

**Cabinet**

**13 December 2017**



**Mainstream Primary and Secondary  
Funding Formula 2018-19**

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**Report of Corporate Management Team**

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**Purpose of the Report**

- 1 To consider the Council's approach to setting a funding formula for mainstream primary and secondary schools for 2018-19. 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. Subject to legislation to provide the necessary powers, from 2020/21 the Government intends to determine funding to individual schools via the National Funding Formula (NFF).
- 3 Mainstream schools also receive funding for High Needs Special Educational Needs (SEN) pupils, early years (where primary schools have nursery units), post-16 funding and also the Pupil Premium, which in the current year is worth £19 million.
- 4 The formula is applied directly to maintained schools and is used by the Education and Skills Funding Agency (ESFA) in determining funding for academies.
- 5 Funding for the formula is provided through the Dedicated Schools Grant (DSG). The element for academies, as determined by the local formula, is recouped from the overall DSG allocations for the local authority area and paid direct to academies. The remaining DSG is paid to the Council, who then

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

distributes (delegates) the funding received to individual maintained schools in line with their formula funding allocations.

- 6 For the current year, as in past years, DSG funding allocations are largely based on historic allocations dating back to the mid-2000s.
- 7 Since 2013/14, local discretion over the local funding formulae used to determine allocations to individual schools 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 still, however, significant variation between local authorities in terms of the proportions of funding allocated to different factors within the formula.
- 8 Final approval of the formula is normally a delegated decision taken by the Corporate Director of Resources in consultation with the relevant Cabinet Portfolio Holders. Consultation with the Schools Forum would normally start before the summer, with further consultation in the autumn. At that stage agreement would be reached on a draft formula, which would then be amended once final data and funding is made available by the ESFA in December.
- 9 For the most part, the local schools funding formula in Durham has not changed from year-to-year in respect of either the formula factors or the proportions allocated to each factor and in general there has been little appetite by either schools or the Council to make significant changes to the formula. This was a conscious decision to try and restrict turbulence within the schools funding regime in Durham. 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.
- 10 The process of setting the formula for 2018-19 has been different to previous years, because it is the first year to be affected by the NFF, which has been an aim of Government policy since 2010.
- 11 For 2018-19, funding allocations to the local authority area through the DSG will be based on the NFF, but individual local authorities are still required to set a local formula. In 2019-20 the same arrangement will apply, but with effect from 2020-21, local formulas will be replaced by the NFF, which will determine allocations to individual schools. The Government are encouraging local authorities to move their local formula towards the NFF over the next two years.
- 12 The change in the method of DSG allocation is estimated to increase funding to schools in County Durham by £4.19 million in 2018/19. This represents circa 1% of the additional £416 million being made available nationally to increase DSG funding in 2018/19. In addition, changes in pupil numbers and one-off adjustments add a further circa £3.55 million in funding to County Durham schools, making the estimated increase in funding circa £7.74 million in 2018/19.

- 13 It is important to note that nearly half of the increase is due to increases in pupil numbers, which for some schools will be sufficient that schools will have to increase expenditure in order to have adequate resources to cope with a larger number of pupils on roll. The increase in required expenditure in some schools could exceed the additional resources generated by the additional pupil numbers. Schools are also, of course, subject to other financial pressures through increased costs brought about by inflation and pay awards etc.
- 14 This report focuses solely on the impact on individual schools from the additional DSG funding available next year and the local formula that is to be adopted to distribute that funding to individual schools. It does not factor in any spending pressures or the relative financial strength (retained surpluses or deficits) of the school, neither of which can be reflected in the formula.
- 15 The introduction of the NFF means that 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 significant differences in funding between the allocations in the NFF and the allocations in the local formula in 2018/19 and 2019/20?
- 16 At present there is not sufficient information available to definitively calculate and accurately model how the NFF will work in 2020-21, but there is sufficient information available to model the impact of different options in 2018-19, using estimates of pupil numbers and 2017-18 data on the proportions of pupils eligible for additional needs funding. This is the key focus of this report.
- 17 The final version of the formula must be submitted to the ESFA by mid-January.

### **Local Schools Formula 2018/19: Options Considered**

- 18 In considering the options available to the Council in setting the local funding formula for mainstream primary and secondary schools for 2018-19, three options have been modelled and consulted upon:
  - (a) Leave the local formula as it is, with minimal changes only applied in 2018/19;
  - (b) Change the local formula so that it matches the NFF as closely as possible in 2018/19;
  - (c) Make changes to the local formula in 2018/19 such that it reduces the differences between the local formula and the NFF, but not to the same extent as in b);
- 19 In respect of option b), the Council is not be able to match the NFF exactly, because:

- (a) the NFF is based on older data, than will be used for the actual local formula, so the number of pupils qualifying for each of the additional needs factors will be different to those published at this time;
  - (b) the amounts provided in the NFF for premises factors are based on 2017-18 allocations and do not match the estimated allocations required for 2018-19.
- 20 Initial modelling work undertaken to estimate the impact of the different options was shared with all members, the Schools Forum members and all school Chairs of Governors and Head Teachers on 19 October, 2017. The formulas have been refined since they were shared and the most up-to-date versions of the options are summarised in Appendix 2.
- 21 The estimated total DSG funding to be allocated via the local formula in 2018/19 is £298,224,933. This is adjusted for de-delegation, which reduces the total to be allocated to schools to £297,696,823. For the purposes of modelling the impact on individual schools at Appendix 3, figures are rounded. The totals are therefore slightly different to the unrounded figures quoted here.
- 22 The main differences between the various options that have been modelled are the amounts allocated to individual factors and the factors used in each version of the potential local formula for 2018/19.
- 23 An overview of each of the options considered and consulted upon is set out in paragraphs 24 to 37 below:

#### ***Minimal Change Option***

- 24 This version retains the existing 2017-18 formula factors, but with updated factor values (i.e. amounts per eligible pupil or per school) based on estimates of funding for 2018-19 and pupil numbers as at October 2017.

#### ***NFF Option***

- 25 This uses the lump sums from the NFF and for pupil-led funding uses the factor values from the NFF, adjusted *pro rata*, so that the formula is affordable within the estimated funding for 2018-19, with the exception of minimum per-pupil funding (MPPF – paragraph 37 below), which uses the NFF values without adjustment.

#### ***Transitional Option***

- 26 This compares the minimal change and NFF options and seeks to reduce the differences by one-third, with the intention of reducing the differences by a further third in 2019/20, with the aim of smoothing in the changes in funding when the NFF replaces local formulas from 2020/21. As with the NFF option, the changes in factor values are adjusted *pro rata*, to make the formula affordable.
- 27 Moving towards convergence with the NFF means that some factor values are increased compared to the minimal change option and some are decreased,

depending upon whether the minimal change values are more or less than the NFF values. The impact of this on a school depends upon how much of a school's funding is provided through each factor and this means that the change in funding with the transitional option is unlikely to be exactly equal to one-third of the way between the minimal change and NFF options. For some schools the change in funding with the transitional option may be greater than the change in funding for either the minimal change and NFF options. Paragraphs 28 to 37 below provide an overview of the significant differences between the allocations to factors in the formula under each of the options.

### ***Free School Meals Entitlement***

- 28 This is a proxy measure<sup>2</sup> for deprivation in the current local formula and is used to allocate a substantial proportion of the deprivation linked funding for secondary schools only. In the NFF it is used across both phases 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***

- 29 This is for pupils who have been recorded as being eligible for a free school meal on any schools census in the past six years. It is the same measure as is used for the Pupil Premium, but unlike the Pupil Premium, which is meant to be targeted towards individual pupils, this is intended to be a measure of relative need between schools. This measure is not used in the local formula currently but is used in the NFF.

### ***IDACI***

- 30 The Income Deprivation Affecting Children Index 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. The most deprived areas are in Band A and the least in Band G, which is not eligible for funding. IDACI based allocations feature in both the local and NFF, though the factor values are different.

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

- 31 This factor is for pupils recorded with English as an Additional Language in the last three years. It is not currently used in the local formula but features in the NFF.

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

- 32 This factor is for pupils who have not reached a satisfactory standard of attainment in their previous phase of education. The criteria used are:

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<sup>2</sup> A proxy measure is a way of identifying pupils whose circumstances are likely to mean that they are more likely to need additional support at school compared to other pupils. All of the proxy measures have some weaknesses and so a number are used in the formula to minimise the risk that individual schools miss out on funding for additional needs.

- (a) Primary: pupils who did not achieve a good level of development on the new Early Years Foundation Stage Profile (EYFSP) and pupils who achieved either fewer than 78 points or fewer than 73 points on the previous EYFSP. The local formula uses 73 points as the threshold;
- (b) Secondary: pupils who are below the expected standard of achievement in either English reading, English teacher-assessed writing, or mathematics at KS2.

### ***Lump Sum***

- 33 Most of the formula is intended to maximise pupil-led funding, on the basis that funding should follow pupils and that unpopular schools which lose pupils should not be propped-up through local formulas, however, the lump sum is included to recognise that all schools have some fixed costs, in respect of leadership, maintenance and administration.
- 34 The lump sum in the NFF (£110,000) is significantly less than the values used in the current local formula (£160,000 for primary schools and £175,000 for secondary schools). The regulations currently state that the lump sums paid to individual schools must be the same for each school in the phase and that the maximum lump sum that can be payable is £175,000.

### ***Sparsity***

- 35 This factor is intended to provide additional support to small schools in rural areas, beyond the support provided through the lump sum, recognising that some schools are small because of where they are located and that without these schools pupils would have to travel unacceptably long distances to get to school. It is not currently used in the local formula but features in the NFF. In practice the eligibility criteria restricts the number of schools that are eligible and in practice the schools that qualify in Durham are all in the Dales.

### ***Premises Factors***

- 36 These will be funded through the DSG on the basis of historic allocations, with an indexation adjustment for the PFI factor. The figures shown in Appendix 2 are the Council's estimates for next year.

### ***Minimum Per-Pupil Funding***

- 37 This factor is new and is included in the NFF. It is intended to ensure that all schools have sufficient funding, including larger schools with relatively low levels of deprivation or low prior attainment. The NFF option uses the values that will be used by the ESFA in the 2019-20 version of the NFF, the transitional option uses the lower values used by the ESFA in determining DSG funding per pupil for 2018-19.

### **Comparison of Funding Allocations**

- 38 The proportions of funding that would be allocated through the different options are shown in Table 1 below:

	<b>Minimal change</b>	<b>NFF option</b>	<b>Transitional option</b>
Basic funding per pupil	70.2%	69.4%	70.2%
Deprivation	12.3%	11.2%	12.0%
English as an Additional Language	-	0.2%	0.1%
Low Prior Attainment	1.9%	7.7%	3.6%
Minimum per-pupil funding	-	0.2%	0.0%
Lump sum	13.4%	9.1%	11.9%
Sparsity	-	0.1%	0.0%
Premises factors	2.2%	2.2%	2.2%
Mobility / growth	-	-	-
<b>Total Funding</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

- 39 The NFF significantly reduces the allocations / proportion of funding via lump sums and significantly increases funding for low prior attainment compared to the local formula. The NFF also reduces the allocation to deprivation funding compared to the local formula.
- 40 Details of the estimated impact of each of the options for individual schools are shown in Appendix 3, which shows for each school the change in funding for each of the three options compared to actual 2017-18 formula funding. The change in funding reflects both the additional funding provided through the revised DSG allocations and also changes in pupil numbers. As noted in paragraph 27, the changes in funding are not necessarily as might be expected in that for some schools the transitional option results in greater changes in funding than either of the minimal change or NFF options.

### **Summary Impact of Options Considered**

- 41 Based on modelling of what individual schools would receive in 2018/19 under each of the three options compared to funding in 2017-18, the following table provides a summary of the impacts:

		<b>Primary</b>		<b>Secondary</b>		<b>Total</b>	
		<b>Increased Funding</b>	<b>Reduced Funding</b>	<b>Increased Funding</b>	<b>Reduced Funding</b>	<b>Increased Funding</b>	<b>Reduced Funding</b>
Minimal change	Number and (%) impacted	143	72	24	7	167	79
		67%	33%	77%	23%	68%	32%
	Average change in funding	£30,000	-£21,000	£257,000	-£90,000	£63,000	-£27,000
NFF	Number and (%) impacted	144	71	22	9	166	80
		67%	33%	71%	29%	67%	33%
	Average change in funding	£41,000	-£21,000	£239,000	-£145,000	£67,000	-£35,000
Transitional	Number and (%) impacted	146	69	23	8	169	77
		68%	32%	74%	26%	69%	31%
	Average change in funding	£32,000	-£21,000	£253,000	-£93,000	£62,000	-£29,000

- 42 Appendices 4a and 4b show the impact of the options in the context of funding and balances for maintained schools.

### **Consultation**

- 43 The Schools Forum met on 19 October 2017, to consider a report outlining the impacts of the NFF announcements on 14 September 2017. Subsequent to this meeting details of the potential impacts of different options on individual schools was circulated to all members of the Schools Forum and placed on the Schools Extranet. Briefings were also sent to the Chairs of Governors of all schools in the County.
- 44 The Schools Forum agreed to hold working groups to discuss the issues and options available in detail and to consider alternatives. Four working group meetings were subsequently held, on 31 October and 2, 15 and 16 November 2017, but with a limited attendance. On 5 December 2017, the Schools Forum considered a report outlining the outcome of the formula working group discussions during November and to consider the “final” proposals that are included in this report. A presentation was also been provided to maintained secondary school head teachers on 15 November 2017 and a briefing given to school business managers on 23 November 2017.
- 45 Overall, feedback from the Schools Forum working groups and individual schools has tended to favour a transitional option.
- 46 There has been some support for the minimal change and NFF options from particular schools, depending on how the proposals affect them:
- (a) for the minimal change option, it was suggested that this would allow time for schools to adjust to the NFF over a number of years, which would allow schools to plan for reductions in funding and allow for staffing reductions to be planned around natural wastage, with a reduction in the cost of redundancy;
  - (b) the NFF option received support on the grounds that the local formula appears to underfund some schools with potentially significant increases in funding for these schools under the NFF option.
- 47 In respect of the argument for using the transitional option to smooth the changes in funding, an alternative view was put forward that change is easier to manage if the changes are implemented once and not over a number of years; the advantage of this is that staffing changes can be completed in a single exercise, which avoids the need to repeat restructurings on an annual basis and can impact on the school’s wider reputation, particularly with parents, if they see regular changes in staffing.
- 48 Concern was also expressed about the impact of these options on different phases:

- (a) A suggestion that the primary lump sum should not be changed in advance of the replacement of local formulas with the NFF, to protect small primary schools for another two years;
  - (b) Concern that secondary schools have historically been under-funded relative to primary schools, and that the high primary lump sum diverts funding from secondary schools and that this has an impact on the education outcomes achieved by pupils at the latter.
- 49 The working group meetings were also provided with illustrations of an option to amend the protection provided to schools through the Minimum Funding Guarantee, which limits reductions in funding per pupil from year-to-year and is allowed in 2018/19 and 2019/20. The meetings were advised that the Council did not recommend varying the protection as the current arrangements were in line with the proposals that would be in place under the NFF and because this would further reduce funding for other schools. No concerns were raised about this by Forum members.
- 50 On 7 November 2017, Children and Young Peoples Services Overview and Scrutiny Committee received a report and presentation on the schools formula funding options and the impact of the NFF. The Committee recognised that the impact on schools varied and that changes in pupil numbers skewed the year on year comparisons. The complexity and challenge of the issue and the difficulty of making changes to the local formula next year were acknowledged, with the Committee recognising that any change there would inevitably be to the benefit of some schools, but to the detriment of other schools.
- 51 The Children and Young Peoples Services Overview and Scrutiny Committee also recognised the fact that no movement towards the NFF would potentially create significant challenges for a number of schools in 2020/21 when the NFF was used by the ESFA to allocate funding to individual schools and also delay the benefit to those that would gain under the NFF proposals. In conclusion, the Committee was supportive of the proposals to use a transitional version of the formula, recognising that this was something which the ESFA was encouraging and that this seemed the fairest solution to what was a difficult issue.
- 52 A more detailed written response was received from the Durham Association of Secondary Head teachers (DASH) on 22 November 2017. The response set out a number of issues:
- (a) More than one version of the formula options had been provided in terms of modelled impact on individual schools.  
  
This reflects the complexity of the changes and the short timescale for modelling options and producing information for consultation. This was the result of delays in the release of Government guidance;
  - (b) Concern about the loss of funding for some schools compared to the commitment by the DfE for additional funding for every school.

This commitment made by the DfE was in respect of the NFF allocations to local authorities, and as noted, this has resulted in an additional £4.1 million in funding for 2018-19. The impact of the options depends upon the characteristics and profile of pupils in individual schools. Significantly, some schools are affected by reductions in pupil numbers and all of the secondary schools whose funding would reduce under one or more of the options has a reducing number of pupils on roll, which is the prime cause of these reductions rather than the relative formulas adopted.

- (c) Concerns that the NFF option would lead to a reduction in secondary funding, and a corresponding increase in primary funding, at a time when secondary schools are seen as a priority for improvements in performance compared to primary schools, which are performing better than secondary schools across the region.

The NFF and transitional options are both based on the NFF announced by the DfE and the changes in funding between phases reflect the differences in the funding allocated to different factors and different phases of education between the NFF and local formulas. It is not considered desirable to make changes to the formula that do not lead towards convergence between the local formula and the NFF.

Across local authorities there is a wide variation in the funding of secondary schools compared to primary schools. All local formulas provide more funding per secondary pupil than per primary pupil, but the extent of the difference varies widely. In the Durham local formula in the current year the ratio is 27% (i.e. 27% more per secondary pupil than per primary pupil) and the ratio across the region varies from 22% to 42%.

- (d) DASH supported the minimal change option, because it would give schools time to plan for reductions in funding and use natural wastage to avoid redundancies and the associated costs, whilst also limiting turbulence. Concerns about this approach are set out in the summary section below.
- (e) DASH noted the size of primary school surplus balances relative to secondary schools and suggested that these reserves could be used to provide funding to schools that would lose out through the formula. They drew comparison between the overall net schools balances held in respect of primary schools versus secondary schools.

This comparison is however skewed as the secondary figure is affected by a small number of schools with large deficits. The average retained surplus balance for a primary is £63,000 and for a secondary is £284,000. In practice, it is unlikely that the Council would be able to recover any significant value of excessive balances as it would require agreement of all schools and it would not be able to target this money through the formula to schools that were seeing formula funding reduce.

## **Equality Impact Assessment**

- 53 An Equality Impact Assessment has been completed and is attached at Appendix 5. In summary, with the exception of age, the formula does not differentiate according to any of the protected characteristics from an Equality Act perspective.
- 54 The differentiation in respect of age is in accordance with the factor values attached to each key stage in the education lifecycle, which is common practice and a key feature of the existing local formula across the country and the NFF, and recognises differences in the provision required by pupils of different ages. There is a small positive impact in relation to disability as the transitional formula will increase the proportion of funding allocated to Low Prior Attainment (LPA), which is one of the DfE's proxy indicators for Special Educational Needs (SEN).
- 55 Compared to the 2017-18 formula allocations, faith schools generally will see smaller increases in funding than non-faith schools. In addition, under the proposed Transitional model, 34% of faith schools are likely to experience a funding reduction compared to 30% of non-faith schools. However, it should be noted that the formula does not differentiate between schools in terms of religion but does take account of additional needs and school size in calculating allocations. A comparison of faith and non-faith schools supports a view that differences between these types of school is a result of differences in the proportion of pupils who are eligible for additional needs funding and school size.
- 56 Where funding reduces from year-to-year schools will continue to be supported to understand the implications, to forecast any budget shortfall and to identify appropriate savings that can be made to balance the budget. Where a staff restructuring is necessary schools will also continue to be supported through this process.

## **Summary / Conclusions**

- 57 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 local formula in the context of revised funding allocations and the National Funding Formula (NFF); the Government has announced that the latter will replace local formulas with effect from 2020-21. This will require primary legislation to implement the powers to direct funding to individual schools.
- 58 The local formula that will be adopted in County Durham in 2018/19 must be submitted to the Education and Skills Funding Agency by mid-January 2018 and it is a statutory requirement that the Council consults with the Schools Forum in advance of making its decision.
- 59 The options that are outlined in this report and which have been subject to consultation 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 option to reduce divergence between the NFF and the minimal change option by one-third, with a view to a further reduction in divergence in 2019-20.
- 60 The impact on individual schools from the options modelled is included within the appendices to this report, with a summary provided in Table 2 at paragraph 41.
- 61 The minimal change option risks schools suffering significant financial turbulence in 2020-21. This risk is likely to increase if most local authorities decide to either implement the NFF or a transitional version across the next two years. The DfE is sensitive to the impact of significant changes on individual schools and for this reason is encouraging local authorities to move their local formulas towards the NFF requirements across the next two years. There is a risk that if Durham has resisted any change to the local formula then the Council could be accused of failing to manage the change process effectively and of causing additional turbulence for schools when the NFF is implemented.
- 62 The argument that the minimal change option would allow schools more time to plan for the NFF does not take account of the potential impact of other changes in funding, notably from a significant change in pupil numbers, which schools would have to manage during the transitional period, which could lead to greater turbulence and disruption if schools are not already starting to adapt to the implications of the NFF.
- 63 The argument for moving to the NFF straight-away assumes that the existing local formula under-funds some schools and that the NFF will correct this. This is consistent with views expressed by the DfE during earlier consultations on the NFF, but it does not necessarily follow that the NFF is fairer than local formulas just because it is different. The differences between formulas reflect differences between Government policy and previous decisions made locally in response to local priorities, which in Durham take account of the large number of small schools serving relatively deprived communities and the extent of variations in deprivation across the County.
- 64 A single one-off change to the formula to match the NFF would not be appropriate for 2018-19, because the NFF is not due to replace local formulas until 2020-21 and the NFF formula factors could change before then, though there is no indication to suggest they will at this stage. As such any immediate move to implement the NFF in 2018-19 would be considered premature at this stage.
- 65 Feedback from the Schools Forum working groups, from individual schools and from DASH has been mixed. Further proposals to make changes designed to target funding to either primary or secondary schools or to protect KS4 funding would lead to distortions in the local formula compared to the NFF and would

increase the areas of divergence, which would increase the likelihood of turbulence having a significant effect on schools when the NFF replaces local formulas in 2020-21.

- 66 The transitional option proposed in this report and subject to consultation is designed to be implemented over the next two years, with the last transition to the NFF taking place in 2020/21. Commencing this transition in 2018-19 does not remove the flexibility to make further changes to the formula in 2019-20; indeed, changes might be appropriate in the light of any further developments in respect of the NFF and both the detail of the formula and the timing of its implementation could be adjusted further. At present there is a firm intention on the part of the DfE to implement the NFF in 2020-21 in line with the Government's announcements on 14 September, 2017 but this is dependent on time being made available for primary legislation to enable this to be implemented before then.
- 67 On the basis of these considerations the recommended option is that the transitional model is adopted in 2018/19. The formula factor values outlined in Appendix 2 will be finalised upon receipt of the final DSG allocations for 2018/19 and confirmation of final pupil numbers from the ESFA.

### **Recommendations and Reasons**

- 68 Cabinet is asked to:
- (a) note the content of the report;
  - (b) approve the recommendation to adopt a local funding formula for mainstream primary and secondary schools for 2018-19 that is based on a one third transition from the current local formula towards the National Funding Formula.
  - (c) note that the position is reviewed in 12 months' time in advance of agreeing the local formula for 2019-20.

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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.

For 2018-19, funding allocations to the local authority area through the DSG will be based on the NFF, but individual local authorities are still required to set a local formula. In 2019-20 the same arrangement will apply, but with effect from 2020-21, local formulas will be replaced by the NFF, which will determine allocations to individual schools. The Government are encouraging local authorities to move their local formula towards the NFF over the next two years.

The change in the method of DSG allocation is estimated to increase funding to schools in County Durham by £4.19 million in 2018/19. This represents circa 1% of the additional £416 million being made available nationally to increase DSG funding in 2018/19. In addition, changes in pupil numbers and one-off adjustments add a further circa £3.55 million in funding to County Durham schools, making the estimated increase in funding circa £7.74 million in 2018/19.

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**

The National Funding Formula increases the proportion of funding allocated on pupil based factors, by reducing the amounts of funding allocated through schools led factors such as lump sums. The NFF also distributes deprivation linked funding differently to the current local formula arrangements, with greater proportions of funding being distributed on the basis of low Prior Attainment. Small schools and

those schools receiving a proportionately higher proportion of deprivation linked funding currently distributed via the existing local formula will face a greater financial challenge as a result of the move towards a National Funding Formula for schools.

The introduction of the NFF in 2020/21 and the transitional arrangements that will apply across the next two years, whereby funding allocations to the area will be driven by the NFF but local formulas to distribute that funding to individual schools must still be adopted poses a number of strategic choices.

Retaining the existing local formula, updated for increased DSG allocations next year, risks schools suffering significant financial turbulence in 2020-21. This risk is likely to increase if most local authorities decide to either implement the NFF or a transitional version across the next two years. The DfE is sensitive to the impact of significant changes on individual schools and for this reason is encouraging local authorities to move their local formulas towards the NFF requirements across the next two years. There is a risk that if Durham has resisted any change to the local formula then the Council could be accused of failing to manage the change process effectively and of causing additional turbulence for schools when the NFF is implemented.

A single one-off change to the formula to match the NFF would not be appropriate for 2018-19, because the NFF is not due to replace local formulas until 2020-21 and the NFF formula factors could change before then, though there is no indication to suggest it will at this stage. As such any immediate move to implement the NFF in 2018-19 would be considered premature at this stage.

The transitional option being proposed is designed to be implemented over the next two years, with the last transition to the NFF taking place in 2020/21. Commencing this transition in 2018-19 does not remove the flexibility to make further changes to the formula in 2019-20; indeed, changes might be appropriate in the light of any further developments in respect of the NFF and both the detail of the formula and the timing of its implementation could be adjusted further. At present there is a firm intention on the part of the DfE to implement the NFF in 2020-21 in line with the Governments announcements on 14 September, 2017 but this is dependent on time being made available for primary legislation to enable this to be implemented before then.

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

An Equality Impact Assessment has been completed and is attached at Appendix 5 and key impacts are summarised in the body of the report.

#### **Accommodation**

None

#### **Crime and Disorder**

None

#### **Human Rights**

None

## **Consultation**

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

Following the Governments announcements that it was implementing its National Formula Funding proposals for schools, Council officers have sought to work with the with elected members, schools and the Schools Forum on the implications and options arising from DfE's published NFF final proposals. The outcome of those consultations is included within the body of the report and the final version of the formula must be submitted to the ESFA in mid-January.

## **Procurement**

None

## **Disability Issues**

None

## **Legal Implications**

Schools are largely funded by Dedicated Schools Grant (DSG) and the amount of DSG made available for this purpose is largely based presently on historic allocations dating back to the mid-2000s.

The Dedicated Schools Grant is issued by the Department for Education, with the terms of grant given governed by section 16 of the Education Act 2002, which states that it is a ring-fenced specific grant that must be used in support of the schools budget as defined in the School and Early Years Finance (England) Regulations.

Local authorities are currently responsible for establishing a local formula for distributing the funding to individual schools. This is subject to national regulations and statutory restrictions established by the Education and Skills Funding Agency.

Since 2013/14, local discretion over the funding formulae that can be applied 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.