



REGULATORY AND OTHER COMMITTEE REPORT

NAME OF COMMITTEE:	Lincolnshire Schools Forum
DATE OF MEETING:	22 February 2017
SUBJECT:	Early Years National Funding Formula
REPORT BY:	Mark Popplewell (Head of Finance – Children's Services) Michelle Andrews (Service Manager – Children's Services)
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IS THIS REPORT EXEMPT:	No
IS REPORT CONFIDENTIAL?	No

SUMMARY

The purposes of the report are to:

1. Provide a summary of the early years national funding formula for 2017/18, and
2. Seek support for the Local Authority's proposals relating to a number of centrally retained budgets.

DISCUSSION

Background

The government announced on the 11th August 2016 a consultation for a national funding formula for early years. The consultation sets out the government's intentions to deliver a fair and transparent funding system that will be worked out on a formulaic basis moving away from the government's historical funding allocations for early years.

In December 2016, the government released the outcome of the consultation for a national funding formula for early years and its intentions to implement the new funding formula in April 2017. The lateness in the government announcement has made the timescales extremely challenging for Local Authorities, which the government accepts.

The government has committed to increasing the funding to Local Authorities by £300m nationally per year for early years 3 & 4 year old entitlement, and to allocate funding to Local Authorities through a formulaic funding system that will provide greater fairness in funding being distributed nationally. The level of funding determined for early years is based on the government's 'Review of Childcare Costs'. The government's review indicated that it considered both current costs of delivering provision as well as the implications of future cost pressures such as the introduction of the national living wage.

The national funding formula consultation for early years did however lack sufficient detail into this 'evidence-based' approach, which would have allowed for a more effective consultation with key stakeholder, therefore it is unclear of the components of how the overall level of funding has been determined at a national and local level.

The government will also be providing Local Authorities with additional funding from September 2017 to fund the extension of early years 3 & 4 year old entitlement for working families that will make it easier for them to balance work with their family lives.

Overview: National Funding to Local Authorities for Early Years Core Funding

The formulaic approach to funding Local Authorities uses the following early year's factors of 'base rate' and 'additional needs'. The national distribution of funding across the factors including the basic hourly rate (before and after the 'area cost adjustment') for Lincolnshire is detailed in the table below:

Table 1

Formula Factors	Percentage of National Distribution	Basic Hourly Rate (before area cost adjustment)	Basic Hourly Rate (with area cost adjustment)
Number of PTE (0.6 FTE) 3 & 4 year old pupils	89.5%	£3.53	£3.78
Number of Free School Meals of PTE 3 & 4 year old pupils	8%	£2.13	£2.28
Number of English as an Additional Language of PTE 3 & 4 year old pupils	1.5%	£0.29	£0.31
Number of 0-5 year old claimants claiming Disability Living Allowance	1%	£0.74	£0.79

The 'area cost adjustment' is a fundamental part in determining the overall level of funding at a Local Authority level. It is applied to the 'base rate' and 'additional needs' factors to account for the variations in costs of staff (80% weighting) and premises (10% weighting). A multiplier is established for each Local Authority to be applied against the basic hourly rate for each factor. The 'area cost adjustment' multiplier for Lincolnshire is 1.07, which is the joint 27th lowest multiplier nationally.

Lincolnshire's position for the staffing measure of General Labour Market was 1.00 (no upward adjustment) and Nursery and Pre-school Rateable Cost was 1.71.

Lincolnshire's Position

Using Lincolnshire's 3 & 4 year old pupil numbers and characteristics, the formulaic approach to funding Lincolnshire has determined a funding level of £24.266m for the delivery of early year's entitlement, which converts to an hourly rate of £4.16 per pupil. This is a funding increase for the sector of £1.728m from the 2016/17 spent level of £22.538m.

The government consultation however refers to 'front loading' the increase in the national average funding rate to give providers extra resources and help to handle any cost pressures, including the national living wage. The increased level of funding will likely lead to providers meeting additional future financial burdens.

Table 2

Formula Factors	Overall Funding	Converted back to an Hourly Rate
Number of PTE (0.6 FTE) 3 & 4 year old pupils	£22.002m	£3.78
Number of Free School Meals of PTE 3 & 4 year old pupils	£1.820m	£0.31
Number of English as an Additional Language of PTE 3 & 4 year old pupils	£0.182m	£0.03
Number of 0-5 year old claimants claiming Disability Living Allowance	£0.262	£0.04
Total	£24.266m	£4.16

In the response to the summer consultation, the government announced a 'minimum funding rate' of at least £4.30 per hour to Local Authorities. Lincolnshire's rate has therefore increased to £4.30 per pupil per hour (or a 3.4% increase) and will be set at the government's minimum funding rate (of which 47 out of 150 Local Authorities are on this minimum funding rate). It is positive that the funding for early years has increased into Lincolnshire however this is in comparison to a national average rate across Local Authorities of £4.78.

Lincolnshire's hourly funding rate of £4.30 per pupil will provide indicative early years funding of £25.060m an increase of £2.522m from 2016/17 spending levels.

The early years funding of £25.060m for Lincolnshire is indicative, since final funding allocations for 2017/18 for the core 15 hours offer will continue to be based on 5/12th of January 2017 pupil numbers (to cover the April 2017 to August 2017 period) and 7/12th of the January 2018 pupils numbers (to cover the September 2017 to March 2018 period).

The government is to fund the additional 15 hours for 3 & 4 year old children of eligible working families at the same rate of £4.30. Lincolnshire's indicative allocation for additional 3 & 4 year old entitlement for working families is £4.582m, which represents the period September 2017 to March 2018.

Lincolnshire's overall indicative funding for early years entitlement in 2017/18 is £29.642m.

Overview: Early Year's National Funding Formula (EYNFF) to Providers and Schools

The government requires Local Authorities to have a local universal rate across all types of providers, which is a significant shift away from the current arrangements where cost differences between

different types of providers are recognised. The government requires Local Authorities to set the universal base rate for all type of providers by 2019/20 at the latest.

The decision by the government to have a universal rate would have a significant impact on the financial sustainability of maintained nursery schools. The government however has since recognised in its response to the consultation that maintained nursery schools do bear costs over and above other providers in relation to their statutory governance arrangements. The government will therefore be providing supplementary funding of £55m p.a. nationally for 2017/18 and 2018/19 to maintain the current rate of funding across Local Authorities for maintained nursery schools – this therefore protects Lincolnshire's five nursery schools at its current funding rate for the duration of this parliament. The government has stated that it will consult openly regarding the future of maintained nursery schools.

Other key requirements to the EYNFF for funding providers and schools:

- The requirement to pass-through at least 93% in 2017/18 and 95% from 2018/19 of early years funding to providers and schools delivering early years entitlement. This pass-through funding includes the following funding streams that are passed through to providers and schools:
 - local universal base rate for delivering early years entitlement;
 - all supplements, for example, mandatory deprivation factor, or discretionary supplements of flexibility, rurality / sparsity, quality, English as an additional language;
 - SEN inclusion fund for top up grants above the universal base rate, and
 - a contingency fund or provision to support spending growth in school terms compared to the Local Authority funded January census.
- A requirement of Local Authorities to establish an SEN inclusion fund.
- Supplements must not be more than 10% of the total value of planned funding to be passed through to providers.
- The introduction of a Disability Access Fund.

Development of the Formula

When determining the local universal rate per hour for 2017/18, it was important that it is underpinned with detail and that justification can be provided on how the rate is determined.

The Local Authority adopted the following approach:

- Develop a typical cost model approach, based on agreed staffing ratios and setting characteristics.
- The typical cost model considers all activities it takes to provide early years entitlement and costs these.

This theoretical model is used under the current funding arrangements, which were implemented in 2011/12. Officers have undertaken a significant amount of work in reviewing the cost drivers and costs to deliver the early years entitlement. The theoretical funding model approach was recommended as best practice to Local Authorities by the government when the early year's single funding formula was first established.

Lincolnshire's Early Years Funding Formula

The Local Authority has engaged with the sector on the proposed funding formula through a provider survey and provider groups, which has aided the Local Authority in shaping the final funding formula. The government's timescales in reviewing and implementing a thorough funding formula has been extremely challenging for Local Authorities. The final decision of the funding formula rests with the Local Authority. The Local Authority is required to publish the funding formula and indicative allocations by the 28 February 2017 in line with regulations.

The theoretical model is based on the follow approach:

respondents supported the continued use of the government's Income Deprivation Affecting Children Index (IDACI) measure. The provider survey did identify a small number of providers requesting the Local Authority to review the deprivation factor and the associated monetary factors. The Local Authority is committed to listening to feedback and will undertake a review in 2017/18 with provider engagement - any agreed changes will be implemented for 2018/19.

The IDACI deprivation measure determines the probability of a child coming from a deprived area, using the child's postcode. For example, a child with an IDACI score of 0.2 has a 20% chance of coming from a deprived area; a child with an IDACI score of 0.8 has an 80% chance of coming from a deprived area. The IDACI pupil information has been taken from the October 2016 census. A monetary sum per pupil is assigned to the deprivation bands 1 to 6. Only pupils with an IDACI score of 0.2 or above will trigger deprivation funding, therefore targeting funding at those children deemed to be more deprived.

The following table shows the deprivation scores and associated funding:

Table 3

Deprivation Band	IDACI Score lower limit	IDACI score upper limit	Funding Per Pupil
1	0.2	0.25	£150
2	0.25	0.3	£300
3	0.3	0.4	£450
4	0.4	0.5	£600
5	0.5	0.6	£750
6	0.6	1.0	£900

The October 2016 census information and IDACI 2015 datasets has determined the 2017/18 annual deprivation funding allocation of £1.070m, which represents £0.155 per pupil per hour.

SEN Inclusion Fund

The government requires all Local Authorities to establish an SEN inclusion fund that provides top up grants to providers to support children whose needs do not meet the criteria for an Education Health and Care assessment, however exceed the level, which can be accommodated within the local universal rate to support the early cycle of the graduated approach. The provider survey identified that 79% of respondents said it was reasonable to provide quality inclusive practice for children with special educational needs through the early cycles of the graduated approach within the universal base rate.

The SEN inclusion fund is administered by the Local Authority, and supports the inclusion and participation of Lincolnshire early years children as part of the Local Offer. The current SEN inclusion fund criteria is presently being reviewed by the Local Authority, and proposals will be made to the sector in the summer term – the timing of changes will be consulted with the sector.

The planned funding requirement using the current protocol is £0.550m p.a., which represents £0.08 per pupil per hour.

Notification System

The Local Authority has an established 'notification system' in place whereby providers are allocated funding from this central budget for children accepted to access their early years entitlement place after the termly census date. The 'notification system' supports those children new to accessing a place for early year's entitlement. Where children change providers within the county, funding transfers are to be managed between providers.

Providers have stated that they value the payments since they support the marginal costs in meeting the children's needs, and would find it challenging without such a system being in place. Over 70% of respondents to the provider survey supported the current notification funding process.

An annual budget of £0.1m is required to support the 'notification system', which represents £0.015 per pupil per hour.

Fluctuation Contingency Fund

Local Authorities are able to hold back funding to act as a contingency fund, for passing onto providers later in the year. Early years funding to Local Authorities is funded based on 5/12th of January 2017 pupil numbers (to cover the April 2017 to August 2017 period) and 7/12th of the January 2018 pupils numbers (to cover the September 2017 to March 2018 period), which is a different methodology to funding providers on a participation-led approach on a termly basis. The government approach to funding Local Authorities identifies the January count as the average across the year, however local participation may not replicate this. The Local Authority is required to fund all participation-led funding, therefore a fluctuation contingency fund is required to meet any additional demand above the January average. An annual budget of £0.153m is required, which equates to £0.022 per pupil per hour.

Local Authority Centrally Retained Funding

The government requires Schools Forums to agree 2017/18 central spend for early years by the 28 February 2017, and this to be undertaken on a line-by-line basis. The Local Authority has conducted its annual review of Dedicated School Grant budgets, and has identified those services that directly support the early year's sector in the delivery of early year's entitlement.

The Department for Education (DfE) places a number of statutory duties upon Local Authorities in relation to the provision of support for Early Years Education and Childcare provision. In order for the Local Authority to fulfil these duties, the Early Years and Childcare Support team provides a range of support services across the sector. This support was redesigned to meet the reducing levels of resources available to Local Authorities and was implemented in 2016. The support available includes direct face to face support; the delivery and commissioning of training; information advice and guidance, and special educational needs and disabilities (SEND) support to early years providers across all sector e.g. PVI, childminders and schools.

The role of Early Years and Childcare Support is to enable good and outstanding settings to continue to improve while their greatest focus is to work with those providers that have an Ofsted grading of less than good to improve outcomes for young children and their families with a particular emphasis on the most disadvantaged families. This targeted approach reduces inequalities in child development and makes children ready for school.

In light of the regulations, the following budgets require Schools Forum approval.

<u>Early Years Entitlement (EYE) Team</u>	£245,329
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The EYE team and data staff support the effective delivery of the early years entitlement funding. The team manages the systems, processes and administration of the EYE payments. This ensures all childcare providers in Lincolnshire receive timely and accurate payments for the delivery of early year's entitlement. The team also provides advice and support to all settings to deliver the offer effectively. The team works closely with other teams to ensure providers receive the support they need.

Securing Sufficient Childcare

£320,914

The government places the duty on the Local Authorities to ensure there is sufficient, accessible, and affordable provision available to support families to access work or training. From September 2017, the government has made a commitment to giving families where parents are working, an entitlement to 30 hours of free childcare for their 3 & 4 year olds. This will require capacity planning across Lincolnshire, especially for areas where childcare providers have maximised places. The Early Years and Childcare Support team is in the process of reviewing childcare capacity across Lincolnshire to ensure sufficient places are available when the additional offer is implemented. Where any sufficiency gaps are identified, there is a team of four Development consultants available who will work with the sector to address the needs of local families managed by the Lead for Sector Support and Development. The number of early year's providers delivering funded education places continues to rise and there are currently 568 PVI providers and 76 schools registered to deliver places in Lincolnshire.

SEND Local Offer

£114,271

The government requires all Local Authorities to establish an SEN inclusion fund that provides top up grants to providers to support the county's most vulnerable children. As part of Lincolnshire's SEND Local Offer, early years inclusion funding supports the government's strategy by enabling early intervention and removing barriers to learning faced by children with SEND. Specialist staff facilitate this process to ensure monies are targeted to the children that most need it.

Moderation of Early Years Foundation Stage Profiles and Sector Improvement £390,605

The DfE has extended the duty upon Local Authorities to undertake the moderation of the Early Years Foundation Stage (EYFS) profiles to 2018. This requires the moderation of at least 25% of all schools on an annual basis as part of a rolling cycle. The EYFS profile summarises and describes children's attainment at the end of the EYFS. It is based on ongoing observation and assessment in the three prime and four specific areas of learning and the three learning characteristics.

Changes to the statutory duty placed on Local Authorities in September 2014 means that all new early years providers are able to deliver the early years entitlement upon opening. This supports the Local Authority to meet its sufficiency duty, however the Local Authority is responsible overall for the outcomes of the Ofsted inspection. A programme of support is in place to give new providers the best chance of achieving a good or better judgement at their next inspection and thus maintaining a sufficient supply of good quality funded childcare places.

There are targeted quality support programmes made available to Lincolnshire's early years and childcare providers with a 'less than good' Ofsted outcome, in line with the Early Education and Childcare Statutory guidance for Local Authorities (September 2014). The Ofsted outcome achieved for the early years and childcare sector are underpinned by support through these programmes for those providers who are 'less than good', which is in addition to the quality training courses offered through the Early Years Training Directory.

Workforce & Training Requirements for the Sector

£364,473

Lincolnshire's online Early Years Training Directory provides a comprehensive programme of statutory courses that assist the sector to fulfil EYFS and Ofsted requirements, and to provide and maintain high quality provision. The training includes a range of face to face events and e-learning modules to support the learning styles of users and ensures training is accessible. This team supports the online booking system and direct support to providers as part of the 'Getting to Good and Targeted Improvement Programme'.

The provider survey identified that 94% of respondents had accessed the mandatory training being offered through the training directory, and 88% of respondents felt that the training directory should either be fully funded or subsidised at the point of delivery. The Local Authority is proposing to continue with the subsidised training approach.

The proposed funding to be centrally retained for all those services detailed above, that directly support the early years sector in the delivery of early years entitlement is £1,435,592. This represents 4.84% of the overall early years funding of £29.642m. This is below the 2017/18 threshold of 7%, and 2018/19 threshold of 5%. Lincolnshire therefore meets the pass-through threshold of ensuring that at least 95% of early years funding is passed onto providers in the form of the local universal base rate; mandatory deprivation funding; inclusion funding; notification system, and fluctuation contingency fund.

Overview of Lincolnshire's Early Years Funding Distribution for 3 & 4 year olds

Table 4

Activities	Overall Funding	Hourly Rate
3 & 4 year old funding for 15 hours early years entitlement	£25.060m	£4.30
3 & 4 year old funding for additional hours for eligible working families	£4.582m	£4.30
Total Funding	£29.642m	£4.30

Activities	Spending Plan	Hourly Rate Converted
Local Universal Basic Rate	£26.333m	£3.820
Deprivation Funding	£1.070m	£0.155
Inclusion Fund	£0.550m	£0.080
Notification System	£0.100m	£0.015
Fluctuation Contingency Fund	£0.153m	£0.022
Total Spending Plan for passing onto providers	£28.206m	£4.092
Centrally Retained Funding for Direct Early Years Services	£1.436m	£0.208
Total Spending on Early Years Activities	£29.642m	£4.300

Key government criteria's met:

- Pass-through funding of 95.16% to providers in 2017/18.
- The value of all supplements and provider delegations (outside the local universal basic rate), as a percentage of the local universal basic rate funding delegation is below the 10% limit at 7.11%.

Disability Access Funding (DAF)

The DAF is a new funding stream that has been established by the government in conjunction with the EYNFF – this operates outside the local universal base rate, similar to the early year's pupil premium. A child that is in receipt of child disability living allowance and receives free early years entitlement will trigger this funding. Providers with a child eligible for DAF will be entitled to a one-off payment of £615 per year, and the child does not have to fulfil the full 570 hours of early education.

Early years providers will be responsible for identifying eligible children.

Early Years Pupil Premium (EYPP)

Additional funding continues to be provided to Local Authorities in order to support disadvantaged pupils through the EYPP. The EYPP remains distinct from the EYNFF.

Local Authorities will continue to fund all providers with eligible children at the national rate of £0.53 per pupil per hour for 38 weeks.

2 Year Old Funding

Funding for the most disadvantaged 2 year olds is being uplifted in 2017/18 by central government. The hourly rate to the Local Authority has increased from £4.85 to £5.20; however this remains below the national average of £5.39.

Lincolnshire's indicative allocation for 2017/18 is £5.905m.

Lincolnshire has passported the government's funding rate to providers, however the Local Authority has incurred overspends on this budget, which has had to be managed within the overall Dedicated Schools Grant (DSG). This is therefore not manageable, particularly with the government creating more distinct funding blocks within the DSG, as the government move towards national funding formulas in areas of mainstream schools, early years and high needs funding.

Fluctuation Contingency Fund

The 2 year old entitlement does not replicate the same participation trends across the terms as the 3 & 4 year old entitlement, therefore the January census count that determines the level of funding to Local Authorities is not always representative of the allocations made to providers for 2 year old participation. In fact, Lincolnshire's analysis identified an increase in take up in the summer and autumn terms, but a lower take up in the spring term. It is therefore necessary to hold back funding to act as a fluctuation contingency fund, for passing onto providers later in the year.

An annual budget of £0.137m is required, which equates to £0.121 per pupil per hour.

The Local Authority will be making representations to the government to ensure funding received by the Local Authority is representative of the funded participation levels – this will allow the hourly rate to be retained at a higher level.

Notification System

The Local Authority has also established a 'notification system' for 2 year olds in place whereby providers are allocated funding from this central budget for children accepted to access their early years entitlement place after the termly census date. The 'notification system' supports those children new to accessing a place for early year's entitlement. This system is much more significant for 2 year olds, due to the targeted nature of the provision. As referred to earlier in the report, providers value the funding received for these pupils to support the additional costs, otherwise the provider would have to wait for funding to start in the following term.

An annual budget of £0.220m is required to support the 'notification system', which represents £0.194 per pupil per hour.

Local Authority Centrally Retained Funding

Following the Local Authority's annual review of early year's budgets, officers identified the proportion of time spent and cost of supporting 2 year old funding. The cost is £39,674, which represents £0.035 per pupil per hour.

2 Year Old Funded Rate

The 2017/18 hourly rate will continue to remain at the same per pupil level of £4.85 per hour.

Overview of Lincolnshire's Early Years Funding Distribution

Table 5

Activities	Overall Funding	Hourly Rate
2 year old funding for 15 hours early years entitlement	£5.905m	£5.20

Activities	Spending Plan	Hourly Rate Converted
Local Universal Basic Rate	£5.508m	£4.850
Fluctuation Contingency Fund	£0.137m	£0.121
Notification System	£0.220m	£0.194
Total Spending Plan for passing onto providers	£5.865m	£5.165
Centrally Retained Funding for Direct Early Years Services	£0.040m	£0.035
Total Spending on Early Years Activities	£5.905m	£5.200

RECOMMENDATIONS

The Schools Forum is asked to:

1. Note the content of the report.
2. Support the Local Authority's EYNFF, and
3. Support the Local Authority's proposals to centrally retained funding.

APPENDICES (If applicable) - these are listed below and attached at the back of the report.

None

BACKGROUND PAPERS

PAPER TYPE	TITLE	DATE	ACCESSIBILITY
DfE's Early Years National Funding Formula consultation response	Early Years Funding – Government consultation response	December 2016	https://www.gov.uk/government/consultation/early-years-funding-changes-to-funding-for-3-and-4-year-olds
Report to Schools Forum	Early Years National Funding Formula	5 October 2016	http://lincolnshire.moderngov.co.uk/mgCommitteeDetails.aspx?ID=166
DfE's consultation 'An Early Years National Funding Formula'	'An Early Years National Funding Formula'	August 2016	https://consult.education.gov.uk/early-years-funding/eynff

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REGULATORY AND OTHER COMMITTEE REPORT

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DATE OF MEETING:	22 February 2017
SUBJECT:	National Funding Formula for Schools
REPORT BY:	Mark Popplewell (Head of Finance – Children's Services)
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IS THE REPORT EXEMPT?	No
IS REPORT CONFIDENTIAL?	No

SUMMARY

The purpose of this report is to:

1. provide a summary of the schools national funding formula consultation.

DISCUSSION

Background

On the 7 March 2016, the government announced the stage 1 consultation for a schools national funding formula, which outlined the principles that would underpin the proposed formula and the pupil characteristics and factors to be included within the formula. Stage 2 of the consultation was delayed until the 14 December 2016 with the proposed implementation being pushed back to 2018/19. The consultation documents can be found from the link below.

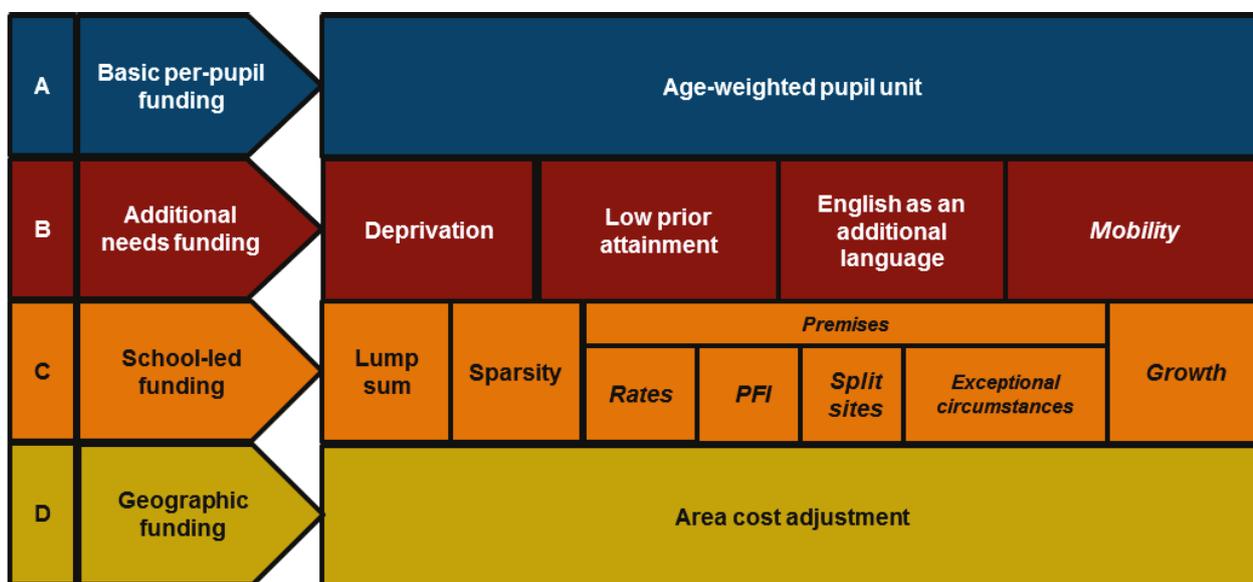
<https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula2/>

The consultation closing date is 22 March 2017.

Through the national funding formula the government plan to implement a fairer settlement for each school, therefore will require a re-distribution of funding between schools nationally. The changes are planned to be implemented in 2018/19. The government however plan to transition to the national funding formula through a 'soft' approach in 2018/19, whereby Local Authorities will continue to be responsible for calculating schools funding allocations. The overall funding will be determined at a Local Authority level by the government's national funding formula by calculating notional budgets for each school. Local Authorities are encouraged to move towards the national funding formula in 2018/19 so that schools' allocations are on a sensible trajectory towards the move to a 'hard' national funding formula from 2019/20. Local Authorities will be responsible for consulting locally on their proposed schools funding formula.

Schools National Funding Formula

The government has proposed the building blocks of the schools national funding formula to be basic per-pupil funding, additional needs funding, school-led funding and geographical funding. The 13 formula factors within these building blocks are detailed below¹:



The proposed formula is grounded in the current distribution of funding, as opposed to looking at the costs of running a school and understanding the cost of pupil needs. The schools national funding formula is therefore a re-distribution of schools funding nationally.

The key points from the proposed schools national funding formula:

- a key consideration in designing the national funding formula for schools is the ratio of funding between the primary and secondary phases. The government intend to maintain the primary to secondary ratio in line with the current national average of 1:1.29 (i.e. secondary funding being on average 29% higher overall than primary funding).
- to continue to differentiate basic per-pupil funding between key stages by maintaining stepped rates between primary, key stage 3 and key stage 4, to reflect the higher costs as pupils progress.
- to maximise the proportion of funding allocated to pupil-led factors compared to the current funding system, so that as much funding as possible is spent in relation to pupils and their characteristics (therefore reducing spending on school-led factors e.g. lump sum).
- the basic per-pupil factor will distribute 73% of total schools funding, and 91% of total funding will be allocated through per-pupil factors.

¹ Extract from schools national funding formula – government consultation – stage 2.

- the government is committed to supporting families who struggle to access the same opportunities as others, even if they are not in the lowest income households through the deprivation measures selected.
- to continue to provide every school with a lump sum, but at a lower level than the current national average so that more funding can be directed to the pupil-led factors.
- to set the lump sum rate at £110,000 for all schools. The monetary value is lower than the current average set by Local Authorities (and Lincolnshire), and reflects the government's objective to encourage schools to share resources.
- to provide small and remote schools with additional funding, over and above the lump sum, to recognise that they can face greater challenges in finding efficiencies and partnering with other schools.
- to recognise the higher salary costs faced by some schools, especially in London, an area cost adjustment using the hybrid methodology will be adopted. Lincolnshire schools do not trigger any additional funding through this route.
- funding for premises-related factors (such as rates, split-site) will be funded on the basis of historic spend for the first year of the formula in 2018/19.
- to incorporate an overall 'funding floor' within the funding formula to protect a school of seeing reductions of more than 3% per-pupil overall as a result of this formula, which will provide schools with a degree of financial stability.
- during the transition period to the 'hard' national funding formula the minimum funding guarantee of minus 1.5% per-pupil will continue to operate providing further stability for schools. The government has re-confirmed its position that the minimum funding guarantee will remain in place under the national funding formula.
- schools can receive gains of up to 3% per-pupil in 2018/19, and then up to a further 2.5% in 2019/20. The level of any gains caps beyond 2019/20 will be subject to decisions taken at the next spending review.
- the government is to invest c.£200m in 2018/19 and 2019/20 to transition in the national funding formula.

Schools National Funding Formula Comparison with Lincolnshire's Local Funding Formula

Formula Factors	Schools national funding formula				Lincolnshire's local funding formula			
	Primary Rates		Secondary Rates		Primary Rates		Secondary Rates	
Basic per-pupil funding	KS1 & 2	£2,712	KS 3	£3,797	KS1 & 2	£2,557	KS 3	£3,482
			KS 4	£4,312			KS 4	£4,292
<u>Additional needs funding</u>								
Ever 6 FSM	£540		£785		£0		£0	
Current FSM	£980		£1,225		£1,186		£1,305	
IDACI A	£575		£810		£484		£1,075	
IDACI B	£420		£600		£386		£807	
IDACI C	£360		£515		£320		£685	
IDACI D	£360		£515		£233		£490	
IDACI E	£240		£390		£151		£327	
IDACI F	£200		£290		£76		£162	
Low Prior Attainment	£1,050		£1,550		£1,641		£1,544	
English as an additional language	£515		£1,385		£1,000		£1,000	
<u>School-led</u>								
Lump Sum	£110,000		£110,000		£118,010		£175,000	
Sparsity	£0 - £25,000		£0 - £65,000		£0		£100,000	
<u>Formula factor removed:</u>								
LAC	£0		£0		£600		£600	

The looked after children factor monies are being added into pupil premium looked after children. Only c.60% of Local Authorities use a looked after children factor, therefore by putting this funding into the national pot it will dilute the looked after children funding for those pupils in Local Authorities that use the formula factor – Lincolnshire is to be disadvantaged financially from the approach being proposed by government.

Illustrative Local Authority Allocations for 2018/19

In the first year of the 'soft' national funding formula, the government's national funding formula will be used to calculate the notional schools block allocations that will determine each Local Authorities funding allocation – this is to be updated with the latest pupil numbers from the October 2017 schools census.

The Local Authorities illustrative allocations baseline that has been used by the government is from each Local Authorities 'Authority Proforma Tool' (APT). Local Authorities use the APT to calculate all mainstream schools funding using its locally agreed funding formula, which is reviewed by the Education Funding Agency (EFA) to ensure compliance with regulations and guidance. The baseline approach used by the government is important to note, since it influences each schools final notional budget by the application of the 'funding floor' and minimum funding guarantee, and gains cap during the transition period.

The government encourages Local Authorities to move towards the national funding formula in 2018/19 so that schools' allocations in 2018/19 are on a sensible trajectory towards the move to a 'hard' national funding formula from 2019/20.

The government has confirmed that schools will move to the 'hard' national funding formula from 2019/20, and national modelling has identified that the national funding formula will be used to calculate the vast majority of each individual school's budget in 2019/20. The government intend to consult on detailed proposals for the implementation of the 'hard' national funding formula in due course.

The overall national school funding level has not been agreed beyond 2019/20 and will be subject to the next spending review, therefore the timescales are presently unclear of when those schools gaining above the 5.5% gains cap will receive the full benefit of this and be funded by the national funding formula, and how 'funding floors' and minimum funding guarantees will be applied post 2019/20 for those schools losing through the national funding formula.

Lincolnshire Schools Position

Lincolnshire currently receives a low funded schools block that is used to distribute funding to mainstream schools. Lincolnshire 2017/18 per pupil value is £4,305.40 compared to an England average of £4,618.63, therefore the introduction of the national funding formula is positive news for Lincolnshire schools, which will provide a much fairer settlement for schools compared to other Local Authority schools².

The 13 formula factors uses each individual schools pupil-led and schools-led characteristics to determine the national funding formula allocation prior to the application of the 'funding floor' and minimum funding guarantee, and gains cap during the transition period. Through these government proposals and using Lincolnshire schools 2016/17 schools baseline funding³, Lincolnshire mainstream schools (including academies) collectively would receive additional funding of £15.534m p.a. (or a 4.12% increase) using 2016/17 data compared to the current level of funding provided by government for Lincolnshire schools.

Table 1

	Overall Funding
2016/17 schools baseline funding	£377.028m
Illustrative national funding formula funding impact implemented in full without the application of the 'funding floor'	£392.562m
Increase in funding	£15.534m

The financial impact by Lincolnshire schools is as follows prior to the application of the 'funding floor' and minimum funding guarantee, and the gains cap (see Appendix 1a for further analysis):

Table 2

Gain & Losses (£)	Number of Primary Schools
(60,001) and above	3
(60,000) - (30,001)	3
(30,000) - (1)	11
0 - 30,000	104
30,001 - 60,000	108
60,001 - 90,000	26
90,001 - 120,000	15
120,001 and above	3

Largest Primary gain: £130,512
 Largest Primary loss: (£299,403)

² Financial modelling for schools is based on the schools 2016/17 pupil numbers and characteristics.

³ The schools illustrative allocations baseline that has been used by the government is from each Local Authorities APT, and excludes rates and split-site funding.

Table 3

Gain & Losses (£)	Number of Secondary Schools
(150,001) and above	1
(150,000) - (100,001)	2
(100,000) - (50,001)	1
(50,000) - (1)	5
0 - 50,000	8
50,001 - 100,000	10
100,001 - 150,000	8
150,001 - 200,000	8
200,001 and above	12

Largest Secondary gain: £507,904
Largest Secondary loss: (£174,751)

The government is however proposing to incorporate an overall 'funding floor' within the funding formula to protect a school of seeing reductions of more than 3% per-pupil overall as a result of this formula, which is intending to provide schools with a degree of financial stability. 11 schools (8 primary and 3 secondary) have losses of greater than minus 3% per pupil - all but one of those schools receives minimum funding guarantee from the current funding system. With the inclusion of a 3% 'funding floor' for schools, Lincolnshire mainstream schools (including academies) collectively would receive additional funding of £16.298m p.a. (or a 4.3% increase) compared to the current level of funding provided by government for Lincolnshire schools – a further increase of £0.764m from the treatment of having no floor.

Table 4

	Overall Funding
2016/17 schools baseline funding	£377.028m
Illustrative national funding formula impact implemented in full with the application of the 'funding floor'	£393.326m
Increase in funding	£16.298m

The financial impact by Lincolnshire schools is as follows after the application of the 'funding floor', but before the minimum funding guarantee, and the gains cap (see Appendix 1b for further analysis):

Table 5

Gain & Losses (£)	Number of Primary Schools
(30,001) and above	2
(30,000) - (1)	15
0 - 30,000	104
30,001 - 60,000	108
60,001 - 90,000	26
90,001 - 120,000	15
120,001 and above	3

Largest Primary gain: £130,512
Largest Primary loss: (£52,667)

Table 6

Gain & Losses (£)	Number of Secondary Schools
(50,001) and above	2
(50,000) - (1)	7
0 - 50,000	8
50,001 - 100,000	10
100,001 - 150,000	8
150,001 - 200,000	8
200,001 and above	12

Largest Secondary gain: £507,904
Largest Secondary loss: (£82,067)

During the transition period to the 'hard' national funding formula the minimum funding guarantee of minus 1.5% per-pupil will continue to operate providing further stability for schools. For the government to fund the 'funding floor' and the minimum funding guarantee, nationally the government can only allow schools to receive gains of up to 3% per-pupil in 2018/19, and then up to a further 2.5% in 2019/20 due to affordability.

With the inclusion of a 3% 'funding floor', minimum funding guarantee and gains cap, Lincolnshire mainstream schools (including academies) collectively would receive additional funding of £8.677m p.a. compared to the current level of funding provided by government for Lincolnshire schools. The increases to Lincolnshire schools funding is positive, however through the governments application of the 3% gains cap, Lincolnshire schools will lose out on funding in 2018/19 by £7.865m following the application of the minimum funding guarantee.

Table 7

	Overall Funding
2016/17 schools baseline funding	£377.028m
Illustrative national funding formula funding impact implemented in full with the application of the 'funding floor', minimum funding guarantee and gains cap	£385.705m
Increase in funding	£8.677m

The financial impact of the national funding formula for Lincolnshire schools after the application of the 'funding floor', the minimum funding guarantee, and the gains cap for 2018/19 'soft' formula (see Appendix 1c for further analysis):

Table 8

Gain & Losses (£)	Number of Primary Schools
(30,001) and above	0
(30,000) - (15,001)	2
(15,000) - (1)	15
0 - 15,000	126
15,001 - 30,000	88
30,001 - 45,000	33
45,001 and above	9

Largest Primary gain: £54,642
Largest Primary loss: (£26,334)

Table 9

Gain & Losses (£)	Number of Secondary Schools
(50,001) and above	0
(50,000) - (25,001)	2
(25,001) - (1)	7
0 - 50,000	8
50,001 - 100,000	17
100,001 - 150,000	17
150,001 - 200,000	3
200,001 and above	1

Largest Secondary gain: £241,300
 Largest Secondary loss: (£41,033)

Schools can find information their national funding formula details on their own COLLECT dataset source.

Lincolnshire Schools Position – Academy schools

The Lincolnshire schools position outlined in the above sections looks entirely at the Local Authority Dedicated Schools Grant (DSG) funding to schools.

For academy schools, the EFA recoup the academy schools funding formula calculation from a Local Authority's DSG and subsequently allocate this through a funding agreement known as the 'General Annual Grant' (GAG). The GAG is the academy's main revenue funding that includes the Local Authority funding formula calculation using the latest October census; former Local Authority Central Spend Equivalent Grant (LACSEG) protection funding (also referred to by the EFA as the local minimum funding guarantee), and Education Services Grant (ESG) funding. The former LACSEG funding supported the costs of the additional responsibilities of being an academy (currently known as the 'General Duties rate') – the ESG replaced LACSEG funding in 2013/14.

A number of early wave academy converters received considerable levels of LACSEG funding through its GAG funding arrangement, which is continuing to be transitioned out by the EFA. The current value is £10.966m⁴. The LACSEG funding across Lincolnshire 70 academy schools range in value, which was predominately influenced by the date of conversion.

The government is proposing through the national funding formula changes to use the academies GAG (that includes LACSEG protection funding or EFA termed 'local minimum funding guarantee') for the academy schools' baseline. This baseline will be compared to the national funding formula before the application of the 'funding floor' and minimum funding guarantee, and the gains cap.

The governments proposed 3% 'funding floor' on an academy schools re-determined baseline will lock in historical funding such as former LACSEG funding, therefore ensuring those schools do not lose more than 3% per pupil overall as a result of this formula from its current per pupil level of funding.

The EFA has confirmed to Lincolnshire County Council that the cost of this additional protection will be met by the EFA themselves and not the illustrative Local Authority allocations provided for all mainstream schools.

The overall national school funding level has not been agreed beyond 2019/20 since it is subject to the next spending review, therefore it is again unclear whether the government can sustain this level

⁴ Source: COLLECT 2016/17 national funding formula datasets – Report E: Academy Baselines.

of protection in the long-term, although the expectation is that any change from this position would be managed through stage reductions through the application of a minimum funding guarantee.

The financial impact by Lincolnshire Academy schools (using the GAG baseline inclusive of former LACSEG protection funding) is as follows prior to the application of the 'funding floor' and minimum funding guarantee, and the gains cap (see Appendix 1d for further analysis):

Table 10

Gain & Losses (£)	Number of Primary Schools
(60,001) and above	3
(60,000) - (30,001)	3
(30,000) - (1)	12
0 - 30,000	17
30,001 - 60,000	17
60,001 - 90,000	4
90,001 - 120,000	8
120,001 and above	1

Largest Primary gain: £129,577
 Largest Primary loss: (£302,321)

Table 11

Gain & Losses (£)	Number of Secondary Schools
(500,001) and above	3
(500,000) - (300,001)	2
(300,000) - (225,001)	5
(225,000) - (150,001)	6
(150,000) - (75,001)	5
(75,000) - (1)	9
0 - 75,000	7
75,001 - 150,000	4
150,001 - 225,000	6
225,001 and above	3

Largest Secondary gain: £309,584
 Largest Secondary loss: (£1,281,031)

The financial implications for a number of academy schools is significant if the 'funding floor' was not applied by the government, due to the inclusion of former LACSEG protection funding. The analysis is included to highlight the potential funding implications if the national funding formula operated entirely compared to current funding levels. The government currently uses a minimum funding guarantee of minus 1.5% per pupil to provide financial protection to schools, which helpfully provides schools time to respond to funding level changes.

The government is however proposing to incorporate an overall 'funding floor' within the funding formula to protect a school of seeing reductions of more than 3% per-pupil overall as a result of this formula – this proposal includes an academies re-determined baseline from its GAG. The financial impact by Lincolnshire Academy schools is as follows after the application of the 'funding floor', but before the minimum funding guarantee, and the gains cap (see Appendix 1e for further analysis):

Table 12

Gain & Losses (£)	Number of Primary Schools
(30,001) and above	4
(30,000) - (15,001)	4
(15,000) - (1)	10
0 - 30,000	17
30,001 - 60,000	17
60,001 - 90,000	4
90,001 - 120,000	8
120,001 and above	1

Largest Primary gain: £129,577
Largest Primary loss: (£55,780)

Table 13

Gain & Losses (£)	Number of Secondary Schools
(150,001) and above	5
(150,000) - (100,001)	5
(100,000) - (50,001)	12
(50,000) - (1)	8
0 - 75,000	7
75,001 - 150,000	4
150,001 - 225,000	6
225,001 and above	3

Largest Secondary gain: £309,584
Largest Secondary loss: (£176,357)

The 'funding floor' provides significant protection for those schools having big losses, but it is unclear how this proposal can be sustained in the long-term. The EFA has confirmed that the government will be meeting the additional obligation from the re-determined baseline for academies.

The financial impact of the national funding formula for Lincolnshire Academy schools after the application of the 'funding floor', the minimum funding guarantee, and the gains cap for 2018/19 is as follows (see Appendix 1f for further analysis):

Table 14

Gain & Losses (£)	Number of Primary Schools
(30,001) and above	0
(30,000) - (15,001)	4
(15,000) - (1)	14
0 - 30,000	30
30,001 and above	17

Largest Primary gain: £54,930
Largest Primary loss: (£29,161)

Table 15

Gain & Losses (£)	Number of Secondary Schools
(50,001) and above	11
(50,000) - (25,001)	12
(25,000) - (1)	7
0 - 75,000	8
75,001 - 150,000	9
150,001 and above	3

Largest Secondary gain: £191,719
 Largest Secondary loss: (£88,179)

Although the governments proposed 'funding floor' and minimum funding guarantee do provide a level of financial stability to a number of Lincolnshire academies in receipt of significant protection monies, those schools will receive less funding from 2018/19, and it remains unclear whether the government can sustain the 3% 'funding floor'.

The government confirmed that the 'General Duties rate' funding for ESG will end from September 2017 for Local Authorities and academies. Academies will however continue to receive a separate form of protection for ESG funding, which will be in place for the current spending review, to ensure academies in receipt of high levels of ESG have manageable funding reductions. Academies will be required to have plans in place to respond to these funding reductions also.

Local Authority Observations of the schools national funding formula

The Local Authority observations from the consultation are as follows:

- the proposed formula is grounded in the current distribution of funding, as opposed to looking at the costs of running a school and understanding the cost of pupil needs. Therefore, the national funding formula is a re-distribution of monies across the country, as opposed to something more fundamental. The application of using averages that reflect current Local Authority allocations rather than a needs-based approach, does not provide suitable evidence that the funding levels for schools are sufficient to meet the needs of pupils and the costs of operating schools of different sizes.
- the government has illustrated all national funding formula figures in cash terms per pupil. On a per pupil basis, schools are estimated to be facing financial pressures (of pay increases, employer contributions to national insurance and pensions, apprenticeship levy etc.) of around 8% between 2016/17 and 2019/20, including around 1.6% in each of 2018/19 and 2019/20.
- the primary to secondary funding ratio of 1 to 1.29 is fundamental to the distribution of funding through the national funding formula. The ratio is based on the current national average (i.e. historical funding arrangements) rather than it being based on a 'needs-based' approach.
- the government is to maximise the proportion of funding allocated through pupil-led factors. The lump sum is a critical component of the national funding formula, however the proposals do not appear to recognise and understand the fixed costs in running a school, nor does the sparsity factor reflect reality, therefore it risks destabilising a schools' funding.
- the proposal to fix the lump sum at the same value for both sectors appears unjustified and is a different position that the DfE applied when the schools funding reforms were being embedded.
- the looked after children factor monies are being added into pupil premium looked after children. Only c.60% of Local Authorities use a looked after children factor, therefore by putting this funding into the national pot it will dilute the looked after children funding for those pupils in Local Authorities that use the formula factor – Lincolnshire is to be disadvantaged financially from the approach being proposed by government.
- the consultation makes no reference to establishing notional SEN levels within the national funding formula. In the 2013/14 schools funding reforms the government introduced the term notional SEN, which changed schools delegated funding to ensure a school could meet the first

£6,000 of a pupils low level SEN requirements. This is important with the increase in funding to Lincolnshire schools.

- the governments objective of the national funding formula is to provide fairness in funding across all schools across the country through adopting 13 formula factors. The Local Authority recognises and understands the importance in a schools' financial stability where losses have been determined, and the government's current approach of using a minimum funding guarantee provides that form of protection in per pupil funding for schools. The government's proposal to have a 3% per pupil 'funding floor' and locking in historical funding allocations will protect a school from seeing reductions of more than this as a result of the formula – this approach is unlikely to create fairness and equity in funding across all schools. The overall national school funding level has not been agreed beyond 2019/20, therefore it is unclear whether the government can sustain this level of protection, and whether the 'funding floor' will restrict those schools gaining fully, which would be an issue for a significant number of Lincolnshire schools.

Central Schools Services Block

A central schools services block will be created for those existing funding streams that are held centrally by the Local Authority for central services⁵. Funding will cover two distinct elements: 'ongoing responsibilities' (such as school admissions, ESG retained duties rate, school copyright licences), and 'historic commitments' (such as the PFI funding gap and school broadband costs).

The government will cease funding 'historical commitments' when the contracts come to an end date. The current contract for schools broadband services ends in October 2019, therefore thereafter the government will expect schools to meet this cost directly from its delegated schools budgets (i.e. a new cost for schools to budget for). The Local Authority is currently reviewing the options for schools broadband services. Further information will be provided in due course.

RECOMMENDATIONS

The Schools Forum is asked to:

- a. Note the content of the report.
- b. Consider responding to the consultation.

BACKGROUND PAPERS

The following reports were relied upon in the writing of this report.

PAPER TYPE	TITLE	DATE	ACCESSIBILITY
Report to Schools Forum	National Funding Formula for schools	27 April 2016	County Offices, Newland, Lincoln

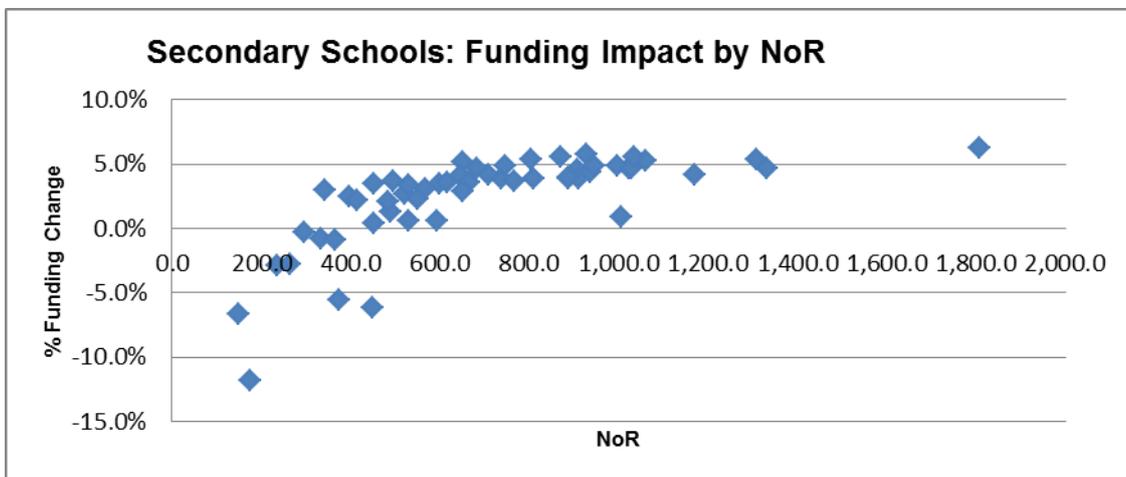
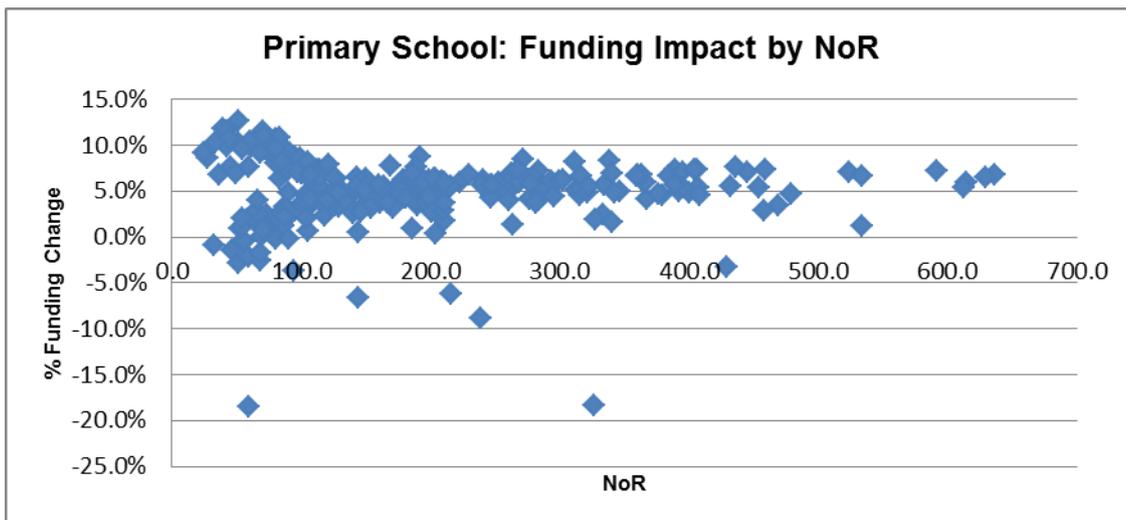
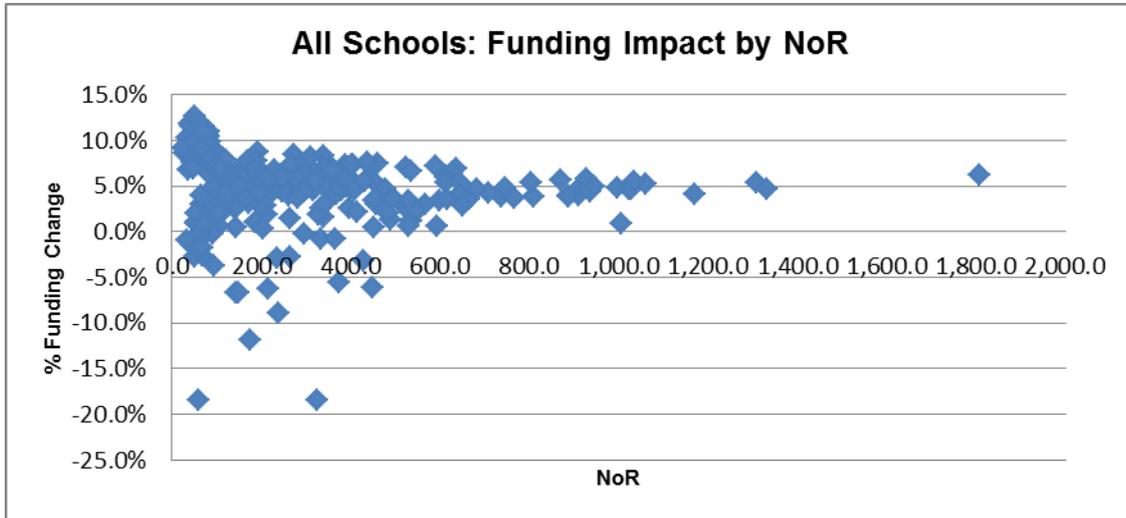
APPENDICES

Appendix 1: Financial modelling data for Lincolnshire schools on the national funding formula.

⁵ As defined in Schedule 2, Part 1 of The School and Early Years Finance (England) Regulations 2015.

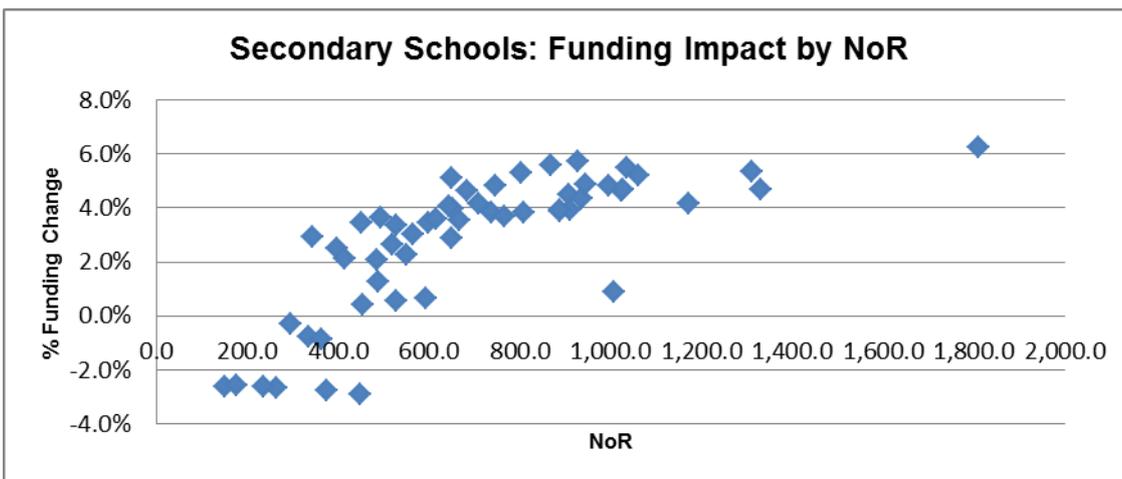
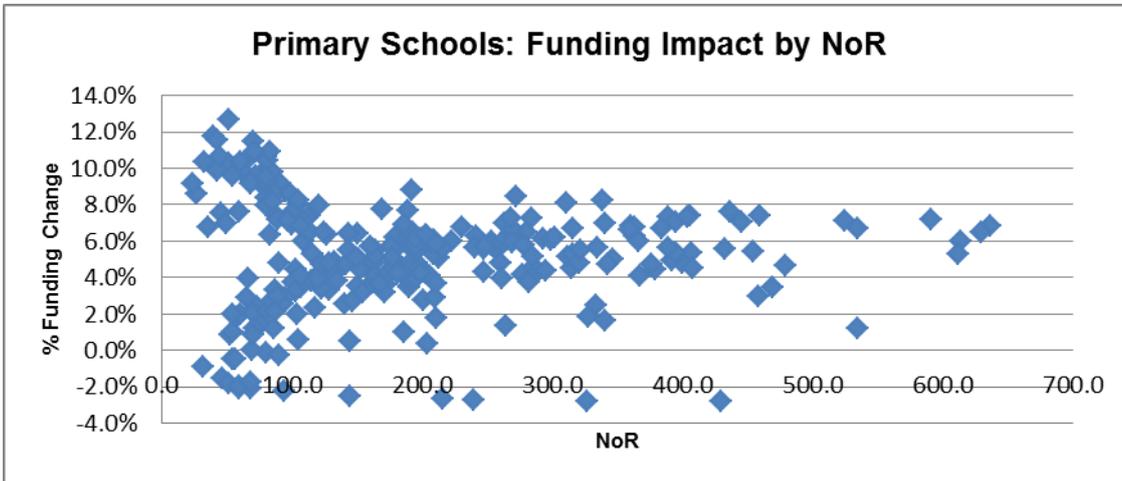
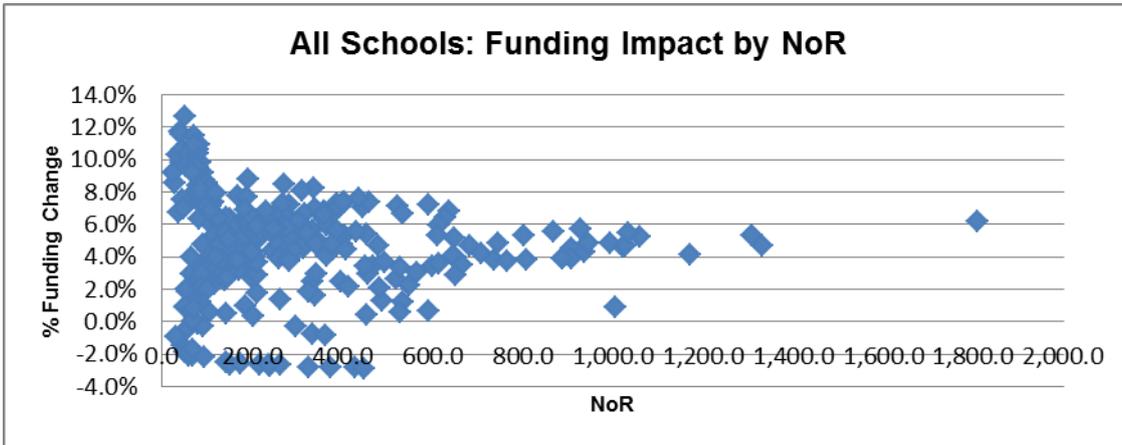
Appendix 1a

The financial impact of the national funding formula for Lincolnshire school prior to the application of the 'funding floor' and minimum funding guarantee, and the gains cap (compared to the Local Authority (APT) calculated budgets):



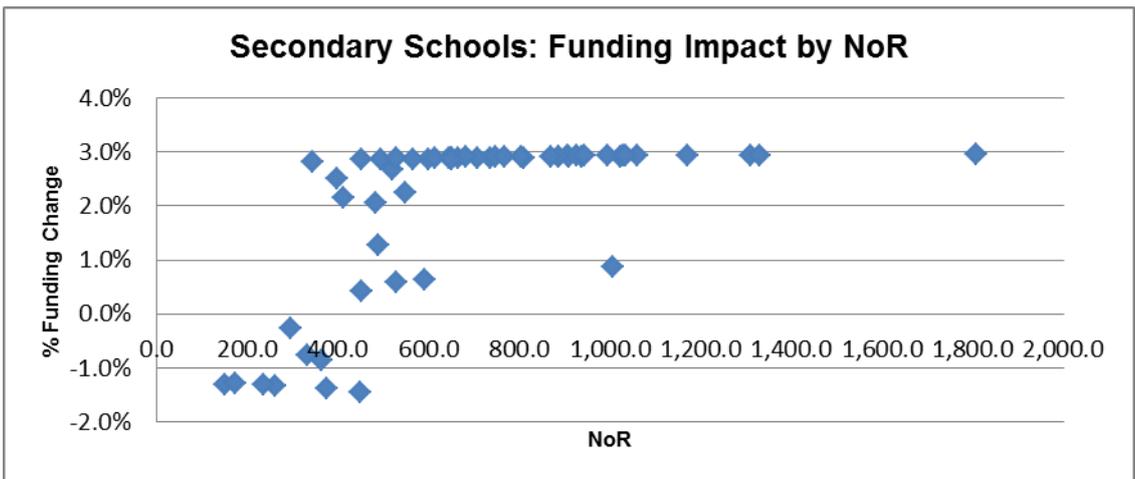
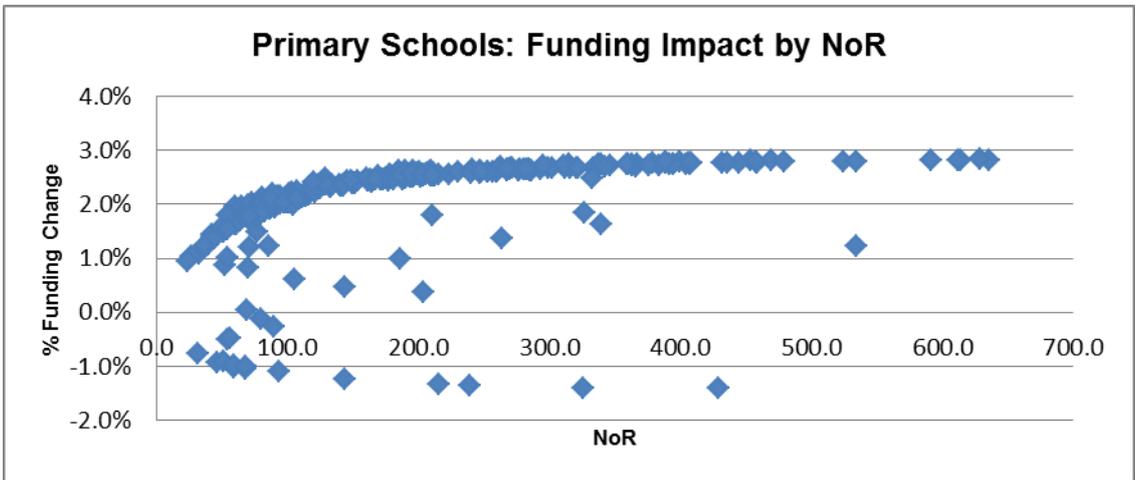
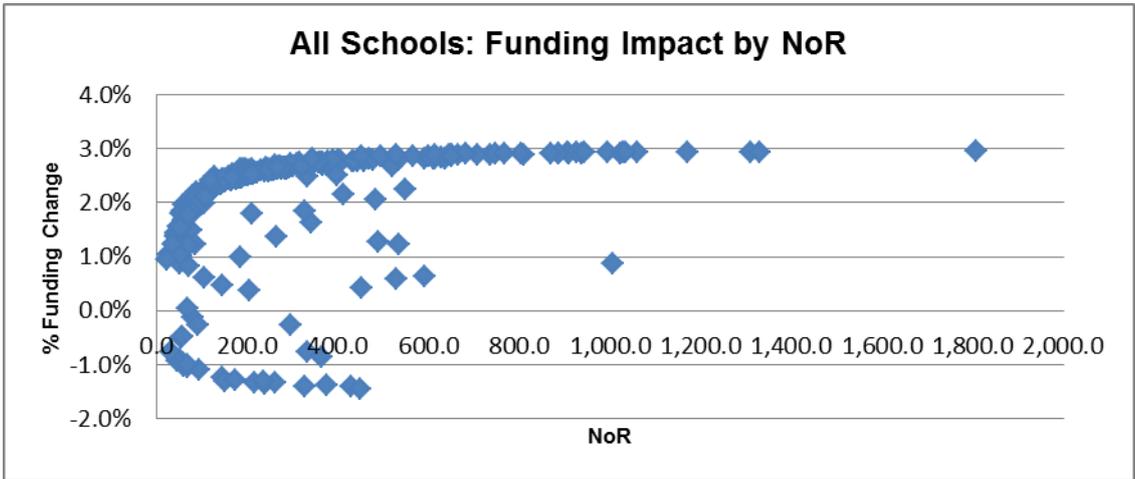
Appendix 1b

The financial impact of the national funding formula for Lincolnshire school after the application of the 'funding floor', but before the minimum funding guarantee, and the gains cap (compared to the Local Authority (APT) calculated budgets):



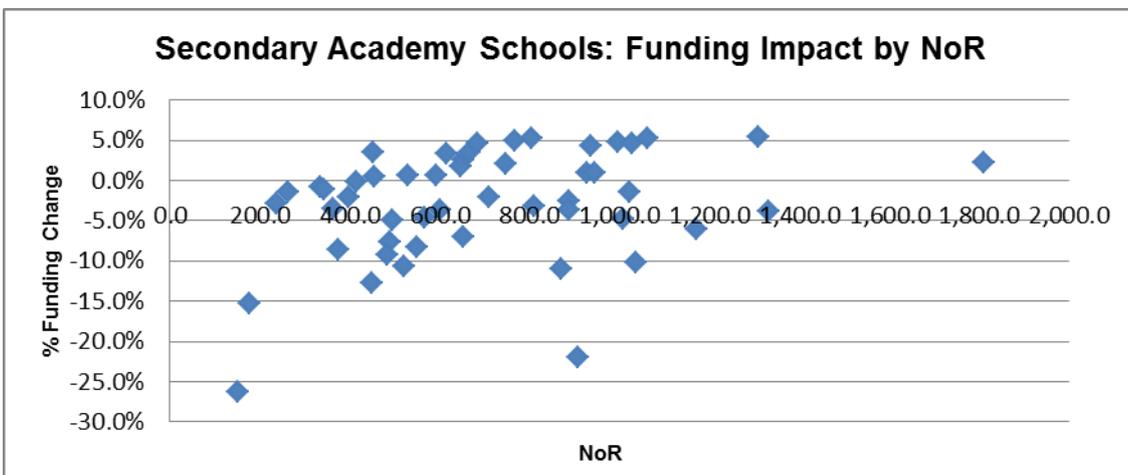
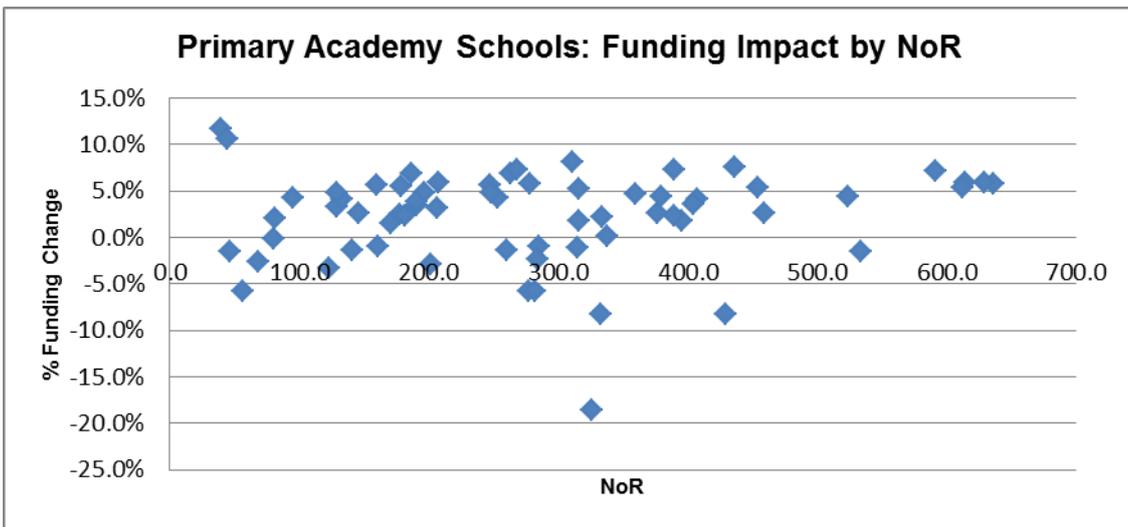
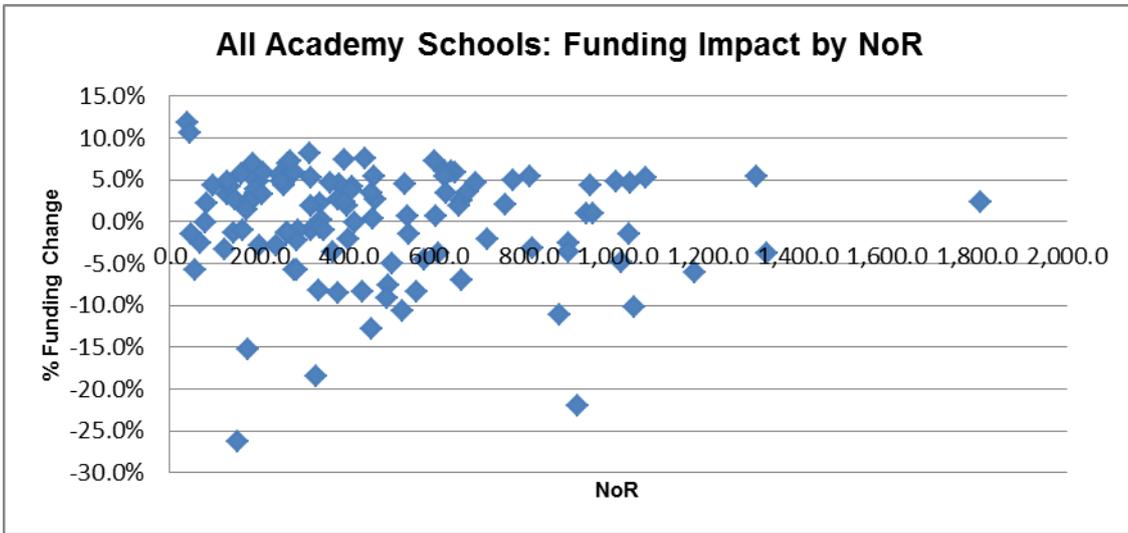
Appendix 1c

The financial impact of the national funding formula for Lincolnshire school after the application of the 'funding floor', the minimum funding guarantee, and the gains cap (compared to the Local Authority (APT) calculated budgets) for 2018/19 'soft' formula:



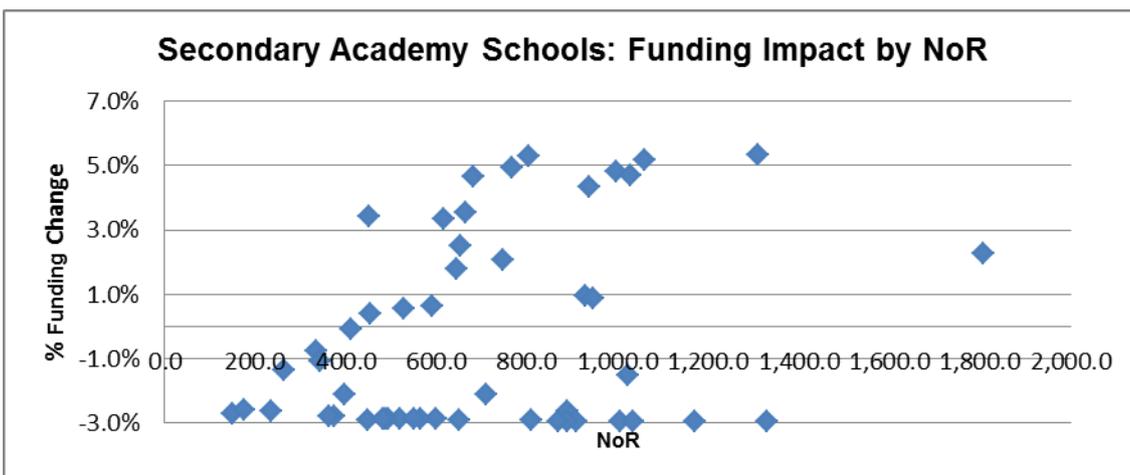
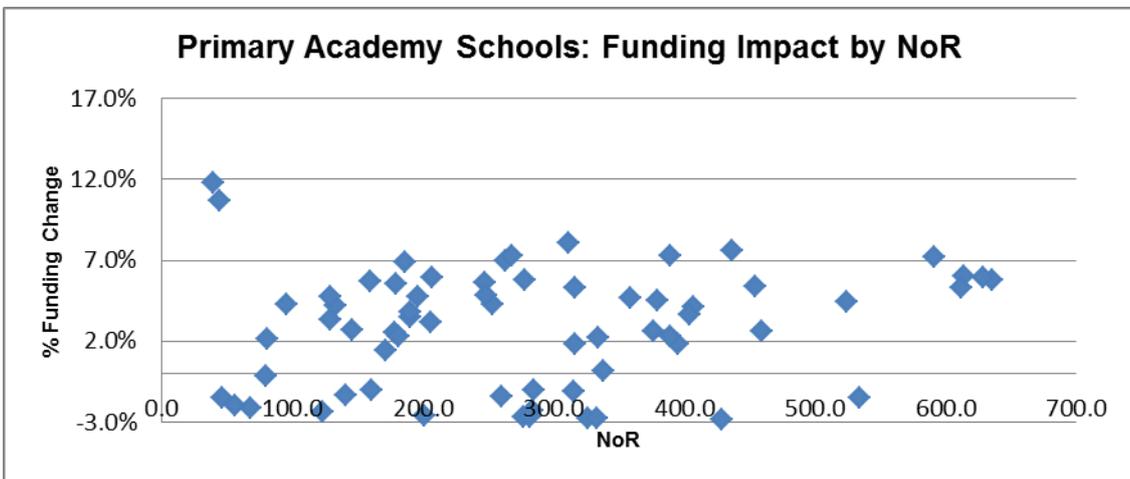
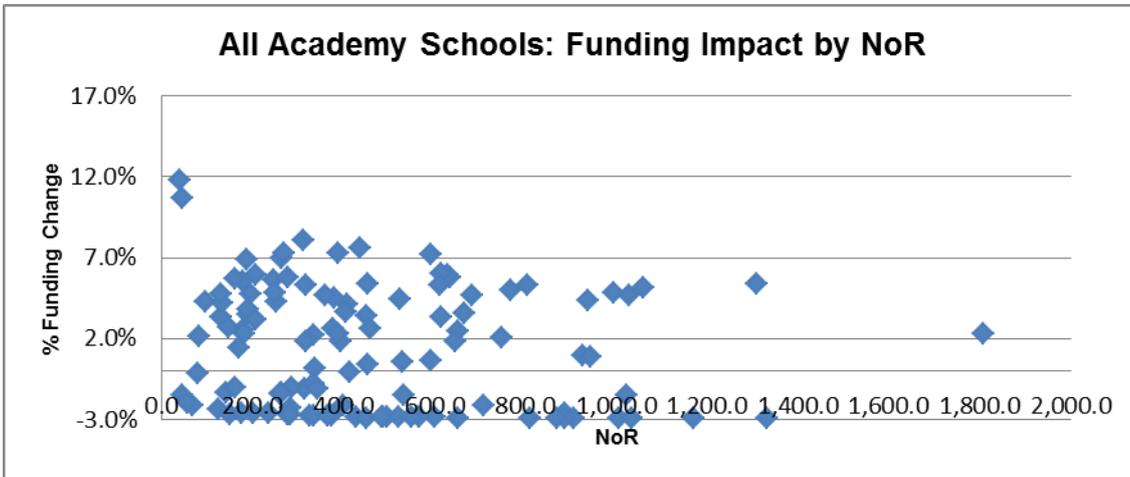
Appendix 1d

The financial impact of the national funding formula for Lincolnshire Academy schools prior to the application of the 'funding floor' and minimum funding guarantee, and the gains cap (compared to the academy GAG baseline):



Appendix 1e

The financial impact of the national funding formula for Lincolnshire Academy schools after the application of the 'funding floor', but before the minimum funding guarantee, and the gains cap (compared to the academy GAG baseline):



Appendix 1f

The financial impact of the national funding formula for Lincolnshire Academy schools after the application of the 'funding floor', the minimum funding guarantee, and the gains cap (compared to the academy GAG baseline):

