

Schools Forum

3rd May 2016

Schools National Funding Formula Consultation

Introduction

1. The Department for Education commenced two short consultations on the schools national funding formula and high needs funding reforms published by the Department for Education (DfE) on 7 March 2016 and were open for 6 weeks.
2. The full consultation documents cover 67 pages and can be found at www.consult.education.gov.uk.
3. Unfortunately, due to circumstances and timing it was not possible to bring this to the Forum any sooner. The LA did respond and this paper, together with that at item 8, focuses on the highlights from the two Consultations.
4. The DfE will be consulting on a national funding formula and associated reforms for early years later this year.
5. The Government considers the current system for distributing the Dedicated Schools Grant (DSG) to local authorities and schools is out-dated, inefficient and unfair. From 2013-14 the Government has introduced reforms to the local funding formulae used by local authorities to distribute funding to schools to bring greater consistency across all schools nationally. The Government still refers to the case that similar schools in different parts of the country continue to receive very different levels of funding. This is due to local decision making within the limited flexibility of local funding formulae and more significantly to the variances in levels of DSG received by local authorities. The Chancellor, in his autumn term statement, announced the Government's commitment to tackling this unfairness in funding.
6. The chapters in this report relate to the chapters within the relevant consultation document.

SCHOOLS NATIONAL FUNDING FORMULA

7. This is the first of 2 planned consultations on the national funding formula for schools. This first consultation covered:-
 - a. the principles that underpin the formula
 - b. the building blocks to use to construct the formula
 - c. the factors to include in the formula

- d. the structure of the formula.
8. The second stage of the consultation will cover how the Government proposes to balance different factors in the national funding formula, and the impact of the formula on funding for individual areas and schools.

Chapter 1: Reforming the funding system

9. The proposed reforms in this first consultation are underpinned by the following seven principles, that the funding system:
- a. supports opportunity – should support schools and local authorities to extend opportunity to all pupils - funding should be based on pupil characteristics data.
 - b. is fair – based on characteristics of the pupils not on historic allocations based on out of date data - funding should be based on a single, national formula not 152 different local funding formulae
 - c. is efficient – greater consistency of funding across the education sector - direct resources to where they are most needed
 - d. is transparent – schools, academies and local authorities should be able to understand how their funding has been constructed and why it varies compared to other similar schools
 - e. is simple – a national funding formula would help to achieve a right balance between simplicity and a system that is able to respond to changes in need
 - f. is predictable – introduce change at a pace that schools and local authorities can manage and plan for.
10. The DSG is currently divided into 3 blocks: schools; high needs; and early years. The reforms propose creating a fourth block of the DSG, the ‘central schools block’. This block would contain funding for central schools services, historic local authority spending commitments on schools and the retained rate of the Education Services Grant (ESG).
11. The proposals include calculating the schools block according to a national funding formula and intend that this would be at school level for 2019-20 (a ‘hard’ national funding formula). This means that the vast majority of funding each pupil attracts to their school would be determined nationally, not according to a local formula. For 2017-18 and 2018-19 the national funding formula would be used to calculate the schools block, but local authorities would continue to distribute this funding according to their local formula (a ‘soft’ national funding formula). There are no proposals to make significant changes to the factors that are currently allowable in the local formula in 2017-18.
12. The proposal is to require local authorities to pass on all of their schools block funding to schools from 2017-18 without the

discretion to move funding to or from other blocks as happens at present. In Stockton we currently transfer £1.7m from the Schools Block to the High Needs Block to manage the pressures in that area.

Chapter 2: The schools national funding formula

13. The proposed building blocks of the schools national funding formula are as follows:
- per- pupil costs – a core funding allocation per pupil
 - additional needs – based on pupil characteristics that are linked to a likely need for additional educational, pastoral or administrative support
 - school costs – to reflect fixed premises costs
 - geographic costs – inclusion of an area cost adjustment. A multiplier applied to every factor for schools in areas of higher costs.
14. These are explained in more detail in paragraphs below.
15. The reforms propose to keep 11 of the 14 factors that local authorities can currently include in their local funding formula and to add a new factor to recognise in-year growth in pupil numbers. The 3 current optional factors that are proposed to be excluded from the national formula are looked after children, mobility and post 16. Of these 3, Stockton’s current local formula only includes a formula for Looked After Children.
16. The proposed building blocks and factors of the schools national funding formula are shown in the table below.

A	Per-pupil costs	Basic per-pupil funding			
B	Additional needs	Deprivation	Low prior attainment		EAL
C	School costs	Lump sum and Sparsity	Rates	Premises (PFI, split sites, exceptional circumstances)	Growth (New)
D	Geographic costs	Area cost adjustment			

17. **Basic per-pupil funding** – intention to use 3 different year groupings in the national funding formula: basic funding for each primary pupil, basic funding for each Key Stage 3 pupil and basic funding for each Key Stage 4 pupil. Stockton’s local funding formula currently includes all these. The Government’s view is that costs increase with curriculum complexity, staffing requirements and the additional requirements of external assessment at Key Stage 4.

18. **Additional needs** – using pupil characteristics that can be clearly linked to a likely need for additional educational, pastoral or administrative support. The proposal is to use socio-economic deprivation – a combination of current FSM, Ever 6 FSM and IDACI data; low prior attainment – Key Stage 2 test data for secondary schools and Early Years Foundation Stage Profile (EYFSP) for primary schools until it becomes non-statutory from September 2016; and English as an additional language (EAL) – pupils with EAL who entered the state education system at any point during the previous 3 years..
19. **School costs** – funding to reflect costs associated with premises and overheads that do not vary in direct proportion to pupil numbers. The proposal, to recognise the challenges faced by small schools in particular, is to use lump sum and sparsity factors in the national funding formula. Stockton does not use a sparsity factor.
20. Stockton's current local funding formula includes a primary and secondary lump sum of £169k but lump sums used by local authorities vary significantly up to a maximum of £175,000. The consultation welcomes evidence for how much lump sum funding should be included in the national funding formula.
21. Other school costs cannot easily be allocated on a formulaic basis and therefore it is proposed to allocate funding for rates, split sites, private finance initiatives (PFI), exceptional premises circumstances and pupil growth to local authorities on the basis of historic spend in 2017-18 and 2018-19. The Government want to explore whether this funding could be distributed on a formulaic basis from 2019-20 and welcomed views on how this could be achieved.
22. **Geographic costs** – area cost adjustment (ACA) to reflect higher costs incurred in some areas compared to others. The hybrid area cost adjustment consists of 2 elements: teacher pay costs and non-teaching staff costs. The hybrid ACA was designed and used in order to reflect that the costs of teachers are lower in high cost areas than the general labour market (GLM) indices would suggest.
23. Under the proposals the Pupil Premium remains a separate Grant as at present.

Chapter 3: Transition to a reformed funding system

24. As explained earlier, the Government proposes implementing a hard national funding formula from 2019-20. For the first two years of the formula - 2017-18 and 2018-19 - schools block funding would continue to be allocated to local authorities according to the national formula. Local authorities would continue to determine funding

according to local funding formula within the parameters set nationally. This is referred to as a soft national funding formula.

25. To fund the soft formula system in 2017-18 and 2018-19 the Government carried out an exercise in March 2016 to re-baseline the 4 blocks of the DSG for each local authority, so that each block aligns with the pattern of each local authority's spending in 2016-17, rather than how the Government allocated funding to them.
26. Through this transition period, the local authority would continue to be responsible for allocating its schools block to schools through a local formula as now. The only change proposed to the local formula factors is the removal of the post-16 factor, which Stockton's local formula does not include anyway.
27. The Government is proposing 2 changes to the process for calculating each school's funding in 2017-18 and 2018-19 however. Firstly local authorities will be required to pass on all of the funding they are allocated through their schools block to their schools. Secondly local authorities will be allowed greater flexibility in setting a minimum funding guarantee (MFG) that reflects local circumstances.
28. The Government sees a continuing role for Schools Forum in 2017-18 and 2018-19 in carrying out their current role of advising on the schools budget and local formula. On moving to a hard national formula in 2019-20 the role of the Schools Forum role will be reviewed.
29. It is proposed to withdraw current arrangements for de-delegation from 2019-20 with the introduction of the hard national funding formula to give schools greater responsibility for their budgets. Responsibility for services that can currently be de-delegated will rest with individual maintained schools.
30. The proposal is to phase in changes in funding over several years by applying MFG and caps on gains. There would be a national MFG and cap on gains from 2017-18 in order to set the 'shadow' formula, with arrangements for local authorities to use a local MFG and variable cap in 2017-18 and 2018-19.
31. Funding to schools gaining from the national formula could be capped in one of two ways. The first option is a simple cap allowing the maximum number of schools to reach their formula allocation in each year. It allows the Government to allocate each school the maximum proportion of their gains due in each year that they can afford. The second option requires the Government to set a lower cap so that there is funding left over to give greater gains to those most underfunded. The Government will consult on proposals for

the national MFG and cap on gains level in the second stage of the consultation.

32. In the run up to the introduction of the national funding formula the Government will continue to support schools to become financially healthier and more efficient through support tools, training and sharing best practice. They will also launch an invest to save fund in 2016-17 to allow schools to invest in ways to save money in future, helping them manage the transition to the national formula.

Chapter 4: Funding that will remain with local authorities

33. Local authorities currently receive funding from the Government for their responsibilities from 2 different funding streams – the Dedicated Schools Grant (DSG) funding that is held centrally by the local authority and the retained duties element of the Education Services Grant (ESG). The proposal is to bring these two funding streams together into a new fourth block of the DSG the ‘central schools block’, distributed on a simple per-pupil formula.
34. ESG funding for retained duties is already allocated to local authorities according to a per pupil rate of £15 for all maintained school and academy pupils. Centrally retained DSG is not currently allocated on a formulaic basis. The Government plans to collect evidence from local authorities about their historic commitments within the centrally retained DSG, and the ongoing cost of these commitments, during the spring 2016 and to allocate funding for historic commitments on the basis of this evidence.
35. The second phase of the consultation will set out a proposal for a formula and the pace of transition.

Chapter 5: The future of the Education Services Grant (ESG)

36. The ESG is paid to local authorities and academies according to two national per pupil rates. The general funding rate (£77 per pupil in 2016-17) is paid to both academies and local authorities to fund duties that academies are responsible for delivering for their pupils and that local authorities deliver for maintained school pupils. The retained duties rate (£15 per pupil in 2016-17) is paid only to local authorities, to fund the duties that local authorities deliver for all pupils.
37. The Government’s plans are to remove the general funding rate from 2017-18 and to address this by school and local authority efficiencies and the removal of some statutory duties. Stockton currently receives approx. £2m in ESG.
38. The Government’s expectation is that local authorities will step back from running school improvement for September 2017 and therefore

will not require funding for this function. The introduction of a hard national funding formula in 2019-20 would mean local authorities would no longer be responsible for setting local funding formulae and hence savings can be achieved.

39. The Government is keen to explore additional duties that could be removed or reformed to support the move to a school-led system and help with managing the savings.
40. The Government recognises that local authorities will need to use other sources of funding to pay for education services once the general funding rate has been removed. The proposal is to allow local authorities to retain some of their maintained schools' DSG to cover the statutory duties that they carry out for maintained schools. This would need to be agreed by the maintained school members of the Schools Forum.
41. The proposal is for transitional arrangements for the removal of the ESG general funding rate for academies and local authorities. The general funding rate would be removed completely for both academies and local authorities from September 2017. Unlike LA's, the existing arrangements for protecting academies' overall funding will continue and will cushion the impact of the removal of ESG.

Recommendation

42. That the report be noted.

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