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**CONSULTATION ON CHANGES TO THE PRIMARY AND SECONDARY
FUNDING FORMULA FOR 2018-19**

Report of the Operations Director, Education

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1. Purpose

- 1.1 To seek the support of the Forum to consult schools on proposed changes to the Hertfordshire funding formula for 2018-19.

2. Summary

- 2.1 The paper sets out proposals for changes to the primary and secondary school funding formula for 2018-19.

3. Recommendations

- 3.1 The Forum is asked:
- (i) To support consulting with schools on the two options for allocating additional resource which are outlined in this paper.
 - (ii) Whether it wishes the consultation to indicate a preference for either of the options.

4. Background

- 4.1 In September the DfE announced the National Funding Formula (NFF) for primary and secondary schools. This will be used to determine the schools block of Dedicated Schools Grant (DSG) for each local authority area. However, schools' budget shares will continue to be calculated using the local funding formula. There is no requirement for the local funding formula to be changed so that it more closely resembles the NFF. The DfE has said that it remains the government's intention to move to a "hard" NFF (where all school budget shares would be determined using the NFF) but no date has been set

for this. Since a hard NFF requires primary legislation, it may not be implemented. Nonetheless, the existence of the NFF as a parallel funding formula puts the focus on the differences between the NFF and Hertfordshire's current funding formula. In early October the DfE supplied further detail of the NFF and in late October a modelling tool to assist authorities in modelling the impact of the NFF.

- 4.2 At its September meeting the Forum supported the following changes to the funding formula for 2018-19:
- guaranteeing a 0.5% increase in the unit funding rates of all primary and secondary pupil led funding factors (ie AWPU plus additional needs factors) as compared with the 2017-18 budget shares (including the element funded by carry forward);
 - reducing the unit funding value of the looked after children (LAC) factor by the value of the increase in the Pupil Premium funding rate (a change now known to be £400 per LAC);
 - continuing to set the Minimum Funding Guarantee at -1.5%.
- 4.3 The additional resources being allocated through the NFF will provide Hertfordshire with approximately £11m extra schools block DSG in 2018-19. This needs to provide for the following:
- the element of AWPU that was funded from DSG carry forward in 2017-18 but which will no longer be met from carry forward in 2018-19;
 - the 0.5% increase in per pupil funding factors, supported by the Forum at its September meeting. (This parallels the 0.5% increase in per pupil funding provided in the NFF);
 - other cost pressures such as rates and free schools.

It is estimated that after providing for the above, there will still be around £4m of headroom available and this paper considers how this could be allocated. (A point to note is that because DSG carry forward will still be used in 2018-19 the overall resource available for budget shares will exceed what is available from the schools block DSG by approximately £3.5m. However, by 2019-20 it is expected that there will no longer be carry forward available to support the schools block. Therefore the net increase in school budget shares in 2019-20 is expected to be small as the additional schools block DSG in 2019-20 will in practice be offset by the falling out of the carry forward resource.)

5. The National Funding Formula

- 5.1 The NFF calculates a budget share for each school, based on 2017-18 pupil numbers and other funding data. The total budget shares for each sector, primary and secondary are then divided by the pupil numbers for each sector to give average amounts per primary pupil and per secondary pupil. These amounts, multiplied by the October 2017 census pupil numbers will be used to calculate the 2018-19 schools block DSG. The other components of the schools block DSG are separate allocations for premises funding factors

(mainly rates), mobility and growth, based on Hertfordshire's budgeted spend in 2017-18.

There are three aspects to the NFF, the main formula, the guaranteed minimum amount per pupil and the funding floor which provides an increase of 0.5% in per pupil funding compared to 2017-18.

5.2 Main NFF formula

The main formula comprises:

- AWPU for primary, KS3 and KS4
- Additional education needs factors
- A lump sum
- A sparsity allocation
- Area cost adjustment

The NFF main formula has a relatively low lump sum of £110k (when compared with many local authority formulae) but relatively high additional needs funding, particularly through the low prior attainment factor. Therefore large schools with high levels of additional needs tend to gain from the main formula.

Annex A gives details of the unit funding values for each factor in the main NFF formula and how they compare with the current Hertfordshire formula. In addition to the variations shown by the difference in unit funding values, the NFF uses a different pupil count for the primary prior attainment factor. The DfE gives local authorities the option for their local formula of scaling down the number of children identified under the new early years foundation stage profile tests so that it matches the percentage identified under the old. Hertfordshire does this scaling the new data by 0.33. In contrast the NFF counts 100% of the pupils identified under the new tests and uses a higher threshold for the old tests, identifying more pupils. Therefore, for Hertfordshire, the NFF identifies 27,000 pupils for low prior attainment compared to 11,000 under the local formula.

The values shown in annex A include the London fringe uplift in the Hertfordshire formula and the two area cost uplifts (for London fringe and non-fringe areas) in the NFF.

5.3 Minimum amount per pupil

This is £3,500 per pupil in primary and £4,800 per pupil in secondary. It is calculated after taking account of all the factors in the main formula including the lump sum. If the main NFF formula delivers an allocation which is lower than the minimum amount per pupil, then it is topped up to the minimum amount.

Schools that are most likely to benefit from the minimum amount per pupil are large schools with low levels of additional educational needs (AEN) funding. This is because they receive little AEN funding to contribute towards the

guaranteed minimum amount and the lump sum allocation when expressed as an average amount per pupil is also low. Feedback from other South East authorities is that grammar schools are one of the main beneficiaries of the guaranteed minimum amount.

5.4.1 Funding floor

This provides an increase of 0.5% on the pupil based funding each school received in 2017-18 under the local funding formula (but excluding the amount funded from DSG carry forward).

The guaranteed increase of 0.5% on 2017-18 funding protects schools whose allocations are higher under the local formula, than under the NFF. In Hertfordshire this includes small rural schools.

5.5 Capping and final adjustments

Each school's NFF budget share (pre capping) is effectively whichever is the highest of the three calculations (main formula, minimum amount per pupil and funding floor). However, gains from the NFF are capped at 3% per pupil (or 20% of the gains in the event that a school has a particularly high percentage gain). If this capping would result in an allocation of less than £3,300 per primary pupil or £4,600 per secondary pupil, an element of the capping is reversed to top up the allocation to that level. (The DfE has set these amounts for 2018-19 as a transitional point towards the minimum amounts per pupil outlined in 5.3 above, which will apply in full in 2019-20.)

The NFF does not cover specific premises funding factors, such as rates, or the mobility factor. The DSG allocation for these is based on 2017-18 budgeted allocations.

6. Allocating the Additional Resources in 2018-19

6.1 The final amount of unallocated resource will only be known when the budget is finalised in January. However, it is currently estimated that approximately £4m of unallocated headroom will be available in 2018-19. Probably the key choice in deciding how to allocate this resource is whether or not to take account of how the NFF distributes funding. With this in mind two options have been identified for allocating the additional resource. Modelling of the options has been based on the following:

- 2017-18 pupil numbers and funding data (adjusted for the impact of the DfE's change in special unit funding in 2018-19);
- including the 0.5% increase in per pupil funding, the reduction in LAC funding and a MFG of -1.5%;

for academies using the budget shares calculated by the local authority formula and on which the DfE calculates the funding to recoup for academies. (The modelling does not take account of any differences between the academy baselines used for local authority budget shares and those used by the ESFA to calculate academy funding.);

- an assumption of £4m of unallocated headroom.

6.2 Option 1 - An equal percentage increase in all primary and secondary per-pupil funding factors.

This option largely disregards the NFF and allocates the additional resource to provide an equal percentage uplift on all per pupil funding factors (except mobility which is not part of the NFF) across both primary and secondary. This includes the AWPU and additional needs allocations, such as deprivation, but not the lump sum. (The lump sum would not be increased, partly because the secondary lump sum is already at the maximum permitted by the DfE of £175k and partly because the lump sum in the local formula is already considerably higher than the NFF.)

Modelling has been undertaken based on 2017-18 pupil numbers and funding data. This indicates that, based on £4m of unallocated headroom this option would result in an increase in per pupil funding factors of 0.64%. Combined with the 0.5% previously agreed this would provide a total 1.14% increase in per pupil funding factors. The primary and secondary ratio would remain unchanged at 1:1.32. The total increases by sector are:

Option 1 (£m)

	Primary	Secondary	Total
0.5% increase in per pupil funding	1.568	1.565	3.133
Additional 0.64% increase in per pupil funding	2.002	1.998	4.000
Sub total	3.570	3.563	7.133
LAC reduction	(0.097)	(0.100)	(0.197)
Net total	3.473	3.463	6.936

Annex B shows the pattern of gains that would result from this option (including the 0.5% increase in per pupil funding factors). Schools whose level of MFG protection exceeds the additional funding would have zero net gains as the increase is offset against the protection. Schools on MFG protection losing LAC funding would not have this protected as the DfE regards it as a technical adjustment. Hence there is a small number of losses in the table.

6.3 Option 2 -Allocate resource by reference to the pattern of gains under the NFF.

6.3.1 Under this option additional funding would be distributed in order to target funding at schools whose allocations under the NFF are greater than under Hertfordshire's funding formula.

We have compared each school's allocation under the 2017-18 Hertfordshire formula, adjusted for the increase of 0.5% in per pupil funding factors and the planned reduction in the looked after children factor (but without the allocation

of the extra £4m), with allocations under the NFF, which are also based on 2017-18 data. The differences, by sector, are as follows:

Comparison of Hertfordshire Formula and NFF (£m)			
	Hertfordshire Formula	NFF	Difference
Primary	377.141	380.246	(3.105)
Middle	5.780	5.820	(0.040)
Secondary and all age	330.361	329.629	0.732
Total	713.282	715.695	(2.413)

6.3.2 Overall the NFF distributes more to primary and less to secondary but within these sector totals some Primary schools gain under the Hertfordshire formula and some Secondaries under the NFF. We have therefore looked at the schools which would have gained under the NFF. A summary of these gains by sector is as follows:

Total of gains under NFF (based on 2017-18 funding data) (£m)

Primary	3.624	81.6%
Middle	0.049	1.1%
Secondary	0.767	17.3%
Total	4.440	100.0%

Under this option the additional resource would be distributed in order to, as far as possible, reflect the pattern of gains under the NFF although all schools would receive some extra funding.

Therefore 82% of the additional resource would be directed towards primary and 18% to secondary, resulting in the following split between sectors:

Option 2 (£m)

	Primary	Secondary	Total
0.5% increase in per pupil funding	1.568	1.565	3.133
Additional funding	3.280	0.720	4.000
Sub total	4.848	2.285	7.133
LAC reduction	(0.097)	(0.100)	(0.197)
Net total	4.751	2.185	6.936

In distributing the additional funds to each sector it is proposed to adopt the following approach.

- to distribute the funding in a way that as far as possible reflects gains under the NFF;
- to keep the change to the funding formula straightforward;
- not to increase the value of any formula factors which are already higher in the Hertfordshire formula than in the NFF (after adjusting for the area cost uplift).

6.3.3 Primary

Modelling indicates that the optimal distribution to achieve this is a combination of an increase in the AWPU and in additional needs funding, with the majority of resource allocated through the AWPU. Therefore it is proposed to divide the increase in primary funding as follows:

Primary AWPU	70%
Primary EAL	15%
Primary LPA	15%

Based on 2017-18 funding data and a total £4m of additional resource for both primary and secondary, this would equate to the following increase in unit funding values.

Primary AWPU	£22.71
Primary EAL	£46.70
Primary LPA	£44.96

In each case the Hertfordshire unit funding value for these factors is less than the NFF and these changes would start to close the gap.

6.3.4 Secondary

The majority of secondary schools lose under the NFF. Therefore this resource is being targeted at a minority of schools. Of these schools a few gain from the NFF due to the guaranteed per pupil amount. However, most gain due to the higher AEN funding within the NFF. An increase in the secondary AWPU would allocate funding widely across all secondary schools. It is therefore proposed to target the additional funding through the IDACI and low prior attainment factors factor, as follows:

IDACI band E	32%
IDACI band D	13%
IDACI band C	34%
Low prior attainment	21%

Based on 2017-18 funding data and a total £4m of additional resource for both primary and secondary, this would equate to the following increase in unit funding values.

IDACI band E	£46.99
IDACI band D	£47.12
IDACI band C	£236.30
Low prior attainment	£13.66

In each case the Hertfordshire unit funding value for these factors is less than the NFF and these changes would start to close that gap.

Annex B shows the pattern of gains that would result from this option (including the 0.5% increase in per pupil funding factors and the reduction in funding for LAC). The primary and secondary ratio would change to 1:1.31 (based on 2017-18 funding data). Schools whose level of MFG protection exceeds the additional funding would have zero net gains, (or a reduction if losing LAC funding).

7. Comparison of budget share levels with minimum per pupil funding

Although there is no requirement to deliver the minimum per pupil funding amounts used in the NFF in the local funding formulae, the Forum may be interested in how allocations under the two options would compare to the minimum per pupil amounts.

In the DfE's method for calculating the amount per pupil in local school funding formulae, all funding factors are counted including the lump sum and premises factors such as rates. (This is slightly different to the method used in the NFF where premises factors are excluded, because they are not calculated at school level.)

Number of schools below minimum amount and total value of gap

Option 1	Primary Schools	Secondary Schools
2018-19 minimum amounts	3 Schools, £33k	None
2019-20 minimum amounts	34 schools, £1.2m	1 school, £46k
Option 2		
2018-19 minimum amounts	2 schools, £21k	None
2019-20 minimum amounts	31 schools, £1.1m	2 schools, £74k

It is not proposed to top up funding to the minimum per pupil amounts for two reasons:

- both options largely deliver the 2018-19 minimum per pupil amounts;
- the schools that would benefit from an increase to the minimum amount per pupil tend to be large schools with low levels of AEN funding. The Authority's monitoring of schools indicates that this category of school is not the most likely to fall into financial difficulty.

8. Update to 2018-19 funding data

- 8.1 Modelling of the options has been undertaken using 2017-18 budget share data. This will be updated at Christmas when the 2018-19 funding data is published by the DfE. There can be significant changes between years in some of the additional needs data (such as pupils entitled to free school meals). It is proposed to continue to adopt the same approach that has been used in recent years. Where there is a significant change in the data for an additional needs factor, the unit funding rate will be varied such that the 2018-19 funding through the factor, for each sector, equals the 2017-18 funding, uplifted for:
- the percentage change in pupil numbers in the sector between 2017-18 and 2018-19;
 - any uplift to the factor agreed following the funding formula consultation.

9. Conclusion

- 9.1 Option 1 allocates the resources relatively evenly across schools and sectors, reflecting the fact that all schools will be experiencing similar pressures for inflation on pay and prices. Option 2 takes account of the NFF and how the DfE is calculating Hertfordshire's DSG.
- 9.2 It is proposed to consult with schools on both options, including the proposals previously supported by Forum for the 0.5% increase in per pupil funding, the reduction in LAC funding and setting the MFG at -1.5%.
- 9.3 The Forum is asked whether it wishes to indicate a preference between the options to be included in the consultation.
- 9.4 The results of the consultation will be reported to the January Forum meeting at which point the final decisions on the funding formula will need to be made. The funding formula has to be submitted to the DfE by 19 January 2018
- 9.5 The Forum is asked to agree the recommendations in section 3.