

**Open Report on behalf of Debbie Barnes, Executive Director of Children's Services**

Report to:	<b>Schools Forum</b>
Date:	<b>04 October 2017</b>
Subject:	<b>National Funding Formula for schools</b>

**Summary:**

The purpose of this report is to provide a summary of the national funding formula for schools and high needs for 2018/19 and 2019/20.

**Recommendation(s):**

The Schools Forum is asked to note the content of the report.

## **Background**

On the 14 September 2017, the government announced the national funding formula for schools and high needs. This follows the governments:

- stage 1 consultation on the 7 March 2016, which outlined the principles that would underpin the proposed formula and the pupil characteristics and factors to be included within the formula;
- stage 2 consultation on the 14 December 2016, which provided details of the proposed funding formula including illustrative school funding allocations. The consultation however outlined that its implementation would be pushed back to 2018/19, and
- in July 2017, the government confirmed that the introduction of the national funding formula would be supported by additional investment in 2018/19 and 2019/20. An additional £1.3bn for schools and high needs (£416m in 2018/19, and £884 million in 2019/20) would be provided, over and above the schools budget set at Spending Review 2015 (overall the total schools budget will increase by £2.6 billion between this year to 2019/20). Over the next two years, the government claim this will enable per-pupil spending to be maintained in real terms.

Through the national funding formula the government plan to implement a fairer settlement for each school. The changes are to be implemented in 2018/19. The government however plan to transition to the national funding formula through a 'soft' approach in 2018/19 and 2019/20, whereby Local Authorities (LAs) will continue to be responsible for calculating schools funding allocations. The overall funding will be determined at a LA level by the government's national funding formula by calculating notional budgets for each school. LAs are encouraged to move towards the national funding formula so that schools' allocations are on a sensible trajectory towards the move to a 'hard' national funding formula from 2020/21. LAs will be responsible for consulting with their local schools and Schools Forum on their proposed schools funding formula. Each local area will therefore be funded on a fair and equitable basis, according to the national funding formula.

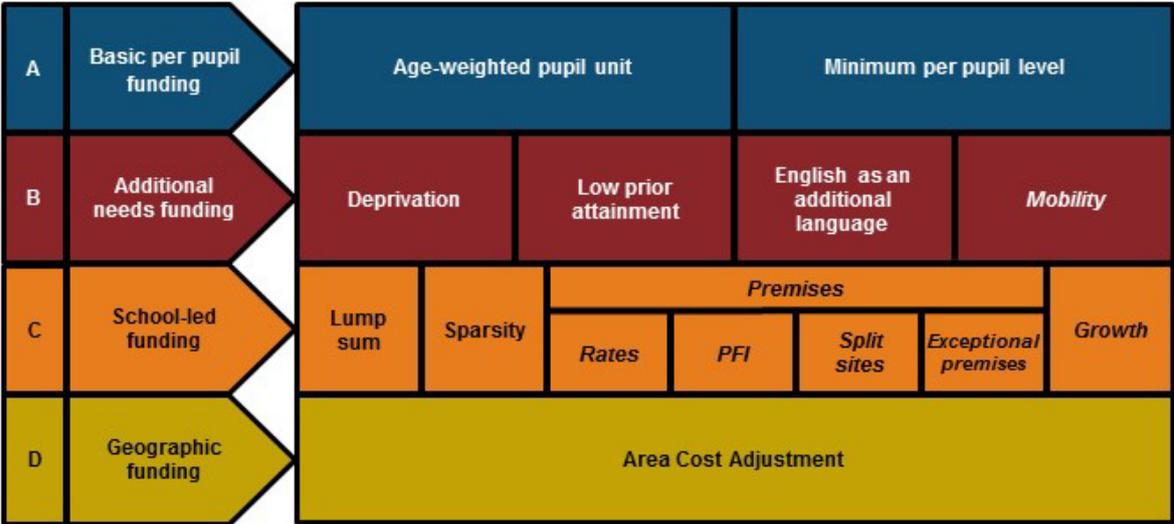
The policy document released on the 14 September 2017 can be found from the link below. Included within the government's release are high-level illustrative school allocations ([Impact of the schools NFF](#)).

<https://www.gov.uk/government/publications/national-funding-formula-for-schools-and-high-needs>

At the time of writing this report, the government has not released the schools national funding formula Technical Guidance; national funding formula school level detail, and the Authority Proforma Tool to allow LAs to undertake financial modelling at a school level in preparation for consulting with all schools on the proposed funding formula for 2018/19.

**Schools National Funding Formula**

The government has outlined the building blocks of the schools national funding formula, this includes: basic per-pupil funding (including the minimum per-pupil level which is an additional factor to the government's original proposals), additional needs funding, school-led funding and geographical funding. The 14 formula factors within these building blocks are detailed below<sup>1</sup>:



The basis of the government's schools national funding formula is grounded in the current distribution of funding using the application of averages that reflect LAs local funding formula allocations, as opposed to looking at the costs of running a school and understanding the cost of pupil needs (i.e. a needs based approach). Without undertaking this needs based approach it 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 however recognised the financial challenges faced by schools by adding an additional £1.3bn in schools and high needs funding over 2018/19 and 2019/20. It is estimated on a per pupil basis, schools are 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.

<sup>1</sup> Extract from The National Funding Formula for Schools and High Needs – policy document (September 2017).

The current funding settlement is up to 2019/20, however funding levels beyond 2019/20 will be subject to decisions taken at the next spending review.

The key points from the proposed schools national funding formula:

#### Funding distribution

- 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).

#### Per-pupil 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.
- the age-weighted pupil unit (AWPU) is the fundamental building block of the national funding formula. This is the basic funding that all pupils attract. The government's additional £1.3bn investment has enabled the AWPU rates to increase from those previously proposed (the primary, key stage 3 and key stage 4 per pupil rates have increased by £35, £66 and £74 respectively).
- 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 72.9% of total schools funding, and 90.7% of total funding will be allocated through per-pupil factors. LAs must allocate at least 80% of the delegated schools block funding through pupil-led factors in 2018/19.
- pupil deprivation will be identified through two indicators: eligibility for free school meals (FSM) (where this will be current eligibility and historic eligibility through the Ever6 measure), and the level of deprivation in the postcode where the pupil lives (measured using the government's income deprivation affecting children index (IDACI) measure).
- low prior attainment measures identify pupils who are likely to need extra support. A pupil who does not achieve the expected level in the Early Years Foundation Stage Profile on entry to primary school will attract an additional £1,050 a year through the formula, throughout their time in primary school. A pupil who does not achieve the expected level at key stage 2 will attract an additional £1,550 a year while in secondary education.
- pupils who speak English as an additional language (EAL) will attract additional funding to recognise the cost associated with providing support at school. A pupil with EAL will attract funding if they have entered the state education system during the last three years.
- a mobility factor in the national funding formula is intended to support schools that have a high proportion of pupils joining the school mid-way through the academic year. The government will however only fund LAs on the amount they distributed through their mobility factor in 2017/18 – Lincolnshire did not have a mobility factor within the 2017/18 local formula, therefore will not receiving funding through the national funding formula for this factor.
- the government has transferred the total amount spent through looked-after children (LAC) factors in local formulae in 2017/18 to the pupil premium plus budget. As a result of this transfer, the 2018/19 pupil premium plus rate will be £2,300. Lincolnshire

is to be disadvantaged financially from the approach being proposed by the government.

#### School-led funding

- 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 purpose of the lump sum is to make a contribution to the costs that do not vary with pupil numbers, and to give schools certainty that they will attract a fixed amount each year in addition to their pupil-led funding.
- The government has set the lump sum in the context of maximising pupil-led funding and encouraging efficiency. The monetary value is lower than the current average set by LAs (and Lincolnshire), and reflects the government's objective to encourage schools to share resources.
- to have a sparsity factor 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. Eligibility for sparsity funding depends on the distance the pupils in the school would have to travel to their next nearest school and the average number of pupils per year group. Primary schools qualifying will attract up to £25,000 and secondary schools up to £65,000 of funding through a scaling approach.
- Premises-related funding will be allocated through four factors: rates, split-sites, private finance initiative (PFI) and exceptional circumstances. This will be funded on the basis of historic spend for the first year of the formula in 2018/19.

#### Other key funding factors

- to recognise the higher salary costs faced by some schools, especially in London, an area cost adjustment (ACA) using the hybrid methodology will be adopted. Nationally the ACA ranges between 1.00 and 1.18 and for eligible schools, it will be applied to the entire schools funding. Lincolnshire schools do not trigger any additional funding through this route.
- schools can receive gains of up to 3% per-pupil in 2018/19, and then up to a further 3% in 2019/20. To ensure small schools are not restricted to small funding gains through the application of the 3% cap, the government will limit gains to the greater of 3% of a school's baseline or 20% of their remaining formula cash gains. The level of any gains caps beyond 2019/20 will be subject to decisions taken at the next spending review.
- the national formula will provide at least 0.5% per pupil increase in 2018/19 and at least 1% per pupil by 2019/20 in respect of all schools compared to their 2017/18 baselines.
- the 0.5% per pupil increase has replaced the government's original proposal of having 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. In addition, it would appear a minus minimum funding guarantee would not be applicable in 2018/19 and 2019/20, as is currently the case. It must be noted that the policy document refers only to funding agreement up to 2019/20, and funding levels beyond 2019/20 will be subject to decisions taken at the next spending review.
- local authority maintained school baselines for protection purposes are based on 2017/18 Authority Proforma Tool data. Academy and free school baselines are based on 2017/18 General Annual Grant data. Detailed school-level data will be required from government to confirm the position, but the government appear to be locking in former Local Authority Central Spend Equivalent Grant (LACSEG) protection funding (also referred to by the Education Skills Funding Agency as the 'local minimum funding guarantee') into an academy schools' baseline.

- the government has introduced an additional factor in the formula, which will provide a 'minimum per-pupil' funding level over the next two years. This is to recognise those schools where few pupils attract funding through the additional needs factors.
- for secondary schools, the minimum per pupil funding level for secondary schools will be £4,800 in 2019/20 with a transitional amount of £4,600 in 2018/19; and for primary schools this will be £3,500 in 2019/20 with a transitional amount of £3,300 in 2018/19. The minimum per pupil funding appears to be calculated based on the schools' national funding formula allocation less rates funding. The minimum per-pupil levels and transitional amounts will therefore not be subject to the gains cap methodology.

### **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	KS 1 & 2	£2,747	KS3	£3,863	KS 1 & 2	£2,557	KS3	£3,482
			KS4	£4,386			KS4	£4,292
<b>Additional needs funding</b>								
Ever 6 FSM	£540		£785		£0		£0	
Current FSM	£440		£440		£1,186		£1,305	
IDACI A	£575		£810		£484		£1,075	
IDACI B	£420		£600		£386		£807	
IDACI C	£390		£560		£320		£685	
IDACI D	£360		£515		£233		£490	
IDACI E	£240		£390		£151		£327	
IDACI F	£200		£290		£76		£162	
Low Priory Attainment	£1,050		£1,550		£1,641		£1,544	
English as an additional language	£515		£1,385		£1,000		£1,000	
<b>Schools-led</b>								
Lump Sum	£110,000		£110,000		£118,010		£175,000	
Sparsity	£0 - £25,000		£0 - £65,000		£0		£100,000	
<b>Formula factor removed</b>								
LAC	£0		£0		£600		£600	

#### Lincolnshire schools

From analysing the high level information provided by the government to date, Lincolnshire schools are benefiting from the national funding formula changes through an increase in funding.

- Primary schools: in 2018/19, 19 schools are funded on the 0.5% per pupil increase, with the largest number of schools (241) gaining by 3% per pupil or more. In 2019/20, 199 schools are gaining by 6% per pupil or more.
- Secondary schools: in 2018/19, 16 schools are funded on the 0.5% per pupil increase, with the largest number of schools (33) gaining by 3% per pupil or more. In 2019/20, 17 schools are gaining by 6% per pupil or more.

#### Next Steps – Schools National Funding Formula

- the government to release the schools national funding formula Technical Guidance; school level detail and the Authority Proforma Tool to allow the LA to undertake financial modelling.
- the LA to undertake financial modelling at an individual school level based on the 2018/19 national funding formula rates. Executive Director and Assistant Director of Children's Services, and Executive Councillor Children's Services consulted upon before determining the proposed 2018/19 funding formula for consultation with all local schools (including academies).
- the LA to undertake a consultation period with all maintained schools and academies in the area on the proposed funding formula for 2018/19 including the method, principles and rules adopted (October / November – timing subject to detailed government material being released).
- the LA to review and consider feedback from the schools consultation on the proposed 2018/19 funding formula. To consider output with key LA officers and Executive Member.
- to table a report at an extraordinary Schools Forum meeting (November / December) on the consultation findings, and the proposed 2018/19 funding formula for Schools Forum consideration.
- the funding formula to go through the LA decision-making process.
- The LA Finance Team to undertake briefing sessions with all schools on the 2018/19 funding formula.
- the LA to calculate individual schools budgets by the 28 February 2018.

### **Local Authority Dedicated Schools Grant**

The Local Authority Dedicated Schools Grant (DSG) now comprises four blocks: schools, central school services, high needs, and early years block. Each of the four blocks of the DSG will be determined by a separate national funding formula.

#### Schools block

LA schools block allocations will be calculated by aggregating schools' notional allocations under the national funding formula. Schools block allocations will be expressed as separate per pupil primary and secondary rates for each LA. They will also include funding at a LA level for premises, mobility and growth, based on historic spend.

#### Central school services block

The government proposed the introduction of a central schools block within the DSG for 2018/19 to reflect the ongoing LA role in education. The central school services block will be created from two existing funding streams:

- the DSG funding that is held centrally by the LA for central services, and
- the retained duties element of the Education Services Grant (ESG), which is funding for duties which LAs hold in respect of all schools (statutory & regulatory duties; education welfare, and asset management).

Funding will cover two distinct elements which will be handled separately within the formula:

- ongoing responsibilities: distributes funding to LAs using a simple formula which distributes 90% of funding according to a per-pupil factor and 10% of funding according to a deprivation factor. The funding supports: admissions service; servicing the Schools Forum; nationally agreed schools copyright licences; places in independent schools for non-SEN pupils, and ESG retained duties.
- historic commitments: funding will be allocated based on evidence, with the expectation that historic commitments will unwind over time, for example because a contract has reached its end point. The budget funds the aggregated broadband

provision for all schools (including academies) in Lincolnshire which the contract end date is October 2019, and the funding gap for 7 PFI schools. The LA is currently reviewing the options for schools broadband services post October 2019, however 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). Further information will be provided in due course.

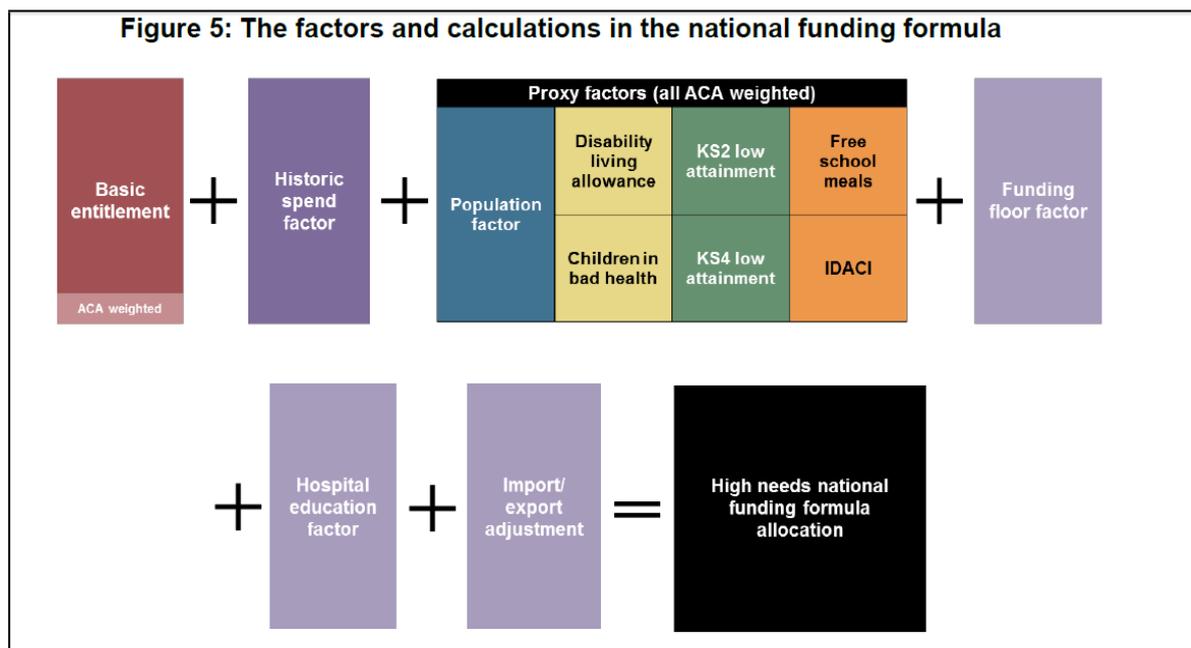
Illustrative allocations provided by the government for ongoing responsibilities show Lincolnshire having a marginal increase in funding for 2018/19. Historic commitments for Lincolnshire have been approved by the government for 2018/19.

High needs block

The government is moving to a basis for distributing funding to LAs for children and young people with high needs, taking into account an up-to-date assessment of the level of need in each area as opposed to funding on the basis of historic spending.

LA will be protected from losing funding under the formula and will instead see minimum increases of 0.5% per head in 2018/19 and 1% per head in 2019/20, on their planned high needs spending levels from 2017/18 DSG.

Structure of the high needs funding formula for LAs:



- Basic Entitlement: to provide a per pupil amount of £4,000 for all pupils in special schools taken from the school census data collection in the October prior to the year for which allocations are made.
- Historic funding: to allocate 50% of the remaining funding on the basis of historic spending. This provides every LA with an amount based on its existing high needs costs, and particularly those costs that may not be reflected by indicators of need used in the other formula factors.
- Proxy Factors: to allocate the other 50% on the basis of proxy factors, such as population, low prior attainment, deprivation factors etc.

For 2017/18, Lincolnshire will be in receipt of £5.201m of protection funding when comparing the national funding formula and Lincolnshire's current high needs block. The

government has announced protection arrangements for 2018/19 and 2019/20, and the LA expects that incremental reductions (similar to the schools minimum funding guarantee) will be applied in future years to ensure reductions are manageable and can be planned. The Special Educational Needs & Disability (SEND) strategy, which involves a comprehensive review of special educational needs provision in Lincolnshire will assist with driving efficiencies and value for money. The review is predicated on developing localised special education opportunities for children and their families in Lincolnshire; enhance the level of collaboration with strategic partners to ensure appropriate provision and support for those with SEND across all schools / academies (i.e. children and young people with SEND get the right education, in the right place, at the right time, as close as possible to their community of place).

High needs funding that is directly influenced by the schools delegated funding, such as targeted notional SEN will need to be reviewed in light of the schools national funding formula implementation in 2018/19 to ensure schools with a higher number of pupils with SEND are funded at the appropriately level overall.

#### Early years block

The government implemented the early years national funding formula in 2017/18, of which Lincolnshire is funded on the 'minimum funding rate' of £4.30 per hour. The LA consulted with all providers, and a universal rate of £3.82 per hour was established along with a deprivation supplement in 2017/18. The early years block covers the 15 hours 3 & 4 year old free entitlement; the additional hours for working families up to 30 hours; disability access fund, early years pupil premium, and disadvantaged 2 year old funding.

#### **Redetermination of budget shares**

Where pupils are excluded, funding should flow in-year from the school that has excluded the pupil to the provision that takes responsibility for the pupil. If a school subsequently admits a pupil who has been permanently excluded during that financial year, it should then receive additional funding. The provisions here also apply to pupils who leave a mainstream school for reasons other than permanent exclusion and are receiving education funded by the LA other than at a school. The provisions also act independently of whether a particular pupil has been on the census in the first place and whether the school has received funding for them.

When a pupil is excluded from a maintained mainstream school, then the LA must deduct from the school's budget in-year the amount within the formula relating to the age and personal circumstances of that pupil, pro rata to the number of complete weeks remaining in the financial year from the relevant date. This means that the deduction should cover not just the basic entitlement but also the relevant amounts for pupil-led factors such as FSMs or EAL, where the pupil attracted funding through those criteria.

The adjustment for a particular exclusion relates only to the current financial year and cannot be applied to subsequent years.

The arrangements for payment will be the same as if the academy were a maintained school, under regulations made under section 47 of the School Standards and Framework Act 1998. As the wording relates to the finance regulations, the adjustments should also relate to the LA financial year.

## Consultation

### a) Have Risks and Impact Analysis been carried out??

No

### b) Risks and Impact Analysis

N/A

## Background Papers

Document title	Where the document can be viewed
National Funding Formula for schools – Schools Forum	<a href="http://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=166&amp;MId=4876&amp;Ver=4">http://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=166&amp;MId=4876&amp;Ver=4</a>
Schools National Funding Formula – stage 2	<a href="https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula2/">https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula2/</a>
National Funding Formula for schools – Schools Forum	<a href="http://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=166&amp;MId=4439&amp;Ver=4">http://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=166&amp;MId=4439&amp;Ver=4</a>
Schools National Funding Formula – stage 1	<a href="https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula">https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula</a>

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