

20 April 2016

NATIONAL FUNDING FORMULA CONSULTATIONS

Report of the Director of Children's Services

Author: - *Jonathan Burberry*
Tel: - 01992 555943

1. Purpose

To update the Forum on the recent DfE consultations about introducing national funding formulae for schools and high needs.

2. Summary

This paper gives details of the issues raised by the national funding formula consultations.

3. Recommendations

The Forum is asked to note the issues covered in this paper.

4. Background

- 4.1 The DfE has published its long awaited consultation documents on reforms to schools and high level needs funding, including the introduction of a national funding formula (NFF) for schools. The consultation is in two stages.

Stage 1 - This closes on 17th April 2016 and asks for views on general principles and the proposed factors for the national funding formulae for schools and high needs.

Stage 2 - Full proposals, including the financial impact of the national funding formula at school and local authority level, will not be published until a second consultation, probably in the summer. Thus the exact financial impact of the proposals on Hertfordshire cannot be confirmed at this point.

The main issues raised by the proposals in stage 1 of the consultation are set out in the sections below. There are two consultation documents, one covering the schools' NFF, the other covering high needs funding.

5. Funding for the Local Authority

5.1 Dedicated Schools Grant (DSG)

5.1.1 The DSG is currently divided into three blocks, schools, high needs and early years, but these are not ring-fenced and the grant can be used flexibly across the blocks. Authorities' allocations of DSG were originally based on their spending levels on schools in 2005-06, the year before the DSG was introduced. For the schools and early year's blocks these are expressed as amounts per pupil. As these amounts vary between authorities, often with no real rationale, the DSG allocation system is widely seen as unfair, providing the main reason for reforming it. From 2017-18 the DfE is proposing to calculate the DSG for each authority area as follows:

- Schools Block - this will be derived by totalling the budget shares of schools and academies in each authority area, calculated by applying the NFF.
- High Needs Block - a new formula will be introduced in 2017-18 to determine the distribution of high needs funding between authorities.
- Early Years Block - the DfE has indicated that a new national early years funding formula will be introduced to determine the distribution of this funding between authorities. However, no details of this have been included in the consultation.

5.1.2 A new 'central schools block' will be introduced, to fund the central services currently resourced either from the schools block of DSG or from the retained services element of Education Services Grant. These services include admissions, some education welfare services and some statutory and regulatory duties. This new block will be calculated as an amount per pupil (based on the number of pupils in Hertfordshire). In addition there will be an allocation for historic commitments, which authorities currently support from DSG funded central budgets. The DfE will undertake an audit of these to ensure that they predate April 2013, are being phased out as commitments reduce, and otherwise meet the qualifying definitions in the regulations.

5.1.3 The flexibility for authorities to switch resource between DSG blocks will largely cease because the schools block will be ring-fenced for funding primary and secondary budget shares.

Current arrangements which allow maintained schools to "de-delegate" funding (i.e. hand it back to the authority) for certain items are to be

withdrawn in 2019-20. The largest de-delegated item is the schools contingency budget . Other de-delegated budgets are for the Herts Grid for Learning, trade union facilities time and determining free school meals eligibility. Authorities will be able to offer services on a traded basis.

A baseline exercise, with a deadline for returns of 12 April 2016, is being undertaken by the DfE. Given that authorities can currently switch resources between the three DSG blocks, the DfE wants to establish how authorities actually spend their DSG. The actual pattern of spend on each block will form the baselines in the calculation of transitional protection arrangements from 2017-18.

An issue which is likely to arise in the baselines exercise is the budgeted use of £10.8m of carry forward DSG by Hertfordshire in 2016-17. It appears that the DfE is assuming that each authority's spend will in total equal its DSG allocation for the year and does not want to collect data on the use of carry forward. There is a risk that this may distort the outcome of the exercise.

5.2 Education Services Grant (ESG)

5.2.1 There are currently two elements to this grant, the retained services element of £15 per pupil (including pupils in academies) and the general element of £77 per pupil in maintained schools only (Academies receive the general element of ESG directly from the DfE). ESG comes to HCC as a non-ring fenced grant, totalling £12.0m for 2016-17, which is made up as follows:

General Element	£9.2m
Retained Services Element.	£2.8m
Total	£12.0m

The general element of ESG will be discontinued from 2017/18. The DfE proposes to pay a reduced ESG general funding rate for the first 5 months of the 2017-18 financial year. The general funding rate would then be removed completely for both academies and maintained schools from September 2017 (subject to the protection arrangement for academies).

As a consequence of this, on the face of things HCC will lose £9.2m of grant by 2018-19. Given that the general element of ESG is based on pupil numbers in maintained schools, it is likely that there would have been some reduction anyway, due to the ongoing conversion of maintained schools to academy status.

Currently, our spending against ESG relevant items (both "general" and "retained") is £9.8m.

5.3 Implications of the grant changes

Section 5.4 below looks in more detail at the impact of the discontinuation of the ESG. Other implications of the changes to the grant regime are:

5.3.1 There will be more ring-fencing in the grant system.

The ESG, which is a general grant with no restrictions on its use, will cease and the schools block of DSG will be restricted to funding budget shares. Thus the authority would no longer be able to fund an overspend on, for example, high needs, by using schools block DSG.

5.3.2 Restrictions on central budgets.

The central budgets funded from de-delegation will cease unless they can be continued on a traded basis. The historic commitments budgets will have to be justified to the DfE and will have to be phased out over a period of time. Hertfordshire's main historic commitment is the budget for family support workers who have a key role in the Authority's prevention and intervention strategies.

5.3.3 Loss of the surplus previously generated by increased number of primary pupils

In recent years pupil growth has been in the primary sector. The funding per pupil in primary budget shares is lower than in secondary. However, the DSG funding rate per pupil is an average across both sectors (including the fixed costs not variable with pupil numbers). Thus the increase in primary numbers has generated more DSG (approximately £2m per year) than is required to fund the additional pupils. This extra resource has been used to fund other pressures, such as the Growth Fund. Under the NFF, the schools block will equal what the authority has to allocate in budget shares so this surplus will no longer apply.

Longer term, however, had the existing system continued; the cost of additional pupils would have exceeded the extra funding, when the pupil growth switched to the secondary sector. The new arrangements avoid this.

5.4 Impact of ending general ESG

The DfE is aware that the scale and speed of this funding reduction will have a major impact and it has set out the following proposals for how it can be managed by authorities:

5.4.1 School improvement arrangements

The DfE has announced that it is reforming school improvement policy in the context of the overall drive towards a school-led system. This means that local authorities will step back from running school improvement from

the end of the 2016-17 academic year and therefore they will not require funding for this function.

(The consultation does not give details of the future arrangements for school improvement and its funding.)

5.4.2 Charging maintained schools

The DfE suggests that authorities should effectively charge maintained schools for the statutory duties that they carry out for maintained schools, in a similar way to the percentage top slice that multi academy trusts often take from the budget shares of their academies.

The level of top slice to be retained by the local authority would need to be agreed by the maintained schools members of the schools forum, with recourse to the Secretary of State if they are unable to agree. This is different to the arrangement for multi academy trusts.

It is unclear whether such a retention would be allowed for school improvement or not – in other words exactly what could be passed back by schools. In any event this arrangement would cease when all schools have converted to academy status.

5.4.3 Other statutory duties

The DfE asks respondents to the consultation to suggest other statutory education duties that authorities could discontinue to help manage the ESG reduction.

6. Funding for schools and academies

- 6.1 During a transition period in 2017-18 and 2018-19, the DSG schools block allocation will still be distributed to local authorities, who will in turn allocate funding to schools through local formulae. As mentioned above, allocations to local authorities in this period will be calculated using the new NFF and derived by working out budget share allocations for each school and then passing the aggregate allocation of all schools in the area to the local authority (subject to Minimum Funding Guarantee protection/caps on gains).

Although a local funding formula determined by the Authority will continue to operate until 2019-20, there is likely to be pressure to move this towards the NFF for two reasons:

- to smooth the transition to the NFF,

- to respond to pressure from any sectors or categories of schools that will gain from the NFF and want to realise these gains as soon as possible.

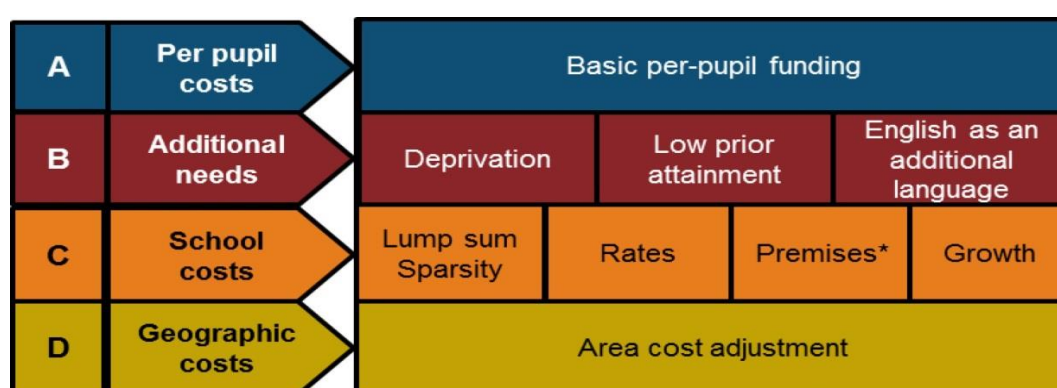
From 2019-20 the DfE will fund schools directly using the NFF and the local funding formula will cease to exist.

6.2 The National Funding Formula

6.2.1 The NFF will have four blocks:

- Basic per pupil funding
- Additional needs: Comprising deprivation (Free School Meals, IDACI), low prior attainment and English as an Additional Language but not pupil mobility
- Schools costs: including a lump sum, a sparsity factor and funding for specific premises costs and growth. The funding for the following items will be allocated to authorities on the basis of historic levels of spend in local formulae: i) growth, ii) PFI, iii) exceptional premises factors iv) rates.
- Geographic costs: area cost adjustment to all factors, except those allocated on the basis of historic spend.

6.2.2 The diagram below illustrates the build -up of the NFF.



* Premises includes: split sites, PFI and exceptional circumstances.

Pupil premium funding will be maintained as a separate grant for the course of this parliament. Rather than including a looked after children factor in the NFF, the LAC rate in the pupil premium plus will be increased.

- 6.2.3 The consultation asks whether each of these factors is appropriate. Most of them are widely used nationally, including by Hertfordshire, so in principle their use in the NFF is perfectly reasonable.

For the geographic costs, the DfE tends to favour what it calls a "hybrid" model:

- for teaching staff, using the teachers' pay bands for inner London, outer London and London fringe to calculate the weighting,
- for non-teaching staff, using a general labour market (GLM) weighting.

Historically area cost weightings were based on the GLM weighting, which is expected to be more favourable to Hertfordshire.

A significant risk is the funding of specific premises costs and growth based on historic costs. If these costs increase, for example through an additional school becoming split site, or a new school opening, then this would have to be met by switching resource from the funding that would have been allocated to all schools.

7. Transitional arrangements – Minimum Funding Guarantee (MFG)

- 7.1 The government has been clear there will be "winners and losers" from the introduction of the NFF. To smooth the impact there will be a "minimum funding guarantee (MFG) in the NFF, a continuation of the MFG that operates currently in school budget shares. The current MFG means schools cannot lose more than 1.5 per cent of their funding per pupil, per year. The MFG level for the NFF has not yet been set (more details will be included in stage 2 of the consultation). The MFG will be funded by capping gainers.

During the transition period, two separate MFGs are proposed:

- When DSG allocations to local authorities are determined under the NFF, a national MFG and corresponding cap on gains will apply in calculating each school's NFF budget share. This will feed through into the DSG allocations to authorities.
- A separate MFG will operate in the calculation of budget shares under the local formula during the transition period – i.e. allowing authorities to make larger savings at a school-level than the national MFG in the NFF

- 7.2 The level of the MFG in the local formula is potentially a significant issue for Hertfordshire because currently we are using £10m of DSG carry forward to support the schools block in 2016-17 (plus £0.8m to support the early years block). Given that the carry forward amount is one off and gradually being used up, we need to strip this resource out of school budget shares over the next couple of years and are expecting to use the room for manoeuvre given by the fact that the MFG is set at less than the general funding level to do this. If this MFG headroom is used up by the impact of moving to the NFF, then we may not be able to strip out the carry forward from budget shares. Thus we need some local flexibility in setting the level of the MFG in the local formula.

8. Assisting schools to adjust to funding reductions

- 8.1 The DfE is aware that many schools will face severe funding pressure in the next few years because cost pressures from pay and prices will not be funded and additionally many schools will lose funding from the introduction of the NFF. Measures to respond to this are:
- An invest to save fund, which will be set up this year to help schools that lose out. It will be available for schools to use how they wish, including for financial, legal and HR advice and in more extreme cases the costs of restructuring a school's workforce
 - Disseminating best practice on financial management and procurement
 - A benchmarking report card to be sent to schools to promote value for money

9. Loose ends

- 9.1 Given the long period that the DfE has spent developing these proposals, it is perhaps surprising that a number of issues have not been finally resolved. As mentioned above, the NFF makes no proposals for the formulaic allocation of specific premises costs or growth funding. The proposal to use historic costs is only a stop gap. The consultation asks for suggestions for a more permanent solution.

10. High needs

- 10.1 The local authority role will be maintained in high needs. A two-step process will continue whereby central government allocates funding to local authorities, to deploy locally although with reference to national guidance.
- 10.2 There are two parts to the high needs consultation.

A new formula will be introduced to distribute high needs funding to local authorities. Each authority's high needs budget for 2016-17 will be used as a significant factor in this formula in order to reduce turbulence, for at least the first five years. Other criteria in the high needs formula are:

- Basic unit of funding for pupils in high needs places
- Population factor
- Health/disability factors
- Low attainment factor
- Deprivation factors

10.3 There is some tinkering with the existing arrangements for funding high needs provision. The changes include:

- Proposals to be clearer on what support schools should offer SEN pupils, funded from their own budgets
- Amending the way that special unit places in mainstream schools are funded so that a place attracts £6k rather than £10k but pupils attending the unit attract per pupil funding on the same basis as other pupils in the school.
- Issuing new guidance for the allocation by authorities of centrally retained funding to those schools that are particularly inclusive or have a disproportionate number of high needs pupils.
- Introducing the concept of special units into the funding arrangements for high needs provision in colleges.

10.4 To assist authorities to reduce the overall cost of high needs provision, at least £200m of SEN capital funding will be made available nationally to develop new SEN provision where it is needed.

10.5 The challenge for authorities in delivering their responsibilities for high needs provision is likely to be increased by the ring-fencing of the schools block. Currently the ability to transfer resources between the schools and high needs blocks makes it possible to incentivise inclusion, in that the fewer additional responsibilities and costs fall on the high needs budget, the more resource is potentially available for schools. This will no longer be the case.

There are currently a number of restrictions on how the authority can deploy the high needs block (such as restrictions on varying the number of funded high needs places). Although the authority has repeatedly highlighted to the DfE that such restrictions hinder the efficient deployment of the high needs block, the consultation does not address them.

11. Conclusion

- 11.1 The authority will respond to the consultations by the deadline of 17 April 2016. The DfE will publish stage 2 of the consultation in due course which is expected to include unit funding values for the national funding formulae.