

DERBY CITY COUNCIL

SCHOOLS FORUM TECHNICAL NOTE 1

THE MINIMUM FUNDING GUARANTEE

Overview

1. The minimum funding guarantee (MFG) was introduced to the school funding system for the 2004-05 financial year. The intention was to provide schools with stability of funding: the MFG does this by guaranteeing all schools a minimum percentage increase in their funding per pupil from one year to the next. It applied to a school's delegated budget, and not to specific grants, funding from the High Needs Block or infant class size allocations. The MFG started its life at 3% increase however as we have moved into a period of austerity the MFG is currently set at minus 1.5%.

2. The key principle that underpins the detailed operation of the guarantee is that the comparison of a school's budget between one year and the next should be done on a like for like basis. This means that some elements of a school's budget need to be excluded from the calculation, since they would otherwise distort the calculation and schools would receive too high or too low a budget. The school funding regulations set out a number of elements of funding which must be excluded from the calculations.

3. It is also important that the MFG methodology takes proper account of pupil number changes. This means that to reflect properly the change in pupil numbers a comparison is taken between the census counts used to calculate schools budgets.

4. Where local authorities have some exceptional circumstances that may distort the MFG calculations they can apply for a dispensation and this is considered and approved by the Secretary of State. As we have moved towards a common funding methodology the requirement to apply for these have reduced. Derby will need to apply for one in relation to PFI charges relating to the latest BSF building programme; a technical issue relating to part year and full year effects. Disapplications tended to be used where there was a need to 'unlock' allocations from the funding formula.

Description

5. The MFG is a way of giving schools a guaranteed minimum increase in funding per pupil each year or indeed limiting the amounts that can be deducted. It works by comparing a school's level of funding per pupil from one year to the next on a like for like basis, and in such a way as to exclude funding that could distort the per pupil value that is the basis for the guarantee. The baseline for the calculation is intended to cover as much of a school's budget as possible, current exemptions are rates (because they are funded in the formula on actuals) and lump sum allocations because they do not relate to pupil numbers.

Calculation

6. In broad terms, the MFG works as follows:

a. an adjusted budget share for the baseline year is calculated, excluding items that would distort the calculation.

b. this adjusted budget share is increased or decreased by the MFG to be applied (the levels are set nationally and are currently minus 1.5%), usually referred to as the level of the MFG, and then adjusted to take account of pupil number changes, to give a guaranteed funding level (GFL);

c. where the school's adjusted budget share for the new year, as calculated through the local authority formula, is below its GFL, the school receives an MFG allocation equal to the difference;

d. funding for excluded items for the new year is added back on.

7 The methodology of the MFG is critically dependant on the comparison between the amount of per pupil funding for one year and the next on being a like-for-like basis. To achieve this, the school funding regulations require a number of adjustments to be made to a school's budget share to remove elements of funding that would distort the value of the school's per pupil funding. These have been limited in recent years and now only include rates, lump sums and named pupils with individually assigned resources due to their complex SEN (SEN top up funding)

8. To see how such funding might distort the operation of the MFG, take as an example funding for named pupils, the number of which varies from year to year in a school. A local authority's arrangements for supporting pupils with complex SEN is usually based on the amount of additional support that must be delivered to enable access to the curriculum: the number of hours of support assistant time per week would be an example. To include this funding in the baseline for the MFG for a school whose population of pupils with complex needs (often with Statements) reduces from one year to the next would be to protect the school against a reduction in funding, when the school's need to spend has reduced: continuing with the example above, it would no longer need to provide the hours of support assistant time for a pupil who has left the school. But if this funding were not excluded from the MFG baseline, the school would be protected against its loss through an inflated baseline per pupil.

9. This consideration would also apply where a school's population of pupils with complex SEN is increasing. In this case, including the funding for such pupils in the baseline (rather than excluding it and adding it on after the MFG allocation has been calculated) would mean that the school's need to spend more on such pupils would not be properly recognised: the MFG methodology would mask some or all of this increased need to spend.

10. For the majority of schools, the funding that is excluded from their baseline budget share by regulation will ensure that their current year's budget is comparable to their previous year's for the purposes of establishing

whether the minimum funding guarantee has been met or not.

Example of where a future exemption may need to be applied

Starting New Formula Factors and Ending Old Factors

11. Authorities occasionally need to include an additional factor in their formulae, to distribute additional funding. An example might be a factor to distribute an amount to schools which was formerly devolved through a specific grant. In such a situation, there will be nothing in the year 1 baseline to reflect the additional funding, so the value of the MFG for year 2 will be eroded by the additional funding distributed through the new formula factor. To ensure that schools that are entitled to it see the benefit of the funding from the new factor, it should be added to the budget share for year 2, after the GFL and MFG allocation have been calculated, in the same way as the funding for excluded items is added after the MFG calculation has been carried out.

12. Once the funding from the new factor has been in the formula for more than one year, it can be treated like any other formula factor. So it would not be necessary to exclude it from the baseline for year 2, when calculating the year 3 GFL and MFG allocation. Including it in the baseline for year 2 would give the correct per pupil funding level to calculate future values of the GFL and MFG allocations.

13. The converse arguments to this would be if a formula factor in its formula is time limited so that funding from the factor is part of a school's budget for year 1, but not for year 2. Under those circumstances, the funding should be excluded from the year 1 baseline for the GFL and MFG calculation, to avoid inflating the figures for year 2.

14. The MFG for Derby is currently in excess of £4 million, this is because radical changes have been made to the formula funding methodology as we move to a national single formula. However, as formula factors are changed, the levels of funding for schools are protected through the MFG based on the old historic allocations. This is a pressure on the DSG because gainers through formula changes are funded and any losses are protected. This is where the capping methodology evolved from because to enable Councils to set a balanced budget there needed to be a methodology of limiting gains in order to fund the protection. We need to move over time to remove the reliance on the MFG from schools because of its future uncertainty.