on the revised finance regulations which give effect to the decisions set out in the March and June announcements. We hope to issue the consultation before mid-July and it will run through until after mid-September.

3. In determining how much to allocate through the formula, authorities will need to make strategic decisions on how funding is distributed between the schools, high needs and early years blocks, taking into account demographic and other pressures. We will be allocating the DSG between these three notional, unringfenced blocks based on 2012-13 budgets, but authorities are free to move funding between the blocks provided that they comply with requirements on the Minimum Funding Guarantee (MFG) and central expenditure.

Creating the new, simpler pre 16 schools funding formula

4. Authorities need to decide what factors they wish to include in the new simplified primary and secondary formula from 2013-14 (the arrangements for high needs, including special schools, both pre-16 and 16-24, will be very different and are covered at paragraphs 45 to 74. Arrangements for early years are mentioned in paragraphs 75 to 79). A useful first step may be to **identify all factors in their current formula which are not compliant** with those allowed under the new system. They will need to **determine how to allocate all funding through factors which are allowable** and plan the balance between those factors. They should keep a clear record of how any changes have been made, showing any movement within the total Individual Schools Budget (ISB) between factors and phases. There must be open and transparent consultation on the proposals with all maintained schools and Academies. The consultation should show the effect for each school and recoupment Academy of moving from the existing formula to the new formula, including the effect of protection. This may not be possible for non-recoupment Academies and free schools, but these should nevertheless be consulted on the proposed formula itself.

5. There are 12 allowable factors:

- a. a basic per-pupil entitlement – there will be a single unit for primary aged pupils and a single unit for each of Key Stage 3

and Key Stage 4;

- b. deprivation, measured by Free School Meals (FSM) and/or Income Deprivation Affecting Children Index (IDACI). There can be separate unit values for primary and secondary;
- c. looked after children;
- d. prior attainment as a proxy measure for SEN (notional SEN budgets can still also include funding allocated through other factors such as pupil numbers and deprivation; see paragraph 48);
- e. English as an additional language, for a maximum of 3 years after the pupil enters the statutory age school system. There can be separate unit values for primary and secondary;
- f. pupil mobility;
- g. a standard lump sum for each school, with an upper limit of £200,000;
- h. split sites – the allocations must be based on objective criteria, both for the definition of a split site and for how much is allocated. Where existing factors have been used for some years and the rationale is unclear, these should be reviewed;
- i. rates, which must be at actual cost;
- j. private finance initiative (PFI) contracts;
- k. for the 5 local authorities¹ who have some but not all of their schools within the London fringe area, an uplift to enable higher teacher pay scales in those schools to be reflected; and
- l. a per-pupil factor which continues funding for post-16 pupils up to the level that the authority provided in 2012-13, either through directly allocating per pupil funding, or indirectly through premises and other factors.

6. The following paragraphs provide more detail about the factors.

7. **Deprivation** – We have identified Free School Meal eligibility and IDACI (with the option for banding) as the two deprivation indicators. This data will be taken from the October School Census at pupil level and aggregated to school level. We have provided the data separately for primary and secondary pupils.

8. **Looked After Children** – This will use data collected from the March SSSDA903 and mapped to schools using the January School Census and will

¹ The 5 local authorities are Buckinghamshire, Essex, Hertfordshire, Kent and West Sussex

enable local authorities and the Education Funding Agency (EFA) to identify the number of looked after children in each school/academy.

9. **Low cost, high incidence SEN** – We have agreed that local authorities can use Early Years Foundation Stage Profile (EYFSP) and Key Stage 2 results as a proxy for low cost SEN. The measure will apply to all pupils in the school with a valid result:

- a. for primary schools, local authorities will be able to choose between two EYFSP scores. Funding can be targeted to either all pupils who achieved fewer than 78 points; or all pupils who achieved fewer than 73 points on the EYFSP; and
- b. for secondary schools, funding can be targeted at all pupils who achieved a Level 3 or below in both English and mathematics at KS2.

10. **English as an Additional Language** – This will be calculated using the National Pupil Database (NPD). We have provided data for pupils who have been in the system for up to 1 year, 2 years or 3 years, and have separated the data into primary and secondary pupils.

11. **Mobility** – This has been calculated using the school start date for each pupil from the October School Census. It will include pupils who started in the last three academic years, but did not start in August or September (or January for Year 1). We will provide this data separately for primary and secondary age pupils so that a separate unit value can be applied to each phase.

12. The Department provided school-level data for each of these pupil-led factors to local authorities in April. We are currently updating this data to reflect the changes in the June document and will be making this available shortly. This data will be made available via the 'Key to Success' portal.

13. Please note that the data provided in these datasets is based, where applicable, on the October 2011 census. We are still considering how to update this data to reflect School Census data obtained after October 2011. Further details will be available shortly.

14. The main changes to the data from the April data are detailed below:

- a. **Deprivation** – To reflect the concerns we have received from local authorities that the IDACI bands were not responsive to local authorities with higher levels of deprivation we have introduced a 6th band. The IDACI bands have now been set as follows:

Band	IDACI score lower limit	IDACI score upper limit
1	0.2	0.25
2	0.25	0.3
3	0.3	0.4
4	0.4	0.5
5	0.5	0.6
6	0.6	1.0

Please note that local authorities will still be able to set the unit value, and that this can vary between primary and secondary phases.

- b. **Low Cost, High Incidence SEN** – The measure will now cover all pupils in the school who have a valid test result.
- c. **Low Cost, High Incidence SEN** – The threshold for KS2 is unchanged, but we have introduced a second threshold for EYFSP (ref section above).
- d. **English as an Additional Language** – The data will now be provided so that a separate unit value can be applied to primary and secondary phases.
- e. **English as an Additional Language** – The data has been re-baselined so that time spent in N1 or N2 will not count. The indicator will identify pupils in Y1 to Y6 for primary schools, so that schools with pupils who defer entry into Reception will not be penalised, and Y7 to Yr 11 for secondary schools.
- f. **Mobility** – This is a new indicator that was not included in the April dataset. Please see paragraph 11 for detail.
- g. **Uplift** – We will provide local authorities with Reception uplift data that will be applied to adjust the schools block funding. This data is calculated using the net difference in numbers on roll in Reception between the October 2010 and January 2011 census. Local authorities will have the choice to either apply the uplift to all of their schools or to none of their schools. If local authorities decide not to apply the uplift, the additional money received through the schools block adjustment must be included in the formula and distributed through other factors.

15. Please note that data the Department provides in these datasets **must** be used when setting local authority formulae. This will ensure that schools and Academies are funded on the same basis. The formula will be reported

on a proforma submitted to EFA; further information on this is in paragraphs 90 to 92. The EFA will calculate Academy budgets based on the formula set out in the proforma.

16. Many authorities have found the modelling tool useful and a new version (2.0) will be issued shortly, along with the updated technical guidance. The tool and guidance will be available here:

<http://www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsrevenuefunding/a00208537/local-authority-formula-tool>

17. Authorities are able to request additional factors for exceptional circumstances connected with premises (see paragraph 23), but the scope of this will be very restricted. The first opportunity to do so closes at the end of June. We will then issue guidance on what factors have or have not been approved, and there will then be a subsequent opportunity to request additional factors running from July to September. Authorities are not obliged to request additional factors.

18. It is a requirement under the current system for local authorities to have formula factors for new, reorganised and closing schools. In the reformed system, such additional funding will not form part of the formula because these situations are infrequent and best calculated on a case-by-case basis. Instead, funding can be held within contingencies for maintained schools and would therefore need to be approved by the maintained school members of the forum.

New delegation

19. Several budget items which can currently be retained centrally will have to be delegated through the formula from 2013-14. For each of these, authorities will **need to identify how funding will be delegated through allowable factors**. To ensure that an accurate baseline for the MFG can be calculated, **the total of additional delegation and how it is to be distributed** (for example, £50 per pupil plus £100 for each FSM pupil) will need to be clearly identified.

20. The section 251 budget lines that will now have to form part of the school formula if they are currently funded centrally are:

- a. funding threshold and performance pay;
- b. 14-16 practical learning options;
- c. school meals (primary/special; secondary is already delegated);
- d. support for schools in financial difficulties;
- e. allocation of contingencies;
- f. administration of free school meals eligibility;

- g. insurance;
- h. licences/subscriptions;
- i. staff costs – supply cover (long-term sickness, maternity, trade union and public duties);
- j. support for minority ethnic pupils or underachieving groups;
- k. behaviour support services; and
- l. library and museum services.

21. Some of these budgets could subsequently be retained centrally on behalf of maintained schools if they so choose, but must initially be in the formula calculation. They will form part of Academies' delegated budgets from the outset and so there will be no need for a schools budget Local Authority Central Spend Equivalent Grant (LACSEG) calculation.

22. Authorities in conjunction with their schools forums will need to decide for themselves whether or not to undertake a **full review** of their formula or just review those factors which will not be allowed in the new system (paragraph 5) and those central budgets which must be added to the formula (paragraph 20). We are aware that a number of authorities have recently developed “needs-led” or “activity-led formulae” and may only want to take an incremental approach to this. A more fundamental review may however be more appropriate where:

- a. there have been no significant changes to the formula for a number of years;
- b. allocations are still being made on the basis of how grants were distributed historically;
- c. a large proportion of the budget is allocated through factors which will no longer be allowable; and
- d. a large amount of expenditure on central budgets must now be included in the formula.

Requesting exceptional factors

23. As noted in paragraph 17, there is a process by which authorities can request the inclusion of additional factors in their formula for exceptional circumstances. The regulations will restrict the additional factors which may be approved: we are intending that they will only apply to cases where the nature of the school premises gives rise to a significant additional cost greater than 1% of the school's total budget, and where such costs affect fewer than 5% of the schools in the authority (including Academies).

24. On this basis, Authorities will need to decide **whether there are any**

exceptional formula factors where they would wish to put a case to the EFA. If other cost pressures emerge, then we would expect this to be dealt with in the short term through the MFG or the usual arrangements authorities have with their schools – such as internal loan schemes. Academies in financial difficulty would continue to contact the EFA.

Pupil-led funding

25. We are not, at this stage, going to prescribe that there should be a minimum percentage to be allocated through age-weighted funding or a minimum percentage to be allocated through all pupil-led factors. **But, as this may change in future, authorities should calculate the proportions of the formula allocated through age-weighted funding and all pupil-led factors.** When the proformas have been submitted, the EFA will inform authorities if they are at the lower end of these percentages. We cannot say at this stage what constraints might be set in future as we will first need to review the 2013-14 data.

Primary/secondary ratio

26. We are not, at this stage, prescribing constraints on the primary/secondary ratio, but authorities should be aware of where they are within the range in case the ratio is limited from 2014-15. **Authorities will therefore need to calculate the primary/secondary ratio, using the total budgets for all maintained schools and Academies divided by the total number of pupils in each phase.** We would expect middle school budgets to be apportioned between the phases. When the proformas have been submitted, the EFA will inform authorities if they are at the extreme ends of the range of the ratio. We cannot say at this stage what constraints might be set in future as we will first need to review the 2013-14 data.

Modelling protections and limits to gains

27. The pre-16 Minimum Funding Guarantee (MFG) will continue to be set at minus 1.5% per pupil in 2013-14 and 2014-15. We will, however, be substantially simplifying the calculation. We will only exclude factors from the MFG where not doing so would result in excessive protection or be inconsistent with other policies.

28. This MFG applies to pupils in age ranges 5-16 and therefore excludes funding for early years children (see Early Years section below) and young people over 16. The only factors which will be automatically excluded from the MFG are:

- a. post-16 funding from the EFA;
- b. allocations from the High Needs Block, including those for named pupils with SEN and special units;
- c. the lump sum, calculated by deducting the 2013-14 figure from

the 2012-13 baseline (see example below);

- d. rates; and
- e. early years single funding formula allocation.

29. All other funding will be in the MFG baseline and there will be no other adjustments as there are, at the moment, for non pupil-led funding (80% for primary schools, 87.5% for secondary schools) or small schools. **Authorities need to model the new formula using the MFG of minus 1.5% per pupil, with the exceptions shown in this paragraph.**

30. Where a service was previously centrally funded and is being delegated to maintained schools in 2013-14, then this additional funding will need to be excluded from the MFG. This is so that the MFG is calculated on a like-for-like comparison, and that schools see the benefit of the additional funding. The adjustments do not need approval from the Secretary of State but will need to be shown and explained in the tables accompanying the proforma. **Authorities need to ensure that new delegation is excluded from the MFG calculation in 2013-14. Adjustments should also be made where there are changes in levels of SEN delegation as a result of the introduction of the new system.**

31. In the case of Academies, the additional delegation will replace Schools Budget LACSEG. The EFA will calculate a baseline including Schools Budget LACSEG for Academies' MFG. For the purposes of recoupment in 2013-14, authorities should exclude this new delegation when calculating the MFG recoupment Academies would have received as a maintained school.

32. We are considering exceptional requests to disapply the MFG only if there is a significant change in a school's circumstances or pupil numbers. As with exceptional factors, the initial opportunity for requests closes at the end of June. We will then issue guidance on what exclusions have or have not been approved, and there will then be a subsequent opportunity to request additional exclusions running from July to September.

33. Exceptional requests to disapply the MFG would only be considered if there is a **significant** change in a school's circumstances or pupil numbers for example, if there has been additional funding in a school's 2012-13 formula budget for pupil number growth in the following academic year. In this case, the pupil numbers to whom the funding relates are not included in the count on which the MFG is based. The EFA will only consider applications where the inclusion of a factor in the MFG will lead to **significant** inappropriate levels of protection. Authorities should, therefore, provide detailed information on the financial effect of the request. We will not consider requests which seek to adjust historic protections. **Authorities will need to consider whether to submit requests to disapply the MFG for specific factors or schools.**

34. The example below shows how the MFG would work under the new arrangements. The school rightly receives protection because it has reduced funding under the formula change. If the baseline had been adjusted for the 2012-13 lump sum, it would not have done so.

		2012-13 £000	2013-14 £000
1	Lump sum used in formula	250	100
2	Formula budget	4000	3900
3	Pupil numbers	1000	1000
	Less exclusions:		
4	Post-16	500	500
5	High Needs	250	250
6	Rates	100	100
7	Lump sum	100	100
8	New delegation	n/a	50
9	Baseline (2-4-6-7)	3,000	n/a
10	Baseline level of funding per pupil (9/3)	3.000	n/a
11	Protected level of funding per pupil (10 less 1.5%)	2.955	n/a
12	2013-14 funding after exclusions (2-4-6-7-8)		2,900
13	Guaranteed level of funding (3*11)		2,955
14	MFG top-up (13-12)		55

35. As school budgets will, in future, be based on the October pupil count, the MFG will also need to reflect this date instead of the January count as at present. **There will therefore need to be a rebasing of the school's 2012-13 budget so that this is divided by its October 2011 pupil numbers** to form the baseline against which its 2013-14 budget is compared. The same approach should be used for the MFG.

36. As there could be significant amounts of protection required in some areas as a result of the formula simplification, we will be allowing overall gains for individual schools to be capped as well as scaled back to make it easier to run the formula. At present, there can be transitional arrangements only for changes to individual factors rather than the whole formula. **Authorities and their schools forums will therefore need, as part of their formula modelling, to determine whether and how to limit gains.**

Central services

37. The table below sets out which services can be retained centrally, and what approval is required. The main change is that funding for significant pupil growth can be retained centrally before the formula is calculated, and that funding for additional classes needed as a consequence of infant class size regulations can be funded as part of this. The requirements are that:

- a. the growth fund can be used only for the purposes of supporting growth in pre-16 pupil numbers to meet basic need and to support additional classes needed to meet the infant class size regulation;
- b. the fund must be used on the same basis for the benefit of both maintained schools and recoupment Academies;
- c. any funds remaining at the end of the financial year must be added to the following year's DSG and reallocated to maintained schools and Academies through the local formula;
- d. local authorities will be required to produce criteria on which any growth funding is to be allocated. These should provide a transparent and consistent basis (with differences permitted between phases) for the allocation of all growth funding. The criteria should both set out the circumstances in which a payment could be made and provide a basis for calculating the sum to be paid; and
- e. local authorities will need to propose the criteria to the Schools Forum and gain its agreement before growth funding is allocated. The local authority will also need to consult the Schools Forum on the total sum to be top-sliced from each phase and must regularly update the Schools Forum on the use of the funding.

38. Authorities will need to seek approval from forums to retain central funding for services in lines (c) and (d) below.

<p>(a) Has to be delegated; cannot be de-delegated but schools can buy into service where relevant</p>	<ul style="list-style-type: none"> • Threshold and performance pay • 14-16 practical learning options • Primary/special school meals • Extended services
<p>(b) Has to be allocated through formula but can be de-delegated for maintained schools (approval is by the relevant phase members of the schools forum)</p>	<ul style="list-style-type: none"> • Contingencies (including previous amounts for schools in financial difficulties) • Free school meals eligibility • Insurance • Licences/subscriptions • Staff costs – supply cover • Support for minority ethnic pupils and underachieving groups • Behaviour support services • Library and museum services
<p>(c) Can be centrally retained before allocating formula with agreement of schools forum</p>	<ul style="list-style-type: none"> • Funding for significant pre-16 pupil growth (any underspend has to be added to the following year's formula allocations) • Equal pay back-pay • Places in independent schools for non-SEN pupils
<p>(d) Can be centrally retained before allocating formula but no new commitments or increases in expenditure from 2012-13 (schools forum approval is required to confirm the amounts on each line)</p>	<ul style="list-style-type: none"> • Admissions • Servicing of schools forum • Carbon reduction commitment • Capital expenditure funded from revenue • Contribution to combined budgets (including expenditure shown under miscellaneous if appropriate) • Schools budget centrally funded termination of employment costs • Schools budget funded prudential borrowing costs
<p>(e) Can be centrally retained by agreement of individual schools</p>	<p>Schools can buy into any service with funding from their delegated budget; the service would then be provided by the authority on a buyback basis. This could provide additional income on top of what is centrally retained in boxes (c) and (d) above.</p>

Optional de-delegation for maintained schools

39. There are some services where maintained schools will be able to decide that some funding should be taken out of their pre-16 formula budgets before they receive them and moved to central funding. These are:

- a. contingencies (including support for schools in financial difficulties, new/closing/amalgamating schools, closing school deficits);
- b. administration of free school meals (FSM) eligibility;
- c. insurance;
- d. licences/subscriptions;
- e. staff costs – supply cover (long-term sickness, maternity, trade union and public duties);
- f. support for minority ethnic pupils or underachieving groups;
- g. behaviour support services; and
- h. library and museum services.

40. For each of these, it would be for the schools forum members in the relevant phase (primary or secondary) to decide whether that service should be retained centrally. The decision would apply to all maintained schools in that phase and would mean that the funding for these services was removed from the formula before school budgets were issued. There could be different decisions made for each phase. **Authorities will, therefore, need to discuss with forum members representing maintained schools whether there are any services in paragraph 39 which the schools wish to be retained centrally.** Academies would, of course, be free to buy back into local authority services, as is the case for maintained schools where funding remains delegated.

41. **For each service retained centrally, authorities will need to make a clear statement of how the funding is being taken out of the formula** (for example – primary insurance £20 per pupil, secondary behaviour support services £30 per FSM pupil). There should be a clear statement of how contingencies and other resources will be allocated. Academies will continue to receive a share of funding for these services in their delegated budget.

42. Where a school converts during the year, the authority can retain any de-delegated funding until the following September or April, whichever comes first. This will help services to plan their future operations. At that point, the Academy will receive the full formula allocation and this will be recouped.

43. Where there has been agreement that a school is entitled to a

contingency allocation, that agreement should be honoured if it converts to an Academy at any point in the year. We may take such decisions into account in making recoupment adjustments.

44. Special schools will not in future have delegated budgets on the same basis as primary and secondary schools. They will get £10,000 per place pre-16, plus top-up funding for each pupil they have, from the commissioner to make up the rest of their budget (for 16-24, the National Funding Formula plus £6000 will apply – see paragraph 60). The principle of the new system for high needs pupils is to make costs comparable between schools so that they don't distort placements, so de-delegation is not consistent with this framework. Any existing central budgets can be transferred to the high needs block and form part of the top-up. The schools concerned can of course contribute to pooled arrangements or buy back a service out of their budgets.

Pupils and students with high needs aged from birth to 25

45. The documents on school funding reform published in March and June set out a new approach to funding provision for pupils and students with high needs. Pupils and students with high needs include pupils aged from birth to 19 with high-level SEN; pupils of compulsory school age in alternative provision (AP); and those aged 16-25 with high-level learning difficulties or disabilities (LDD). This new approach defines high needs pupils and students as those who require provision costing more than about £10,000 per year in total. This threshold will distinguish between the needs that we expect will be met through mainstream funding and the point at which additional high needs funding is provided. There are, therefore, a number of key implementation tasks that local authorities will need to carry out in order to adapt current arrangements to this new threshold for high needs.

46. In the section that follows, we explain these key implementation tasks. We distinguish between tasks that we consider to be essential and that local authorities **must** undertake before April 2013, and those tasks that local authorities **may** or that we recommend local authorities **should** undertake. The “may” and “should” tasks are those that will contribute towards the successful operation of the new arrangements, but could, if necessary, be developed after April 2013 and during the first year of this new approach.

47. To summarise, there are three key implementation tasks that local authorities must undertake before April 2013:

- a. **mainstream pre-16 formula funding** (by October 2012) – in constructing their new funding formula for pre-16 provision in schools and Academies, local authorities must decide on the level up to which mainstream schools and Academies will contribute to the needs of high needs pupils. Our strong recommendation is £6,000 of additional education support per high needs pupil or student. This will need to be reflected in the setting of the notional SEN budget for mainstream schools, and discussions around the development of a local offer;

- b. **places in specialist SEN and AP settings** (by September 2012) – local authorities must confirm with the EFA the number of places in specialist SEN, AP and hospital education settings that will be funded in 2013-14²;
- c. **reworking providers' budgets as place-plus so as to set top-up rates for 2013-14** (by April 2013) – local authorities must work with providers that they maintain or used to maintain to agree and confirm the rates of per-pupil top-up funding that will be used in 2013-14.

Mainstream settings

48. Under the new high needs funding arrangements, mainstream settings will be expected to contribute the first £6,000 of additional educational support for high needs pupils and students. This additional support is provision over and above the standard offer of teaching and learning for all pupils or students in a setting. Pre-16, schools and Academies will continue to receive a clearly-identified notional SEN budget from which to make this contribution. Post-16 settings will receive an allocation based on the number of high needs pupils or students in the last full academic year from which to make this contribution. Top-up funding above this level will be agreed between the commissioner and provider, and paid direct to the provider by the commissioning local authority.

49. To implement these reforms, by October 2012, local authorities **must**:

- a. **decide on the level up to which mainstream schools and Academies will contribute to the provision for pre-16 high needs pupils** – our strong recommendation is £6,000 of additional education support per high needs pupil, although we recognise that some local authorities may need to phase in this arrangement;
- b. as part of the above, **identify the notional SEN budget mainstream schools and Academies will receive** for meeting high-incidence SEN and for contributing to the provision of pre-16 high needs pupils³ – this is an important part of developing the mainstream funding formula; and
- c. **define the financial contribution that mainstream providers will make for high needs pupils and students in terms of the provision that they will offer** – this will be an important aspect of the preparation of the local offer of SEN provision, as set out

² These settings include special schools, special Academies, special units and resourced provision in mainstream schools and mainstream Academies, maintained pupil referral units (PRUs) and other maintained AP, and AP Academies. They also include any setting, including those listed, that offers hospital education provision.

³ An illustrative example of how local authorities could construct the notional SEN budget for schools and Academies can be found on the Department's website.

<http://www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsrevenuefunding/a00205567/school-funding-reform-and-arrangements-for-2013-14>

in the Green Paper on SEN and disability, and will provide clarity to providers and transparency to parents. Local authorities must work with schools, Academies and further education (FE) colleges to define this offer for high needs pupils and students aged from birth to 25.

50. Where necessary, local authorities will be able to provide additional funding for mainstream schools or Academies where the number of their high needs pupils cannot be reflected adequately in their formula funding. As such, in addition to the tasks above, local authorities **may** also define the circumstances in which additional funding would be provided from the High Needs Block. We suggest that this should be done on the basis of a set of agreed principles, and might be done on a formulaic basis.

Specialist SEN, LDD and AP settings

51. Under the new place-plus arrangements, specialist SEN and LDD settings will receive a base level of funding on the basis of an agreed number of places. Pre-16, this will be £10,000 per place. Post-16 specialist SEN and LDD settings will receive an allocation that is usually based on the number of high needs pupils or students in the last full academic year from which to make this contribution. AP settings will receive a base level of funding of £8,000 per place. Top-up funding above this level will be agreed between the commissioner and provider, and paid direct to the provider by the commissioner.

52. To implement these reforms, local authorities **must**:

- a. by September 2012, **confirm with the EFA the number of places in specialist SEN and AP settings that will be funded in 2013-14** – the EFA has begun the process of confirming this data with local authorities⁴; and
- b. by April 2013, **work with providers that they maintain or used to maintain to agree and confirm the rates of per-pupil top-up funding that will be used 2013-14** – this applies to maintained special schools and units / resourced provision, but local authorities should also assist special and mainstream Academies that they used to maintain. Further details about how to agree and confirm rates of top-up funding that will be used by commissioners and providers in 2013-14 and beyond is set out in the section below.

53. For post-16 SEN and LDD provision, in July we will provide further information about the national average per-student 16-19 national funding formula allocation. Local authorities will be able to use this to rework

⁴ These settings include places in special schools, special Academies, special units and resourced provision in mainstream schools and mainstream Academies, maintained pupil referral units (PRUs) and other maintained AP, and AP Academies. The EFA already holds data on student placements in further education (FE) colleges and independent specialist providers (ISPs).

providers' budgets for their post-16 high needs provision.

54. An important additional step for AP settings is to put in place arrangements for pupil referral units (PRUs) to have delegated budgets by April 2013.

55. We know that there are aspects of local authorities' high needs provision that is not arranged in the form of places, for example out-of-school support services. In these instances, local authorities **may** fund this provision from their High Needs Block as a separate arrangement.

Top-up funding

56. Above the levels specified above, additional funding will be provided in the form of top-up funding by the commissioner responsible for the pupil or student. Top-up funding will be provided on a per-pupil or per-student basis, based on the assessed needs of the pupil or student, and agreed between the commissioner and provider. Top-up funding will flow directly between the commissioner and provider: there will be no need for inter-authority recoupment. It will be paid in or close to the real-time movement of the pupil or student, and we intend to set conditions-of-grant to ensure that this will happen.

57. The way top-up funding is set and agreed is a matter for local determination. Local authorities will need to work with providers to develop suitable arrangements. Top-up funding must be provided in a way that reflects a pupil's or student's needs and the cost of the provision they receive in the setting in which they are placed. It is unlikely that a standard approach that did not take account of the different costs of provision in different settings would do this adequately.

58. To implement these reforms, by April 2013, local authorities **must recalculate the budgets of the specialist SEN and AP settings that they maintain or used to maintain as base funding and top-up funding**. Local authorities must also work with further education (FE) colleges and independent specialist providers (ISPs) where they have high need students to confirm rates of top-up funding for academic year (AY) 2013/14.

59. The simplest way of calculating rates of top-up funding for specialist SEN and AP settings is as set out below:

- a. re-calculate a provider's budget as base and top-up funding:
 - i) calculate the total budget of the provider (e.g. £1.5m);
 - ii) divide the total budget by the number of places (e.g.) 100 to derive a "place value" (e.g. £15,000); and
 - iii) subtract the relevant base level of funding (e.g. £10,000 for pre-16 SEN) to derive the top-up rate (£5,000) or rates (if the provider is funded at a number of different specialisms or categories of need that attract different

funding tariffs)⁵.

- b. agree with the provider that this rate or these rates (if more than one tariff has been used previously) will be used as the rates of top-up funding when placing pupils in 2013-14; and
- c. recommend to other commissioners using that provider that these rates should be used when paying top-up funding when placing pupils in 2013-14.

60. To confirm rates of top-up funding for post-16 specialist SEN and LDD providers, local authorities should subtract the appropriate level of base funding from the existing per-student or per-place tariff. The appropriate level of base funding will be the per-student allocation from the 16-19 national funding formula plus £6,000 per high needs student. Local authorities should subtract this figure from the total cost of the tariff to derive the top-up funding that should be paid in AY 2013/14. As we have said above, in July we will publish the national average per-student allocation from the 16-19 national funding formula that local authorities can be used to confirm top-up rates for AY 2013/14.

61. In addition, local authorities **may** also:

- a. work with providers to develop effective, transparent banded funding frameworks that could be used to manage top-up funding in 2013-14 and/or thereafter – many local authorities operate banding frameworks at present, and may need to develop these to cover AP and post-16 high needs provision;
- b. work with other local authorities at a regional or supra-local authority level to develop a joint and consistent approach to managing top-up funding from providers who receive pupils from a number of local authorities;
- c. agree rates of top-up funding that take account of the fact that specialist settings may not be full at all times and to enable educating institutions to manage changes in pupil numbers from year to year; and
- d. in circumstances where a setting contains a specific form of specialist provision, such as a hydrotherapy pool, spread the cost of this provision across the rates of top-up funding that are set for all pupils placed in that setting.

62. If local authorities are planning to reduce funding for specialist SEN settings in 2013-14, local authorities **must** also apply the additional

⁵ An illustrative example of the way in which a local authority might do this for a special school can be found in the FAQ document on the Department's website.
<http://www.education.gov.uk/schools/adminandfinance/financialmanagement/schoolsrevenuefunding/a00205567/school-funding-reform-and-arrangements-for-2013-14>

transitional protection announced in the March document⁶. This additional form of transitional protection applies to the rates of per-pupil top-up funding provided by the maintaining or former maintaining authority for pupils it places. In other words, this is a pupil-level form of protection as opposed to a school-level form of protection. Furthermore, it does not apply to top-up funding for pupils placed by other local authorities: it will be up to the provider, with assistance from the maintaining authority, to explain the expected rates of top-up funding to these commissioners.

63. In relation to pupils of any age who are part-way through a course of study, in calculating rates of top-up funding to be paid in 2013-14, local authorities **must** also honour existing financial commitments. Local authorities should not seek to renegotiate or significantly change funding levels for pupil or student placements other than in exceptional circumstances. These circumstances would include instances where the placement was not delivering the expected outcomes and progress for the young person.

64. For mainstream settings, once local authorities have confirmed the level up to which providers will contribute, local authorities **may** need to adjust the amount of funding previously provided as individually-assigned resources. This will be the case where local authorities previously expected providers to contribute significantly more or less than £6,000 of additional education support.

65. Local authorities should not attempt to block-purchase and reserve places in specialist SEN or AP settings by paying top-up funding in advance. This would perpetuate the potential perverse financial incentives that the introduction of place-plus aims to address, and could cause difficulties with procurement issues (see below). Instead, local authorities will pay top-up funding on a per-pupil or per-student basis in or close to the real-time movement of the pupil or student.

66. Local authorities and mainstream schools / Academies are not required to comply with the Public Contracts Regulations 2006 when considering the placement of a high needs pupil. The requirement to carry out a full tender process in accordance with the Public Contracts Regulations only applies when a contract would be let, that contract is for "Part A" services, and the value of the contract would be more than the threshold of approximately £150,000. We would expect placements of high needs pupils to be reviewed, and therefore the placement of an individual pupil or student would not be seen as a contract worth a guaranteed amount of money over a specified period of time. In any event, education provision for high needs pupils and students would be defined as a "Part B" service. This means that those commissioning these services are not under a requirement to follow the regulations in full in any event. Provided that a commissioner can show that the process of selecting a placement was conducted by means of a fair, open

⁶ See paragraph 1.5.9 of *School funding reform: Next steps towards a fairer system*. This additional form of transitional protection applies to places in special schools, special Academies, and special units and resourced provision in mainstream schools and Academies.

and transparent process, the commissioner's decision to make a placement could not be challenged on the grounds that a full tender was not undertaken. Procuring a block of places in advance, not for specific pupils, would be a different matter.

Hospital education

67. From April 2013, new arrangements for funding hospital education for young people aged from birth to 19 will be put in place. These arrangements will also apply to provision for young people aged 16-18 in secure forensic psychiatric units. Under these arrangements, there will no longer be a need for inter-authority recoupment: budgets for hospital education providers will be passported to providers by the maintaining local authority (or the EFA where the provision is delivered in an Academy).

68. By hospital education, we mean education provision offered to a pupil as a result of the pupil having been admitted to a medical facility as a result of their medical needs. In other words, provision where the admission and commissioning is *health-led*, rather than local authority- / *education-led*.

69. We recognise that a number of institutions that offer hospital education provision also offer local authority-commissioned education provision. Some of this is more akin to AP or specialist SEN, and some is provided in the form of support services (e.g. an out-of-school support service). An important step in the implementation of the new high needs funding arrangements will be to distinguish hospital education places from AP and SEN places, so as to ensure those places can be funded in the most appropriate way.

70. To implement these reforms, by September 2012, local authorities **must:**

- a. **confirm with the EFA the number of places in hospital education settings that will be funded in 2013-14;** and
- b. **distinguish between, on the one hand, hospital education places and services and, on the other, AP and/or SEN places and services,** in settings where these types of provision are offered under the same institutional banner.

71. This will be part of the process for confirming places in SEN and AP settings with the EFA.

Maintenance of the new high needs funding arrangements

72. We stated in the March and June documents that there will be a simple process by which the number of funded places in specialist settings would be reviewed. This will be a national, annual process through which commissioners and providers will discuss allocations of funded places and notify any proposed adjustments to the EFA. This will also encourage planning on a supra-local authority level.

73. We believe it is vital that the new arrangements work in a simple and

non-bureaucratic way in the interests of both providers and commissioners. We are working with the Local Government Association (LGA) on example contracts to be used by commissioners. We are also working with organisations such as the National Association of Independent Association of Independent and Non-Maintained Special Schools (NASS), who have experience of managing funding relationships with multiple local authority commissioners in order to draw on their expertise.

74. Equally, the EFA and local authorities will require financial assurance over the use of both base and top-up funding in the various kinds of providers. We are working on arrangements to secure this assurance in an efficient way that minimises the impact on providers.

Early Years

75. We are not proposing major changes to the main elements of the Early Years Single Funding Formula (EYSFF). We will continue to allow different base rates for different types of provision and will continue to allow specific early years factors for quality, flexibility and sufficiency. There will continue to be a mandatory deprivation supplement in the EYSFF and we will continue to allow flexibility in the indicators used, except that we will **require** that it **must be based on child level definitions of eligibility**, rather than operating a supplement based on the characteristics at setting level. In line with the main formula, we will be constraining other factors, such as those relating to premises. The factors allowed in the main formula are also allowed in the early years formula but without prescribing the datasets that should be used. **Authorities should therefore review their early years formula and remove factors which are no longer allowed.** We will consider requests to retain **other factors for the early years formula** only if their removal causes significant problems.

76. The Minimum Funding Guarantee (MFG) will apply to the early years formula for all providers for the first time, but only for the base rates. **Authorities should, therefore, ensure that their proposed base rates per hour for 2013-14 do not fall by more than 1.5% compared to 2012-13.** Where local authorities need to dis-apply the early years MFG, particularly in order to improve parity of funding across different provider types, then they may apply to the Department to do so. For primary schools with nursery classes, the MFG for their over 5s budget will be calculated entirely separately from their early years allocation, and waiting for the early years count in January must not hold up the calculation of the over 5s budget. Academies with nursery provision will receive their main formula budget from the EFA and their early years allocation from the authority, with the MFG applied to each.

77. We announced in March 2011 that local authorities would be responsible for funding all Academies for their early years provision except for those established prior to September 2010. We are now extending this to these Academies as well, so that there is complete consistency across all early years providers. The change will take place from September 2013, as these Academies will already have received their budgets for the 2012/13

78. We announced in March 2012 that funding for early education for two year olds will transfer to the DSG from 2013-14. We believe this will enable effective local integration of free early education for two, three and four year olds. It will also give providers greater certainty to make the necessary expansion in high quality provision. The Department intends shortly through a separate consultation to seek views on how this funding could be allocated to authorities and whether it should be included in the early years single funding formula.

Ensuring schools forums are properly constituted

79. We are continuing the requirement in the schools forum regulations that maintained primary schools, maintained secondary schools and Academies should have broadly proportionate representation according to the pupil numbers in each category. We are concerned, however, that the composition of some schools forums has not changed quickly enough to reflect the increased number of Academies. We appreciate that members have been elected to terms of office of a particular length, and that it can be disruptive to be continually re-electing members. Nevertheless, it is imperative that the forums which consider the simplified 2013-14 formulae are properly representative. **Authorities should, therefore, ensure that the composition of their schools forum is compliant with the requirements in the existing regulations on proportionality and reflects the pupil numbers expected to be in each category at 1 September 2012. Any required elections should take place before the end of the summer term.** Forum membership should then continue to be reviewed to ensure that it meets the proportionality requirement. The frequency of review will vary according to the pace of conversion in each authority, but it should be at least annually.

Changes to schools forums

80. We set out previously that for 2013-14 that we will make some amendments to the Schools Forums Regulations. It is our intention that these should come into force by the beginning of October 2012 in time for the final forum discussions relating to the 2013-14 formula. We are currently consulting on the regulations and will clarify the final wording at the beginning of September. In terms of membership and participation, we will:

- a. remove the requirement to have a minimum of 15 people on a Forum;
- b. restrict other local authority attendees from participating in meetings unless they are a Lead Member, DCS or their representative, Chief Finance Officer or their representative or are providing specific financial or technical advice (including presenting a paper to the Forum); and

- c. restrict the voting arrangements by allowing only schools and Academy members and the private, voluntary and independent (PVI) members to vote on the funding formulae;

81. On the first of these, **smaller authorities in particular may therefore wish to review the total size of their forum and decide whether to reduce the number of members below 15.**

82. The other two changes relate to participation in meetings and voting so **authorities will need to review their forum procedures or standing orders to ensure consistency with the draft regulations.**

83. We have also said that we will give the EFA observer status at School Forum meetings to support the local process and to provide a national perspective if members thought it helpful or if there were any concerns about the running of the Forum. The EFA representative will have the right to participate in meetings.

Transparency of schools forums

84. We have also said that we need to ensure that forum meetings are more transparent. We know that many authorities run effective forums, but are aware that in some areas there is not such good practice and that schools have found it difficult to find out what is going to be, or has been, discussed. We will therefore amend the regulations to:

- a. require local authorities to publish Forum papers, minutes and decisions promptly in a public area of their websites; and
- b. require Forums to hold public meetings – as is the case with other Council Committees.

85. **Authorities should, therefore, take immediate steps to ensure that access to, and details of, meetings from now on are compliant with the new regulations. Any regular communications from the authority to schools should also draw attention to forthcoming schools forum meetings and agendas, and the minutes of forum discussions.**

86. It is also incumbent on each group of schools forum members – whether, for example, maintained primary school governors, Academy or early years PVI members, to ensure that they communicate with the people or organisations they represent at least before debating major issues and again afterwards. Authorities may be able to facilitate such communication, for example through early years networks or governor newsletters, where such channels do not currently exist. **Authorities and schools forum members should consider whether communication within the groups represented can be improved.**

87. We are consulting on whether Pupil Referral Units should be a

separate group among schools members as they will have delegated budgets from April 2013. **Authorities should, therefore, make plans to secure the election of such representatives if the proposal is agreed.** Authorities may wish to have a high needs sub-group or reference group as many have previously done for early years.

Consulting on the new pre-16 funding formula

88. Regulations currently require only the schools forum to be consulted on the formula and yet all maintained schools have to be consulted on changes to the scheme for financing schools. We know that most authorities consult much more widely on formula changes. We believe that all maintained schools and Academies, including free schools, should be consulted on formula changes (and all early years providers as well in relation to the Early Years Single Funding Formula). Any consultation should include a demonstration of the effect of modelling such changes (including and excluding the MFG) on individual maintained schools, recouperment Academies and early years providers. **Authorities should, therefore, ensure that they communicate proposed formula changes to all bodies affected by the changes.**

Completing the proforma

89. Having agreed the formula, **authorities should submit the proforma containing information about their simplified formula to the EFA** no later than 31 October 2012. This will then be checked for compliance with the regulations and there may then need to be a further dialogue between authority and EFA. Earlier submission of the proforma will of course allow this process to be completed sooner and enable the authority to continue with its preparations. **The authority will need to send any changes to the EFA** by 18 January 2013 once the October pupil numbers are confirmed and the DSG settlement announced. The only changes between the provisional and final versions should be for the unit values, not the factors used.

90. The proforma will also contain a sheet for additional information including details of how split site and PFI allocations have been calculated, and the methods used for de-delegation or additional delegation of services. The proforma will also be linked to a table where the underpinning data for school level allocations will be entered. We will provide more detail of the content later in the summer and we intend to issue the tables to authorities in early September.

91. As these deadlines are critical to achieving the advantages of issuing earlier budgets, **authorities must ensure that they have built in the relevant political approval into their planning.** We appreciate that formulae often have to be approved by the authority's Cabinet or lead member, so it is important that the forward plan takes account of this. To speed up the approval process in January once the DSG and pupil numbers are known, it would make sense for **authorities to obtain earlier approval (in the autumn) for the principles they will use to balance the budget if pupil**

numbers turn out differently to the estimates they used. Examples could include scaling back AWPUs across all Key Stages or carrying forward any shortfall on DSG to the following financial year.

DSG allocations – checking the baselines

92. We will use the information from the 2012-13 section 251 statements, to issue to each authority in July what we believe is their baseline for each of the notional blocks. **Authorities should at that point check their figures and there will be opportunity for a dialogue with the EFA if they disagree with them. If, during this checking you identify errors in your section 251 return, please contact the financial monitoring team who will unlock the s251 workbook**

93. As noted in *School funding reform: Next steps towards a fairer system*, we will be separating the DSG into three notional unringfenced blocks in order to speed up the process of calculating budgets. The notional blocks for high needs and early years will be based on the authority's section 251 statement for 2012-13, with the balance, together with recoupment Academy budgets, forming the schools block and totalling back to the final DSG allocation for the year. We will also be adding in some post-16 high needs funding currently held by the EFA.

94. The starting 2012-13 baselines will be calculated from the following section 251 lines in the LA table and columns in the schools table:

High Needs Block

- a. delegated budgets of special schools;
- b. centrally funded provision for individual pupils;
- c. SEN support services;
- d. support for inclusion;
- e. independent special school fees;
- f. pupil referral units;
- g. education out of school;
- h. delegated allocations relating to individual pupils – Individually Assigned Resources;
- i. delegated allocations relating to special units and specially resourced provision in mainstream schools;
- j. SEN transport (where charged to the schools budget);
- k. other central budgets relating to special schools;

- l. any remaining Post-16 SEN block grant after removal of element 1 and 2 (the top up element only);
- m. adjustments will be made for base funding of high needs places in provision not maintained by the authority, but to which it sends pupils;
- n. additions will be made for spend on high needs students aged 16-25 in further education above element 1 and 2 (FE) providers and independent specialist providers (ISPs) held by the EFA (the top-up element only).

Early Years Block

- a. provision for three and four year olds in delegated budgets – the total in the Early Years Single Funding Formula;
- b. early years contingency;
- c. central expenditure on under 5s;
- d. may exclude High Needs Pupil funding where this has been shown in the above lines.

95. Where expenditure is on a high needs row and in the early years column, we will classify that expenditure as high needs. This need not affect the way in which provision is delivered or funded, as authorities will continue to have substantial flexibility within both high needs and early years funding.

96. We will also be carrying out a separate data collection for the number of funded places in special schools and units, and in alternative provision. This information will be used to calculate the base element within the notional high needs block. We will provide further guidance on this in due course.

Authorities should therefore prepare to calculate the number of funded places in high needs provision (see also paragraph 52). The data used for 16-18 and 19-24 allocations will be sourced from the school census, the EFAs LLDD ISP placement database and the ILR.

97. The timetable for the data checking and calculation of the blocks is shown below:

Date	DfE/Education Funding Agency (EFA)	Local Authorities
July 2012	High Needs Pupils and Places: (a) EFA issues data to LAs on 2012-13 High Needs Pupils for checking. (b) EFA requests from LAs details of High Needs places in institutions	Return to EFA
July 2012	DSG Block Baselines: EFA issues to LAs their 2012-13 DSG baseline split into the new notional blocks.	LAs to respond to EFA
July-August 2012	EFA and LAs discuss the HNP data and the baselines	
September 2012	EFA confirms to LAs their 2012-13 DSG Block baselines	
4 October 2012	School Census Day	
October/November 2012	DfE and LAs check and validate School Census	
31 October 2012		Local Authorities submit provisional 2013-14 school budget proforma to EFA by 31 October 2012
28 November 2012	School Census data base closed	
10 December	EFA confirms pupil numbers to be used for Schools Block and Early Years Block. DfE provides updated datasets for pupil characteristics.	LAs can estimate their 2013-14 DSG.
December 2012	DfE confirms DSG allocations for 2013-14 (prior to academy recoupment)	

18 January 2013		Local authorities submit final school budget pro-formas, and underlying data, to EFA by 18 January
February/March 2013	EFA confirms academies budgets by 31 March 2013	Local authorities confirm budgets for their maintained schools by 31 March 2013
April 2013	First DSG payments to LAs based on final 2013-14 allocations, net of academies recoupment. DSG allocations updated termly for in year academy conversions.	
June 2013	Early Years Block updated for January 2013 Early Years pupil numbers	
April 2014	Early Years Block updated for January 2014 Early Years pupil numbers (pro rata 7/12ths as this only covers Sept 2013-March 2014).	

In-year adjustments

98. Some formula factors (for example, rates and PFI) may be based on actual cost and these costs can change after budgets have been determined. In these situations, the adjustments relating to that year would be made retrospectively to the following year's budget rather than changing the budgets once they were issued. Authorities would need to notify the EFA of any changes relating to Academies so that they can apply similar adjustments. For rates, authorities can if they wish announce that rates will be funded on actuals and handle payments for maintained schools centrally where they have done so previously; the adjustment would then be carried forward to the following year's DSG.

99. Where a local authority makes additional funding available to its schools during the course of the year – for example, to settle equal pay liabilities – it must notify the EFA of the method it has used to allocate the additional funding within the regulations. Academy recoupment calculations may need to be updated accordingly.

Support for implementation

100. As this represents a significant change to the local operation of school funding, we are aware that we need to provide support to authorities as they

move to implementation. We are interested in seeing local authority proposals as they are developed and are happy to offer advice through the process.

101. Questions about the detail and practical implications of implementation should continue to be sent to:

reform.schoolfunding@education.gsi.gov.uk

102. We think the regional meetings of local authority finance officers are a valuable opportunity to continue to discuss practical issues and share best practice. We will ensure that officials continue to attend these meetings. Please make every effort to attend these meetings.