

Children and Young People's Overview and Scrutiny Committee

7 November 2018



National Funding Formula & Mainstream Primary and Secondary Schools Funding Formula 2019-20

Report of John Hewitt, Corporate Director Resources

Purpose

- 1 To describe the Council's approach to setting a funding formula for mainstream primary and secondary schools for 2019-20 and the need to transfer funding from this formula to cover a shortfall in Special Educational Needs (SEN) funding. This formula will apply to maintained schools from 1 April 2019 and academies from 1 September 2019.¹

Background

- 2 The main source of funding for mainstream primary and secondary schools and academies is the local formula. Currently, each local authority currently sets its own formula, within the restrictions imposed by the DfE, after consultation with schools and the Schools Forum. Government policy is to replace local formulas with a National Funding Formula (NFF), so that schools are funded on the same basis across the country, with the NFF determined by the DfE.
- 3 Local formulas were due to have been replaced by the NFF from 2020/21, but this has been now been delayed and there will still be a need to set a local formula in 2020-21. The decision to delay the introduction of the NFF was announced in July 2018 as the Government was satisfied that local authorities were making sufficient progress in voluntarily transitioning towards NFF based formula.
- 4 The NFF is, however, used to calculate overall allocations to local authorities, which are provided through the Dedicated Schools Grant.
- 5 This formula does not include funding for High Needs SEN pupils, early years education or post-16 education. The Pupil Premium is provided separately and is not part of this formula.
- 6 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.

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

- 7 In the past there was significant variation between local authorities in terms of the proportions of funding allocated to different factors within their formulas, but the majority of authorities, including Durham, are now changing formulas to align more closely to the NFF. The local formula in Durham for the current year was intended to be the first year of a three year transition to the NFF, with the intention of smoothing the changes for individual schools and avoiding a cliff-edge scenario when the NFF replaces local formulas.
- 8 The Council therefore must now decide whether to continue with this transition or change the rate of transition in the formula for next year.
- 9 For 2019-20, the Council is also consulting about making a transfer of mainstream formula funding to offset an shortfall in funding for SEN through the High Needs Block (HNB) of the Dedicated Schools Grant. A report was taken to Cabinet on 17 October to gauge their views. Cabinet resolved to continue to transition towards a NFF based formula from 2020/21 and to seek Secretary of State approval to transfer funding into the HNB next year. More detail is provided later in this report.

Decision-making

- 10 The final decision about the formula rests with the Council, but it must consult schools and the Schools Forum before making its decision. A transfer of funding to the High Needs Block requires the agreement of either the Schools Forum or the Secretary of State, DfE, depending on the value of the transfer. The final decision about options will be taken by Cabinet in December.
- 11 The timetable for decision-making is set out below:

	<i>Recipient</i>	<i>Content</i>
9,10,13 July 2018	Schools Forum Working Groups	<ul style="list-style-type: none"> Initial discussions about formula options and HNB transfer - prior to announcement of delay to replacement of local formulas
20-21 September 2018	Schools Forum Working Groups	<ul style="list-style-type: none"> Options for formula for 2019-20 Outline of HNB transfer information and impacts on schools formula / individual schools
October 2018	Extranet consultation with schools	<ul style="list-style-type: none"> Options for formula for 2019-20 Outline of HNB transfer information and impacts on schools formula / individual schools
17 October 2018	Cabinet	<ul style="list-style-type: none"> Options for formula for 2019-20 HNB transfer - decision as to whether to apply
5 November 2018	Schools Forum	<ul style="list-style-type: none"> Options for formula for 2019-20 – will include de-delegation decisions Proposals for HNB transfer
7 November 2018	CYPS O&S Cttee	<ul style="list-style-type: none"> Presentation on options for formula for 2019-20 & overview of proposals for HNB transfer
30 November 2018	Secretary of State	<ul style="list-style-type: none"> Deadline for submission of application for HNB transfer

	Recipient	Content
5 December 2018	Schools Forum	<ul style="list-style-type: none"> Update on options for formula 2019-20
12 December 2018	Cabinet	<ul style="list-style-type: none"> Decision on formula for 2019-20
Mid-December 2018	DCC (from DfE)	<ul style="list-style-type: none"> Final funding and data provided for use in final local formula
21 January 2019	DfE	<ul style="list-style-type: none"> Submission of final version of formula to DfE
20 February 2019	Council	<ul style="list-style-type: none"> Details of final schools formula reported to Council as part of the budget report

Formula Funding for 2019-20

- 12 Funding is provided through the Schools Block of the Dedicated Schools Grant (DSG) as amounts per primary and secondary pupil. Pupil numbers are taken from the October Schools Census
- 13 The amounts per pupil are set each year by central government and are calculated using notional NFF allocations to each school using pupil numbers from the previous financial year.
- 14 For 2019-20 the amounts per pupil allocated to Durham have increased compared to 2018-19 as set out in the table below:

DSG amounts per pupil (£)	Primary	Secondary
2019-20	4,227.34	5,253.15
2018-19	4,183.61	5,236.06
Increase (£)	43.73	17.09
Increase (%)	1.045%	0.326%

- 15 The Dedicated Schools Grant funding per pupil has not increased in line with inflation, as has been the case for a number of years now. Funding for mainstream primary and secondary schools in 2018-19 would be 15% higher if funding per pupil had increased in line with inflation from 2009-10 to 2018-19, on average £120,000 per primary and £600,000 per secondary extra funding.
- 16 These figures are after adjusting for the increase in funding provided through the Pupil Premium - without this additional source of funding, the difference would be 24%, not 15%.

- 17 The final funding will be determined by the pupil numbers recorded in the October 2018 Schools Census, with additional amounts added for premises-related factors and basic need growth. Estimated total Schools Block allocations for 2019-20 are as follows:

	£ (rounded)
£.pupil funding	298,112,000
Add - Funding for premises	6,665,000
Add - Funding for growth	397,000
Estimated total funding for 2019-20	305,173,000
Less - Estimated de-delegation	-582,000
Estimated funding net of de-delegation	304,591,000

- 18 De-delegation is taken from funding for maintained schools in respect of support for looked after children, contingencies for schools in financial difficulty and trade union facility time. It is deducted after the formula is set and does not affect academies, which cannot access the services provided by de-delegation unless they buy into a Service Level Agreement.

Options for 2019-20 Formula

- 19 A number of options have been identified for the 2019-20 formula. These are described below. All the options would be affected by a potential transfer of funding to from the Schools Block to the High Needs Block. This is discussed later in this report, followed by an evaluation of the individual options.
- 20 The main difference between the options is the extent to which they align the local formula to the NFF. It is not possible for a local formula to match the NFF exactly, because funding is allocated on historic data, which is different to the new data that will be used for the 2019-20 formula. A transfer to High Needs would also affect the extent to which the local formula could match the NFF.
- 21 The following options have been identified for the formula for 2019-20:
- OPTION 1: Accelerate the pace of change and move to implement the NFF as closely as possible from 2019-20***
- 22 This would use values in the formula as close as possible to the indicative NFF values.
- OPTION 2: Continue with the strategy implemented with effect from 2018/19: a transitional formula which moves schools to a NFF based allocation from 2020/21***
- 23 This would continue the transition established in setting the 2018-19 formula, with the intention of a further reduction in 2020-21, so that the formula in that year would replicate the NFF as far as possible.

OPTION 3: Continue with a transitional formula approach, but at a slower rate than currently planned i.e. aim for a NFF equivalent formula from 2021/22 instead of 2020/21

- 24 This would result in a slower pace of change, which would take until 2021-22 to replicate the NFF as far as possible.

OPTION 4: Retain the 2018/19 formula factors and halt the transition to the NFF in 2019/20

- 25 This would update the current year's formula for changes in funding and data, (pupil numbers, pupils eligible for additional needs funding, numbers of schools and premises factors), but make no changes to the lump sums or the relative allocations between pupil-led factors. With no changes to lump sums and relative allocations the alignment of the local formula with the NFF would not increase.
- 26 The next section describes the need for a transfer of funding from the Schools Block to the High Needs Block, which would reduce the funding available for the formula, whatever option was used.

Proposed Transfer to the High Needs Block (HNB)

- 27 The HNB is another part of the Dedicated Schools Grant (DSG) and funds provision for pupils and students with Special Educational Needs, including those in mainstream and special schools and out-of-county placements.
- 28 Funding has been included in a separate High Needs Block since 2013-14. From 2013-14 to 2017-18 the allocation was largely based on historic patterns of budget allocation in Durham. From 2018-19 the HNB is based on a national formula. The 2018-19 allocation is £0.6 million more than it would have been had the 2013-14 allocation merely increased in line with inflation.
- 29 For 2019-20, Durham's provisional allocation has increased by 2.84% (£1.42 million). The current rate of inflation is around 3.4% and the allocations for 2019/20 do not address the real terms cuts in schools per pupil funding over recent years, where successive allocations have failed to keep track with the demographic and inflationary pressures in this area.
- 30 In 2017/18 there was an overspend against the DSG High Needs Block of £4.652 million. The estimated outturn position for the current year is for an overspend of £5.129 million.
- 31 In 2017/18 the overspend was covered by centrally held DSG Reserves and in 2018/19 an element of the overspend can be absorbed by the DSG reserves, however, there is insufficient DSG reserves to cover this in total and on this basis the Council's DSG reserve will be in deficit by the end of the financial year, with the likelihood that there would be another significant overspend in the HNB block in 2019/20. This is not a sustainable position.
- 32 The pressures on the HNB are driven by increasing demand to meet the requirement of young people with special education needs and disabilities. This

is a demand driven volatile area of activity for which the authority has a statutory duty to provide. The key reasons for increasing cost pressures in this area are set out below:

Numbers of children and young people with SEN

- a. There has been a significant increase in the number of children with SEN who require high needs support due to:
- The extension of support to young people up to the age of 25;
 - Early identification of additional needs, particularly in the early years.

Complexity of need

- b. The needs of children with special educational needs and/ or disabilities are becoming more complex and this is driving increased financial pressures across the system.

Inclusiveness of the system

- c. There are factors which tend to reduce the number of children with SEN educated in mainstream schools:
- Many mainstream schools are having difficulties with capacity to provide additional support and are not always able to gain parental preference, especially when planning for complex needs or challenging behaviour;
 - There has been an increase in the number of students being at risk of or permanently excluded.
- 33 Durham is not unique in experiencing these pressures and over the past year this has been highlighted across the country by a number of local authorities and education leaders. Representations have been made to the Secretary of State, DfE, regarding the lack of funding for schools generally and the unrecognised cost pressures within the HN SEN.
- 34 There is an ongoing review into this area of service delivery, however, it is clear that there is a significant shortfall in funding for SEN. To help alleviate some of these continuing pressures, Cabinet (17 October) consider a report which sought approval to apply to the Secretary of State, DfE to transfer some 2019-20 funding from the Schools Block to the HNB.
- 35 Transfers of up to 0.5% of the Schools Block can be agreed locally but must be approved by the Schools Forum. Transfers in excess of 0.5% cannot be agreed locally and must be approved by the Secretary of State, DfE. Any agreement to transfer funding between these blocks is reconsidered on an annual basis.
- 36 A transfer of 0.5% would be significantly less than the amount required. In considering these complex and difficult issues, Cabinet resolved to seek a transfer in excess of the 0.5% threshold and supported a request being made to the Secretary of State up to the maximum permissible. These proposals are currently subject to consultation, including discussions with the Schools Forum on 5 November 2018.

- 37 Modelling of options for the mainstream formula indicates that the maximum amount that can be transferred is between 1.3% and 1.5%. The limit on transfers is the amount required to fund the Minimum Funding Guarantee (MFG), which ensures that schools do not see a reduction in funding per pupil of more than 1.5% per year.
- 38 The MFG is funded by capping increases in funding for schools whose funding per pupil is increasing. This uses a ceiling on increases, which, in order to comply with statutory regulation, cannot be a negative value. Transferring funding out of the Schools Block changes formula funding and increases the number of schools within the scope of the MFG. This increases the amount that needs to be recovered by capping and this makes it necessary to lower the ceiling. Eventually the impact of a transfer to the HNB reaches the point where the ceiling is zero, which is the maximum amount that can be transferred.
- 39 The table below summarises the position in respect of each of the options under consideration, including the maximum transfer with a positive ceiling:

Option	Transfer to HNB			Ceiling
	Basis of transfer	%	Value (£)	
OPTION 1: Implement the NFF as closely as possible from 2019-20	No transfer	-	-	3.729%
	Maximum transfer	1.304%	£3,979,000	0.001%
OPTION 2: Continue with the transitional formula to converge in 2020/21	No transfer	-	-	3.887%
	Maximum transfer	1.462%	£4,462,000	0.002%
OPTION 3: Continue with the transitional formula, but at a slower rate – converge 2021/22	No transfer	-	-	3.717%
	Maximum transfer	1.514%	£4,620,000	0.001%
OPTION 4: Using existing formula, with no further transition	No transfer	-	-	3.403%
	Maximum transfer	1.333%	£4,068,000	0.001%

- 40 These figures are indicative and will change once the final funding and schools data is confirmed in December.

Comparison of Options

- 41 All comparisons included in this report are based on a HNB transfer at the maximum permissible amount for each option and are a comparison with net formula funding for 2018-19.
- 42 Changes in funding are broadly consistent across the options. Changes in funding are mainly driven by changes in pupil numbers and this is the main determinant of whether schools see their funding reduce or increase in 2019/20 when compared to 2018/19. The overall impact on schools is summarised in the tables below:

Impact of 2019-20 formula options compared to 2018-19 net formula funding - schools with reduced funding		OPTION1: NFF in 2019/20	OPTION2: Existing Transitional formula	OPTION3: Transitional formula slower rate	OPTION4: 201819 formula updated
Primary	No. of schools	127	126	124	126
	Average reduction (£)	-24,000	-23,000	-23,000	-21,000
Secondary	No. of schools	10	10	10	9
	Average reduction (£)	-172,000	-169,000	-166,000	-171,000

Impact of 2019-20 formula options compared to 2018-19 net formula funding - schools with increased funding		OPTION1: NFF in 2019/20	OPTION2: Existing Transitional formula	OPTION3: Transitional formula slower rate	OPTION4: 201819 formula updated
Primary	No. of schools	88	89	91	89
	Average increase (£)	24,000	22,000	21,000	21,000
Secondary	No. of schools	21	21	21	22
	Average increase (£)	233,000	210,000	202,000	205,000

43 Members are referred to Appendix 2 (which replicates the tables reported to Cabinet on 17 October, 2018), and which shows the estimated funding for each option by school and compares this to the 2018-19 funding levels currently received. The change in pupil numbers for each school is also provided in this appendix for reference as overall reductions in pupil numbers on roll year on year will inevitably result in reductions in overall funding regardless of the impact of the changes to the formula factors.

44 The table below summarises the impact of the transfer to the HNB compared to formula options with no transfer. The schools with no change in funding are those that qualify for MFG in all options.

Reduction in funding with the maximum transfer of funding to HNB without a negative ceiling		OPTION1: NFF in 2019/20	OPTION2: Existing Transitional formula	OPTION3: Transitional formula slower rate	OPTION4: 201819 formula updated
Primary	No. of schools with no change in funding	54	28	22	10
	No. of schools with reduced funding	161	187	193	205
	Average reduction (£)	-21,000	-17,000	-16,000	-11,000
Secondary	No. of schools with no change in funding	19	5	4	-
	No. of schools with reduced funding	12	26	27	31
	Average reduction (£)	-54,000	-47,000	-60,000	-61,000

- 45 Appendix 3 shows the impact of the HNB transfer for each school.
- 46 The table below summaries the proportions of funding allocated to each type of factor in the formula and Appendix 4 provides the formula values and the proportions of funding allocated to each factor for each of the options.

% allocated through formula 2019-20 options are with the maximum transfer to the HNB	2018-19 formula	OPTION1: NFF in 2019/20	OPTION2: Existing Transitional formula	OPTION3: Transitional formula slower rate	OPTION4: 201819 formula updated
Pupil-led factors					
Basic amount per pupil	70.34%	70.55%	70.33%	70.26%	70.07%
Deprivation	11.96%	12.59%	12.26%	12.16%	11.94%
English as an Additional Language	0.06%	0.17%	0.11%	0.09%	0.06%
Low Prior Attainment	3.49%	5.23%	4.55%	4.33%	3.89%
Minimum per-pupil funding	0.01%	0.17%	0.06%	0.01%	0.01%
School-led factors					
Lump Sum	11.90%	8.98%	10.41%	10.89%	11.81%
Sparsity	0.04%	0.12%	0.08%	0.07%	0.04%
Premises-related factors					
Rates	1.59%	1.56%	1.56%	1.57%	1.56%
Split-site	0.13%	0.11%	0.11%	0.11%	0.11%
PFI	0.47%	0.49%	0.49%	0.49%	0.49%
Joint-use Leisure	0.02%	0.02%	0.02%	0.02%	0.02%

Evaluation of options

OPTION 1: Accelerate the pace of change and move to implement the NFF as closely as possible from 2019-20

- 47 This option would be appropriate if no significant changes are anticipated in the NFF in future years or if the NFF was seen as the most appropriate formula for schools in Durham or if a shorter transition was preferred.
- 48 The NFF will be affected by the outcome of the Spending Review next year and it would be imprudent to assume that there would be no changes in the future.
- 49 As a formula, the NFF emphasises pupil-led funding, which can be an issue for smaller schools and this is of concern, because of the number of small primary schools in the County.
- 50 In other respects, the NFF does improve on the old local formula, in respect of the broader range of criteria used to determine deprivation funding and the increased provision for pupils with Low Prior Attainment compared to the local formula.

- 51 There is a view amongst some headteachers that transition periods are destabilising for schools and that a short transition allows schools to make adjustments to staffing and other expenditure quickly and then move on with more certainty about their futures.

OPTION 2: Continue with the strategy implemented with effect from 2018/19: a transitional formula which moves schools to a NFF based allocation from 2020/21

- 52 This option is consistent with the strategic decisions made last year and allows flexibility to make changes in following years to take account of any changes in the NFF, whilst following the general direction of travel of the NFF in respect of more pupil-led funding and less lump sum funding. This option also gives schools more time to adapt to anticipated changes in future funding.
- 53 This option is also consistent with the DfE's expectation that local authorities will manage the transition to the NFF.

OPTION 3: Continue with a transitional formula approach, but at a slower rate than currently planned i.e. aim for a NFF equivalent formula from 2021/22 instead of 2020/21

- 54 This option would further extend the transition period. This could be seen as an advantage through giving schools more time to adapt to anticipated changes. It would also allow more flexibility to make changes to take account of changes in the NFF.
- 55 Slowing down the rate of transition would go against the DfE's expectation that local authorities will continue to align local formulas more closely with the NFF to smooth the transition to the NFF. It is not clear what, if any, the consequences would be of going against this expectation, particularly if Durham was an outlier in this respect.

OPTION 4: Retain the 2018/19 formula factors and halt the transition to the NFF in 2019/20

- 56 This option would maintain existing differences from the NFF and is likely to lead to a shorter transition in the future. As with the previous option, this would go against DfE expectations and could potentially create more turbulence for schools.

Equality Impact Assessment

- 57 An Equality Impact Assessment screening has been undertaken on the options set out in this report. This was attached to the Cabinet report on 17 October, 2018.
- 58 The EIA identifies that there is evidence of actual or potential impact on some/all of the protected characteristics and a full Equality Impact Assessment will be

59 undertaken on the final proposals and will be included with the Cabinet report in

Summary

- 2 This report outlines the Council's approach to setting a funding formula for mainstream primary and secondary schools for 2019/20, which would apply to maintained schools from 1 April 2019 and academies from 1 September 2019
- 3 The report describes the options available in terms of the mainstream primary and secondary school funding formula for 2019-20.
- 4 The report also describes the proposal that an application is made to the Secretary of State, DfE for permission to transfer funding from this formula address a shortfall in funding for Special Educational Needs.
- 5 This transfer would impact on the funding formula for mainstream primary and secondary schools for 2019/20. Full details of the forecast impact on individual schools is included within the report submitted to Cabinet on 17 October 2018 as associated appendices (replicated in this report)..
- 6 On 17 October, 2018 Cabinet expressed a preference for Option 2 (continuation of the current transitional formula and convergence with the NFF in 2020/21) and to seek permission to transfer the maximum amount possible into the HN Block in 2019/20 for the reasons set out in this report.
- 7 The final decision about a formula option will be taken by Cabinet in December. An application to the Secretary of State must be made by the end of November.

Recommendations

- 8 It is recommended that members of Children and Young People's Overview and Scrutiny Committee:
 - a. Note the information contained within this report.
 - b. Continue to monitor progress towards implementation of the NFF.

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Background papers

Report to Cabinet 17 October 2018

Mainstream Primary and Secondary Formula Funding 2019-20 and Transfer to High Needs Block

Report to Cabinet, 13 December 2017

Mainstream Primary and Secondary Funding Formula 2018-19

Report to Children and Young People's Overview and Scrutiny Committee, 7
November 2017

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

Appendix 1 - Implications

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 four 'blocks': Early Years, High Needs Central School Services and Schools.

All DSG funding must be spent on schools or support to them.

Starting in 2018-19, funding allocations to each local authority's Schools Block of the DSG are based on notional funding for each school using the National Funding Formula, which is determined by the DfE. Individual local authorities use the Schools Block funding to set a local formula using the available funding and in accordance with funding regulations, which limit the discretion of authorities.

Local authorities will continue to set local formulas until at least 2020-21. DfE policy is that in the longer term local formulas will be replaced by the NFF, which will determine allocations to individual schools. The Government are encouraging local authorities to align their local formula with 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.

Estimated funding for 2019-20 is £305.2 million.

There was an overspend against the DSG High Needs Block of £4.652 million in 2017/18 and in the current year, there is a forecast overspend of £5.129 million in these budgets.

In 2017/18 the overspend was covered by centrally held DSG Reserves and in 2018/19 an element of the overspend can be absorbed by the DSG reserves, however, there is insufficient DSG reserves to cover this in total and on this basis the Council's DSG reserve will be in deficit by the end of the financial year. This is not a sustainable position.

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.