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**FINALISATION OF PRIMARY AND SECONDARY FORMULA FUNDING
FACTORS 2018-19**

Report of the Operations Director, Education

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1. Purpose

- 1.1 To seek the support of the Forum for the unit values for the 2018-19 primary and secondary funding formula.

2. Summary

- 2.1 This paper outlines the proposed unit values for the 2018-19 primary and secondary funding formula and gives details of how they have been derived. This includes feedback from the school funding formula consultation undertaken during December.

3. Recommendations

- 3.1 The Forum is asked to support:

- i) Making a 0.5% increase in the unit funding values of the pupil led funding factors (except mobility) across primary and secondary.
- ii) Allocating the remaining balance of headroom equally between the two options consulted on in December.
- iii) Reducing the unit funding value of the looked after children factor by £400 to reflect the transfer of resources to the Pupil Premium.
- iv) Keeping the level of the Minimum Funding Guarantee at -1.5%.
- v) Amending the unit funding rate for the primary free school meals factor as outlined in section 6.2 of this paper, to take account of the significant increase in the percentage of primary pupils entitled to free school meals.

- 3.2 The Forum is asked to endorse the proposed 2018-19 unit values shown in Annex B.
- 3.3 The Forum is asked to note the methodology used to prepare the 2018-19 unit values, outlined in section 6 of this paper.

4. Background

- 4.1 Information on primary and secondary budget shares for 2018-19 has to be submitted to the DfE by 19 January 2018. In order for this to be provided on schedule, it is necessary for the unit values of the Primary and Secondary funding formula to be set. The budget share information will be supplied to the DfE using their Authority Proforma Tool (APT).

5. Funding Formula Consultation

- 5.1 A consultation on changes to the primary and secondary funding formula for 2018-19 was undertaken in December. Annex C gives a summary of the responses and for reference the consultation document itself is attached at Annex D. This section of the paper reviews the consultation responses and outlines the approach it is proposed to adopt on each issue.

5.2 Allocation of headroom

Two options were consulted on:

Option 1: a 0.5% increase in pupil led funding factors with the remaining balance of headroom also to be allocated by a further equal percentage increase in primary and secondary pupil led funding factors.

Option 2: a 0.5% increase in pupil led funding factors with the remaining balance of headroom to be allocated as detailed in the consultation document, to take account of the pattern of gains under the National Funding Formula (NFF).

Respondents to the consultation were asked which option they preferred. The responses were largely split by sector with Secondaries favouring option 1 and primaries option 2. However, several Secondaries argued that, on principle, Hertfordshire should transition to the NFF and therefore supported Option 2 while a number of primaries supported Option 1.

The consultation also suggested that a hybrid of the two options could be adopted. Respondents were asked to suggest how a hybrid might be devised. There was considerable support for a hybrid option. Many primaries supported a hybrid that would go some way to address what they perceived as the imbalance of funding between primary and secondary, in favour of primary. One specific hybrid suggested was for 70% of the remaining headroom (after making the 0.5% increase in pupil led funding) to be allocated to primary, in order to take into account that the increase in pupil led funding slightly favours secondary (because pupil led funding

forms a higher proportion of secondary budget shares when compared to primary).

Having considered the consultation feedback, it is proposed to allocate half of the remaining headroom using option 1 and half using Option 2. The overall split of the headroom would be as follows:

Headroom	Primary		Secondary		Total
0.5% Increase in pupil led funding	£1.581m	50%	£1.590m	50%	£3.171m
Balance of headroom					
Option 1	£1.277m	50%	£1.285m	50%	£2.562m
Option 2	£2.100m	82%	£0.461m	18%	£2.561m
	£3.377m	66%	£1.746m	34%	£5.123m
Total	£4.958m	60%	£3.336m	40%	£8.294m

The impact on unit funding rates is shown in Annex B while annex E shows the pattern of gains.

5.3 Minimum Funding Guarantee (MFG)

There was overwhelming support in the consultation for keeping the level of the MFG at -1.5% in order to maximise the resource available for distribution to all schools. It is therefore proposed to set the MFG at -1.5%.

5.4 Looked After Children

This proposal is to reduce the unit funding rate for LAC by £400 to reflect the £400 increase in Pupil Premium funding for each LAC in 2018-19. This was also overwhelmingly supported in the consultation and it is intended to proceed with the £400 reduction in the LAC factor.

A few respondents to the consultation expressed concerns at the retention by the Virtual School of an element of the Pupil Premium funding.

5.5 Adjusting funding rates in response to significant changes in AEN data between years

This proposal was also supported by the great majority of respondents. It is intended to implement a variant of it for the primary free school meals factor (as outlined in section 6.2 below).

6. **Formula Funding Factors**

6.1 Finalisation of Unit Funding Values for 2018-19

The starting point for the calculation of the unit values for 2018-19 is the allocations in the 2017-18 budget shares. Adjustments have been made to the 2017-18 budget share unit values in respect of the following:

- Allocation of headroom for 2018-19,
- Reduction in the looked after children factor
- Adjustment to primary free school meals factor

6.2 Free School Meals (FSMs)

2018-19 budget shares will be based on October 2017 census data which has recently been received from the DfE. This includes the new data for the various additional educational needs (AEN) factors. Particular issues arise with the free school meals factor. Large amounts of resource are distributed via this factor and there has been an increase in the proportion of pupils entitled to free school meals. (This contrasts with the pattern of recent years when there have been annual reductions in the proportion of pupils entitled to free school meals.)

Percentage changes in FSMs and Pupil Numbers between 2017-18 and 2018-19

	Primary	Secondary
Free School Meals entitlements	7.4%	4.3%
Pupil Numbers	0.8%	1.7%
Extent by which FSMs exceeds pupil number increase	6.6%	2.5%

The increase in free school meals is particularly marked in primary.

If the funding value per unit is not adjusted, approximately £1.8m of resource (additional to the general demographic increase) would be required to fund the primary FSMs factor as a result of the data changes. It is therefore proposed to reduce the unit value for primary so that the overall increase in funding for the primary FSMs factor, before headroom, is limited to approximately 3.3%. This percentage is derived from the sum of the following:

- the percentage increase in primary pupil numbers of 0.8%, plus;
- the same gap between the increase in FSM numbers and pupil numbers as in secondary of 2.5%.

The change would reverse out £1.1m of the increase in primary FSMs funding that would otherwise result from the higher proportion of primary pupils entitled to FSMs.

6.3 Primary Low Prior Attainment

The primary prior attainment data is an amalgam of the low attainment data from the new Early Years Foundation Stage Profile (for years 1, 2, 3, 4 and 5) and the low attainment data from the previous EYFSP for year 6. The proportion of children identified under the new indicator is much higher than under the old. Therefore the DfE has given authorities the facility to scale down the data from the new indicator so that, as a proportion of children identified, it is consistent with the old. This is the approach that has been

adopted in recent years and the scaling factor required has been approximately 0.33 for the last three years. However, for 2018-19 the old indicator data has reduced markedly more than the new, creating a larger gap between the proportion of children identified under the old and new indicators. If the new indicator data continues to be scaled down to the proportion of pupils identified under the old indicator, there will be a significant fall in the number of primary children identified as eligible for the low prior attainment factor.

It is therefore proposed to adopt a slightly different approach, as follows:

- calculate the scaling percentage required so that the total number of children identified under the primary low prior attainment factor is the same in 2018-19 as in 2017-18;
- round this percentage to the nearest whole percentage point and use this as the scaling factor.

The scaling would be as follows (2017-18 figures are also shown for comparison):

	2018-19	2017-18
Proportion of pupils identified under old prior attainment indicator	9.35%	10.83%
Proportion of pupils identified under new prior attainment indicator	31.52%	32.81%
Scaling on data from new indicator	0.35	0.3303
Proportion of children under new indicator after scaling	11.03%	10.83%

6.4 Secondary Low Prior Attainment

New KS2 testing was introduced in 2016 and the proportion of Year 7 and 8 pupils meeting the low attainment criteria has increased, compared to the older year groups. To prevent the Year 7 and 8 cohorts being overrepresented in the data, the DfE has introduced national weightings to scale down the Year 7 and 8 prior attainment data in order to make it consistent with the data for older cohorts. The multiplier applied to the Year 8 data is 48.02% and to the year 7 data 58.05%.

After the application of these national scaling percentages to the year 7 and 8 data, the secondary prior attainment percentages for Hertfordshire are as follows:

Year 7:	18.98%
Year 8	18.76%
Years 9 to 11	15.64%

6.5 Primary / Secondary Ratio

The DfE has indicated that the overall national primary/secondary ratio in the NFF is 1:1.29. DfE officials have previously made the point that even with a “hard” national funding formula there would be variation between local authority areas in their primary/ secondary ratios. This is because the

ratios are partly a product of the relative number of schools in each sector and thus the pattern of school organisation.

The Hertfordshire primary/secondary ratio for 2018-19 is 1:1.315. However, the DfE's methodology includes prior year adjustments and the prior year adjustment for the new secondary free school, which has opened in September 2017, slightly distorts the figures. Excluding prior year adjustments, the ratio would be 1:1.313.

6.6 Notional SEN element of budget shares

The percentages of the various formula factors which are deemed to comprise the notional SEN budgets of each school have been kept the same as in 2017-18. (These percentages are shown in the pro forma at Annex A.)

6.7 Amendments to the APT

Final checks are being carried out on the APT and further information is still being received from the DfE. Therefore it is possible that there may be minor data changes before the submission of the APT.

However, in 2018-19 the schools block budget is being set at the fixed total of schools block DSG plus £5.2m of carry forward. It is therefore intended to offset the net impact of any data changes with a corresponding adjustment to the balance of headroom (which it is proposed to allocate equally through options 1 and 2 from the funding formula consultation). If the net impact of data changes is to increase the budget then there will be a corresponding reduction in headroom and vice versa. Any such changes will impact on the unit values shown in Annex B.

7. Conclusion

7.1 The 2018-19 unit values have to be set to enable the pro forma for the 2018-19 primary and secondary budget shares to be submitted to the DfE imminently.

Annex A shows the draft pro forma to be submitted to the DfE on 19th January. Annex B shows the proposed 2018-19 unit funding values with an explanation of the movement between 2017-18 and 2018-19.

7.2 The Forum is asked to agree the recommendations in section 3.