

# Children and Young People's Overview and Scrutiny Committee

7 November 2017



## National Funding Formula & Mainstream Primary and Secondary Schools Funding Formula 2018-19

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### Report of John Hewitt, Corporate Director Resources

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#### Purpose

- 1 To describe the Council's approach to setting a funding formula for mainstream primary and secondary schools for 2018-19, taking into account the Government's announcements on the National Funding Formula for schools on 14 September 2017. This formula will apply to maintained schools from 1 April 2018 and academies from 1 September 2018.<sup>1</sup>

#### Background

- 2 The main source of funding for mainstream primary and secondary schools and academies is the local formula. Each local authority currently sets its own formula, within the restrictions imposed by the DfE, after consultation with schools and the Schools Forum. From 2020/21 the Government will determine funding to individual schools via the National Funding Formula.
- 3 This formula does not include funding for High Needs SEN pupils, early years, post-16 or the Pupil Premium.
- 4 Funding for the formula is provided through the Dedicated Schools Grant (DSG). In the current year, as in past years, DSG allocations are largely based on historic allocations dating back to the mid-2000s.
- 5 Since 2013/14, discretion over the local funding formulae has been significantly restricted, with local decision making limited to the application of a relatively small number of permissible formula factors, most of which are pupil-led, with the rest being either school-led or relating to specific premises related costs. There is significant variation between local authorities in terms of the proportions of funding allocated to different factors within the formula.
- 6 Final approval of the formula is normally a delegated decision taken by the Corporate Director Resources. In previous years, consultation with the Schools Forum usually started before or just after the summer holidays, with further consultation prior to the October meeting of the Forum when agreement would usually be reached on a draft formula, including the factors to be used,

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<sup>1</sup> References in this report to schools should be read to include both maintained schools and academies.

lump sums per school and the proportions allocated to different pupil-led factors. Pupil-led £/pupil values would be determined once the final DSG allocation and pupil data was made available by the Education and Skills Funding Agency (ESFA) in December. The process has been delayed this year, because of the timing of government announcements about the NFF.

- 7 For the most part, the formula in Durham has not changed from year-to-year in respect of either the formula factors or the proportions allocated to each factor; in general there has been little appetite by either schools or the Council to make significant changes to the formula that would cause turbulence in funding from year-to-year. One exception, was in respect of the primary lump sum, which has been reduced over the past two years, with the funding released being used to increase the allocation of pupil-led funding for secondary schools. This was not supported by primary schools representatives on the Schools Forum, but was still implemented by the Council.
- 8 The process of setting the formula for 2018-19 will be different to previous years, because it is the first year to be affected by the National Funding Formula (NFF), which will affect the amount available and introduce a new consideration in respect of the implications for schools when the NFF replaces local formulas.
- 9 In 2018-19 each local authority's DSG allocation will be determined by the funding that its schools would have had through the NFF if there had been no local formulas; this will replace the method based on historic allocations. The Council estimates that this change will increase funding for schools in County Durham by £4.19 million in 2018/19. In addition, changes in pupil numbers and one-off adjustments add a further £3.55 million in funding, making the estimated year on year increase in funding available in 2018/19 £7.74 million.
- 10 It is important to note that although this will increase the funding allocated through the formula, costs are also increasing, through inflation, pay awards and having to make provision for additional pupils.
- 11 The introduction of the NFF means that for 2018-19 the Council needs to carefully consider how its local formula differs from the NFF and the implications of these differences, specifically:
  - a. How will these differences affect schools when their funding changes from the local formula to the hard NFF in 2020-21?
  - b. How will the Council justify retaining differences in funding between the allocations in the NFF and the allocations in the local formula in 2018/19 and 2019/20?
- 12 In respect of the timing of decision-making, the final version of the formula must be submitted to the ESFA by mid-January. The relevant portfolio holders have been consulted informally and the Schools Forum has agreed to undertake consultation via a series of working groups in November, prior to the next meeting of the Forum on 5 December, where the "final" proposals will need to be considered. All members have been issued with a briefing note on the

impact of the NFF and the options being considered for 2018/19, with copies shared with all Chairs of Governors also. A report will be considered by Cabinet in December, where Cabinet will be asked to approve the final version of the formula, subject to adjustments when funding and pupil data is confirmed by the ESFA. In previous years the ESFA has provided information in the second week of December, but at present they will only confirm that it will be provided 'in December'.

### **Local schools formula 2018/19: Options for consideration**

13 The options that have been consider to date are:

#### ***Minimal change***

14 This retains the existing 2017-18 formula factors, updated for estimates of funding for 2018-19 and pupil numbers as at October 2017.

#### ***Move to the NFF unit values***

15 This uses the lump sums from the NFF and for pupil-led funding uses the £/pupil values from the NFF, adjusted *pro rata*, so that the formula is affordable for 2018-19. We cannot match the NFF £/pupil values exactly, because:

- a. The NFF is based on October 2016 School Census data, but the local formula will use October 2017 data, so the number of pupils and the numbers qualifying for each of the additional needs factors will be different;
- b. The amounts needed for premises factors and PFI will not match the NFF allocations, which are based on 2017-18 allocations.

#### ***Transitional Model – Moving Towards the NFF***

16 This compares the Minimal Change and NFF versions of the formula and seeks to move the local formula towards the NFF position, (to smooth in the changes that will happen in 2020/21). It does this by adjusting values by one-third from the Minimal Change version towards the NFF version and would be altered again in 2019-20 to make it closer to the NFF by a further one-third.

17 Modelling work has been undertaken to estimate the impact of different options in 2018-19 and the formula factors and allocations of funding across these factors under each option are summarised in Appendix 2. The notes below refer to significant differences between the allocations to factors under each of these formula options:

#### ***Free School Meals entitlement***

18 In the local formula this is currently used as a proxy measure for deprivation for secondary schools, (pupils suffering deprivation are more likely to need additional support to achieve the same level of attainment as other pupils). In the NFF it is used across both phases, but instead of being a proxy measure, it

is used to allocate an amount to recognise that schools need to provide free meals for eligible pupils and the rate is set on the basis of a cost of £2.30 per meal.

### ***FSM6***

- 19 This is also a proxy measure for deprivation, (more than one proxy measure is used in the formula to recognise that all have drawbacks and using a number of proxies increases the likelihood that schools will receive funding proportionate to the needs of their pupils). This allocates funding where pupils have been recorded as being eligible for a free school meal on any schools census in the past six years. This measure is not used in the local formula currently.

### ***IDACI***

- 20 This is another proxy measure; the Income Deprivation Affecting Children Index (IDACI) is a subset of the Index of Multiple Deprivation and identifies the probability that a child will suffer income deprivation based on the area in which they live. Scores are allocated to bands, with Band A for the areas most likely to suffer deprivation.

### ***English as an Additional Language***

- 21 This is for pupils recorded with English as an Additional Language in the last three years; it is not currently used in the local formula.

### ***Low Prior Attainment***

- 22 This is for pupils who have not reached a satisfactory standard of attainment in their previous phase of education. It is another proxy measure for pupils who are more likely to need additional support to achieve the same level of attainment as other pupils.

### ***Lump sum***

- 23 Most of the formula is pupil-led; government policy is that funding should follow pupils and that unpopular schools should not be propped-up through local formulas. However, the lump sum recognises that all schools have some fixed costs, in respect of needing a headteacher, buildings and administrative support and that smaller schools may not have sufficient pupil-led funding to allow for these costs in addition to the direct costs of educating pupils.

### ***Sparsity***

- 24 This is intended to support small schools serving sparsely populated rural areas where there is not an alternative school within an acceptable travelling distance. The eligibility criteria restricts the number of schools that are eligible and the schools that qualify in Durham are all in the Dales.

### **Premises factors**

- 25 These will be funded through the DSG on the basis of historic allocations. The figures shown in the Appendix are our estimates for next year.

### **Comparison of options under consideration**

- 26 Table 1 below shows the proportions of funding allocated through the different versions of the formula under consideration:

|                                   | <b>Minimal change</b> | <b>NFF unit values</b> | <b>Transitional (Y1)</b> | <b>Transitional (Y2)</b> |
|-----------------------------------|-----------------------|------------------------|--------------------------|--------------------------|
| Basic funding per pupil           | 70.2%                 | 71.4%                  | 70.6%                    | 71.1%                    |
| Deprivation                       | 12.3%                 | 11.5%                  | 12.1%                    | 11.8%                    |
| English as an Additional Language | -                     | 0.2%                   | 0.1%                     | 0.1%                     |
| Low Prior Attainment              | 1.9%                  | 5.5%                   | 3.1%                     | 4.3%                     |
| Total for pupil-led factors       | 84.4%                 | 88.6%                  | 85.8%                    | 87.3%                    |
| Lump sum                          | 13.4%                 | 9.1%                   | 11.9%                    | 10.4%                    |
| Sparsity                          | -                     | 0.1%                   | 0.0%                     | 0.1%                     |
| Total for school-led factors      | 13.4%                 | 9.2%                   | 12.0%                    | 10.5%                    |
| Total for premises factors        | 2.2%                  | 2.2%                   | 2.2%                     | 2.2%                     |
| Total for other factors           | -                     | -                      | -                        | -                        |
| <b>Total funding</b>              | <b>100.0%</b>         | <b>100.0%</b>          | <b>100.0%</b>            | <b>100.0%</b>            |

- 27 Compared to the Minimal Change option, the NFF based option reduces the allocations to deprivation and the lump sum and increases funding for low prior attainment. Other factors in the NFF allocation are for growth funding and mobility which are not included in the local formula.
- 28 Details of the impact of the options for individual schools are shown in Appendix 3, which notes changes in pupil numbers and compares funding for the different options to 2017-18 funding. Funding modelled here is formula funding net of adjustments in respect of the Minimum Funding Guarantee and de-delegation.

### **Summary of impact**

- 29 Based on modelling what schools would receive in 2018/19 if the formula remained unchanged compared to the NFF and also to the transitional model, the following table provides a summary of the impacts:

|                          |                   | Minimal change          |     |                             | NFF                     |     |                             | Transitional            |     |                             |
|--------------------------|-------------------|-------------------------|-----|-----------------------------|-------------------------|-----|-----------------------------|-------------------------|-----|-----------------------------|
|                          |                   | Number and (%) impacted |     | Average change in funding £ | Number and (%) impacted |     | Average change in funding £ | Number and (%) impacted |     | Average change in funding £ |
| <b>Primary Schools</b>   | Increased Funding | 143                     | 67% | 30,000                      | 124                     | 58% | 33,000                      | 136                     | 63% | 30,000                      |
|                          | Reduced Funding   | 72                      | 33% | -21,000                     | 91                      | 42% | -21,000                     | 79                      | 37% | -20,000                     |
|                          | No change         | -                       | -   | -                           | -                       | -   | -                           | -                       | -   | -                           |
| <b>Secondary Schools</b> | Increased Funding | 24                      | 77% | 256,000                     | 25                      | 81% | 273,000                     | 25                      | 81% | 256,000                     |
|                          | Reduced Funding   | 7                       | 23% | -89,000                     | 6                       | 19% | -103,000                    | 6                       | 19% | -98,000                     |
|                          | No change         | -                       | -   | -                           | -                       | -   | -                           | -                       | -   | -                           |
| <b>All Schools</b>       | Increased Funding | 167                     | 68% | 63,000                      | 149                     | 61% | 73,000                      | 161                     | 65% | 65,000                      |
|                          | Reduced Funding   | 79                      | 32% | -27,000                     | 97                      | 39% | -26,000                     | 85                      | 35% | -26,000                     |
|                          | No change         | -                       | -   | -                           | -                       | -   | -                           | -                       | -   | -                           |

### Minimum Funding Guarantee

- 30 For 2018-19 Councils can also opt to increase the protection provided by the Minimum Funding Guarantee (MFG). The MFG provides a minimum level of funding per pupil compared to the previous year, (note that this does not protect schools from the impact of falling rolls or changes to the lump sum). Increases in protection would have to be paid for by capping increases in funding for other schools and at present no reason has been identified to justify increasing protection at the expense of other schools.

### Summary

- 31 This report outlines options for the mainstream primary and secondary school funding formula for 2018-19. Setting this formula is a local authority responsibility and this will be the first year for which the Council will need to consider setting a formula in the context of revised funding allocations and the National Funding Formula (NFF) requirements; the Government has announced that the latter will replace local formulas with effect from 2020-21.
- 32 The formula must be submitted to the ESFA by mid-January and consultation with Cabinet, to be followed by consultation with schools and the Schools Forum, is required in advance.

- 33 The options that are outlined in this report are:
- a. A minimal change from the 2017-18 local formula, updated for changes in pupil numbers and funding;
  - b. A new formula based on the NFF;
  - c. A transitional version based on the mid-points between the NFF and the existing 2017-18 local formula.
- 34 In addition this report also notes the discretion to increase the level of protection in the Minimum Funding Guarantee, but does not recommend this.
- 35 The impact on individual schools from the options modelled is included within the Appendix 3 to this report, with a summary provided in Table 2 at para 29.

### **Recommendations**

- 36 It is recommended that members of Children and Young People's Overview and Scrutiny Committee:
- a. Note the information contained within this report and the consultation currently underway via the Schools Forum and with all Primary and Secondary Schools across the county.
  - b. Continue to monitor progress towards implementation of the NFF in 2020-21.

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|-----------------|---------------------|--------------------------|
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## **Appendix 1 - Implications**

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### **Finance**

The Dedicated Schools Grant (DSG) is a specific earmarked grant provided by the Government which provides the major source of funding for schools and the provision of support to them. It is notionally split into three 'blocks': Early Years, High Needs and Schools.

Local authorities are currently able to transfer funding between blocks and have some limited flexibility in how this funding is allocated to individual schools. All DSG funding must be spent on schools or support to them.

The Government has announced proposals for the National Funding Formulas (NFF) for mainstream primary and secondary schools, Special Educational Needs & Disabilities and Central School Services. These will be used to determine allocations to local authorities with effect from the 2018-19 financial year and to individual schools themselves from 2020/21.

Local authorities will still be required to set a local formula for mainstream primary and secondary schools for the 2018-19 and 2019-20 financial years. Early indications are that funding allocations will increase, but there is likely to be more scrutiny of the local formula by schools, because they will be able to compare their allocations to what they would have had through the NFF.

The NFF puts more funding into pupil-led factors than school-led factors, which could create longer-term challenges for smaller schools, because the increase in pupil-led funding will be of less benefit to schools with smaller numbers of pupils. The NFF will include minimum funding levels which may reduce the amount that can be allocated through factors such as deprivation.

### **Staffing**

There are likely to be consequential restructuring and potential redundancies in schools where funding is reduced.

### **Risk**

Small schools will potentially become financially unviable, particularly in rural areas, with potential additional transport costs and adverse effects on local communities.

Strategic decisions required on any move towards the NFF requirements in 2018/19 (and again in 2019/20) during the transition year.

### **Equality and Diversity / Public Sector Equality Duty**

None

### **Accommodation**

None

### **Crime and Disorder**

None

## **Human Rights**

None

## **Consultation**

The Council responded to both stages of the DfE consultation prior to this announcement on 14 September, 2017. Elected members, including the Children and Young People's Overview and Scrutiny Committee, and the Schools Forum have received several briefings on the DfE consultation proposals.

Further consultation will take place with elected members, schools and the Schools Forum on the DfE's published NFF final proposals. The final version of the formula must be submitted to the DfE in mid-January.

## **Procurement**

None

## **Disability Issues**

None

## **Legal Implications**

Schools are largely funded through the Dedicated Schools Grant (DSG). Allocations of funding are largely based presently on historic allocations dating back to the mid-2000s.

Since 2013/14, local discretion over funding formulae has been significantly restricted, with local decision making limited to the application of a relatively small number of formula factors, most of which are pupil-led, with the rest being either school-led or relating to specific premises related costs.

The funding framework governing schools finance, which replaced Local Management of Schools, is based on the legislative provisions in sections 45-53 of the School Standards and Framework Act 1998. Under this legislation, the council is required to publish a Scheme of Financing for Schools.

The scheme sets out the financial relationship between the authority and the maintained schools that it funds, including the respective roles and responsibilities of the authority and schools. Under the scheme, deficits of expenditure against budget share (formula funding and other income due to the school) in any financial year are charged against the school and deducted from the following year's budget share to establish the funding available to the school for the coming year.