

From: Roger Gough, Cabinet Member for Education and Health Reform
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To: Education and Young People's Services Cabinet Committee – 1st February 2017

Subject: **Schools' National Funding Formula – Government Consultation**

Classification: Unrestricted

Summary: The Department for Education (DfE) has recently published its detailed consultation on proposals to move schools' funding onto a national funding formula from 1 April 2018. This report provides details on the key proposals as well as highlighting the impact of these proposals on Kent schools and academies.

Recommendation(s)

The Education and Young People's Services Cabinet Committee is asked to note the proposals within the Department for Education consultation as outlined in this report.

The Education and Young People's Services Cabinet Committee is invited to make suggestions to the Cabinet Member for Education and Health Reform on any other issues which should be reflected in the Council's consultation response.

1. Introduction

- 1.1 The Department for Education (DfE) launched the second stage consultation on the future of Schools and High Needs funding on 14 December 2016 with responses due by 22 March 2017 (a 14 week consultation period). These proposals build on the first stage consultation which took place earlier last year which focused on the principles and the building blocks to include within a NFF. This latest consultation focuses on the weightings between the factors and the amount of funding to be channelled through each factor.
- 1.2 This consultation confirms many of the proposals outlined in the first stage consultation with a small number of minor amendments. Overall there was strong support for the government's vision for, and the principle and proposed structure of, a national funding formula (NFF).
- 1.3 The rationale for moving to a NFF is that the current system is unfair and not transparent with similar schools and local areas receiving very different levels of funding, with little or no justification. The DfE view is that the

current national funding inequality is further compounded by the application of a local formula.

2 Overview of the Governments proposals

- 2.1 From 2018-29, the DSG will be split into four blocks rather than three – Schools, High Needs, Early Years and the new Central Services for Schools.
- 2.2 The government intends to operate a “soft” national funding formula in 2018-19, with local authorities still responsible for running a local funding formula for schools, followed by a “hard” national funding formula for schools in 2019-20. The hard national funding formula means the funding rates will be set nationally with little or no local involvement or flexibility.
- 2.3 However, even after the hard formula is introduced in 2019-20, the government expects LAs to continue to have flexibility on some limited parts of the schools formula, particularly in relation to funding for pupil growth. The government plans to provide further details on this local flexibility in due course.
- 2.4 In 2018-19 (the soft year) the new national funding formula will be applied at school level and aggregated up to local authority level for distribution through a local formula.
- 2.5 The schools national funding formula will comprise of 12 factors as proposed in the first stage consultation, with the addition of a mobility factor. Appendix 1 provides the detail of these 12 factors with the proposed rates the DfE are intending to apply to each of them.
- 2.6 The proposals for High Needs funding (for pupils with special educational needs) remain the application of a national formula at local authority level with local authorities remaining the commissioners of provision. The High Needs national funding formula will comprise of 9 factors. Appendix 2 provides the detail of these 9 factors with the proposed weightings the DfE are intending to apply to each of them.
- 2.7 Local authorities can currently decide how to divide their total DSG across the blocks: they are not obliged to set budgets for Schools, High Needs and Early Years funding in line with the notional allocations they receive. Under a hard formula, LAs will continue to make decisions about how to spend their High Needs, Early Years (with some additional restrictions on the central Early Years Service’s expenditure) and Central School Services block. The difference under a hard formula is that there will be limited flexibility for LAs in how they allocate the Schools block funding. For 2018-19, the Government has confirmed that LAs will be able to move funding between the Schools block and High Needs block, following local consultation and with the explicit agreement of the Schools Funding Forum and a majority of their schools. Some continued local flexibility may exist from 2019-20 but no details have been published yet.

- 2.8 The Pupil Premium, Pupil Premium Plus (for Looked After Children) and Service Premium (for children of Armed Services families) will continue to operate as separate grants and are unaffected by these proposals.

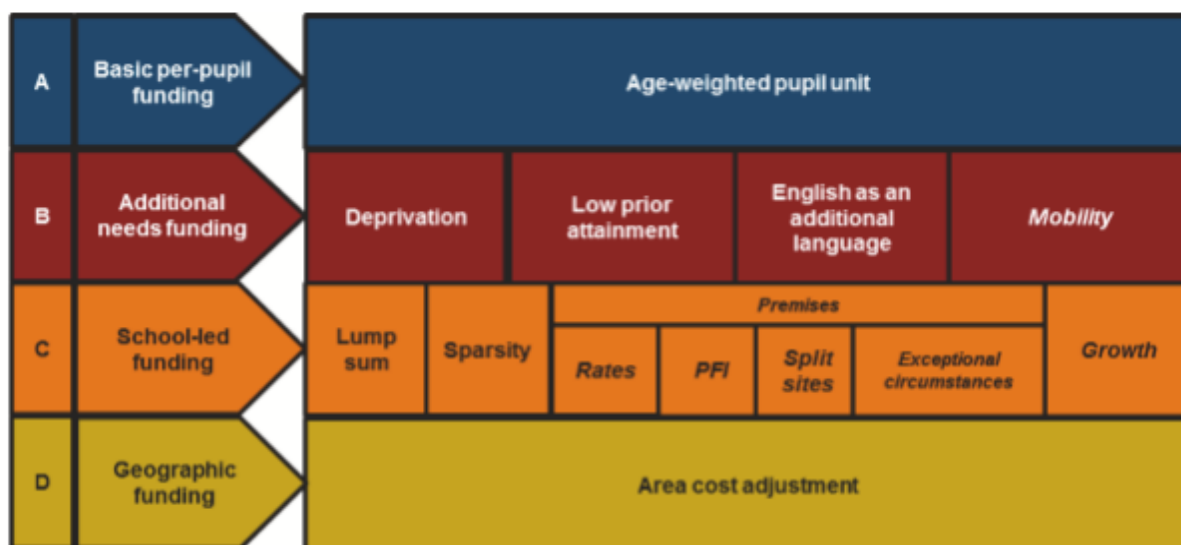
3 Proposed schools funding formula

3.1 The broad direction of the DfE proposals is to:

- maintain the Primary to Secondary ratio in line with the current national average (1:1.29)
- maximise the proportion of funding allocated to pupil-led factors compared to the current funding system, so that as much funding as possible is spent in relation to pupils and their characteristics (90% pupil led)
- reflect that the majority of funding is used to provide a basic amount for every pupil, but that some of this funding is targeted at specifically supporting pupils with additional needs.
- increase the total spend on the additional needs factors in the national funding formula
- continue to increase the basic rate as pupils progress through the key stages
- continue to provide every school with a lump sum, but at a lower level than the current national average so that they can direct more funding to the pupil-led factors (£110,000 for both Primary and Secondary)
- provide small and remote schools with additional funding where they meet the criteria, over and above the lump sum, to recognise that they can face greater challenges in finding efficiencies and partnering with other schools (subject to meeting the sparsity criteria)
- proceed with the proposal to fund rates, premises factors and growth in 2018-19 on the basis of historic spend.

3.2 The diagram below outlines the proposed funding factors. This is largely unchanged with the exception being that the mobility factor that was proposed to be removed is now remaining, although it will be reformed.

Figure 1: The building blocks and factors in the national funding formula for schools



- 3.3 The majority of factors are based on a proposed value outlined in the consultation. The approach adopted is to base the value on the national average and then seek evidence as to why this should be different, rather than on a needs led or evidence based approach.
- 3.4 There are a number of factors shown in italics which will be allocated to local authorities in 2018-19 on the basis of historic spend. The DfE has identified these factors as requiring further work and consultation as to establish a suitable way of calculation at a national level.
- 3.5 As previously proposed, the factor for Looked after Children has been removed. It will be possible to include in the local formula in 2018-19 if required but this would be the final year.

4 Proposed values in the schools funding formula

- 4.1 As already stated, the values proposed by the DfE are shown in Appendix 1 alongside the current Kent values for comparison. Some of Kent's values will change for 2017-18 in response to increasing financial pressures, in particular on the High Needs block, and the recommendations made by the Schools' Funding Forum on 9 December 2016.
- 4.2 Based on the proposed unit values, the overall proportion of spend shows an increase in funding directed towards additional need factors and a reduction in the basic per-pupil and school led funding.

Table 1

	% of overall budget	
	Kent	National
Basic per-pupil funding	78.5	72.5
additional need factors	11.1	18.1
school led funding	10.5	9.4

5 Other key points from the schools funding consultation

- 5.1 It has been confirmed that a Central Schools Services block will be created to include central services currently funded through the Dedicated Schools Grant and the funding for retained statutory duties currently funded through the Education Services Grant.
- 5.2 An allocation for the Central block has been proposed as part of the consultation. From our initial analysis, KCC is set to lose £170k in 2018-19, increasing to £560k when the NFF is fully implemented.

6 Transition to the new formula

- 6.1 The DfE proposes to build in an overall “funding floor”, in addition to the Minimum Funding Guarantee (MFG), so that no school will face a reduction of more than 3% per-pupil overall as a result of the changes. Whilst this proposal provides stability for schools, it is at odds with one of the fundamental principles underpinning the national funding formula as it leaves a large group of schools¹ with enhanced funding for the foreseeable future. It is our view that this seriously undermines the whole purpose of the NFF as similar schools in different areas will be funded at different levels.
- 6.2 Schools will receive gains of up to 3% per pupil in 2018-19, and then up to a further 2.5% in 2019-20. This has been made possible by an additional allocation of £200m in each year. The increase in 2018-19 will be given to the gaining LAs who will then, in consultation with their Funding Forum, agree how this is allocated.
- 6.3 The government’s approach to transition will cost approximately £535m in total, with £345m being added to the Schools block and £190m being added to the High Needs block.

7 Impact on Kent of proposed school funding changes

- 7.1 From a Kent perspective, as one of the lower funded local authorities, we welcome the review of schools and High Needs funding. Based on an initial review of the indicative material provided by the DfE, Kent appears to be gaining in the region of £28.9m prior to any transitional protection being applied. The gain in the Schools block is £29.5m and this is offset with a small reduction on the Central Block of £0.6m. Overall this represents an increase of 2.9% across all blocks, or 3.6% on just the schools block (see table 2 below). After application of transitional protection, the gain in the first year (2018-19) equates to approximately

¹ Typically these will be schools who received large amounts of former Standards Funding e.g. Excellence in Cities) or those schools in LA areas who have traditionally received high levels of per pupil DSG funding e.g. those in Inner London.

£12.7m. The consultation does not specify a time period when all schools will be on the NFF, and in reality it may take many years for some of our gaining schools to realise their total gain.

Table 2

	Schools block	High Needs block	Central Services Block	TOTAL DSG
Current allocations	£823,029,471	£182,454,260	£6,838,302	£1,012,322,033
NFF allocations	£852,575,679	£182,454,260	£6,274,319	£1,041,304,258
Movement %	£29,546,207 3.6%	£0 0.0%	£-563,983 -8.2%	£28,982,225 2.9%

7.2 At an individual school level, the most significant changes affecting school budgets are in relation to funding for Additional Needs. The DfE is proposing to increase the funding rates for low prior attainment and elements of deprivation (IDACI rates down, FSM rates are up and inclusion of Ever6 FSM for the first time). Our concern is that the amount of funding some schools (those that do not attract much additional needs funding) are set to receive is insufficient to cover the core costs of running a school. To support this view we have shown in the tables below the average Kent Secondary school per pupil rates (including Pupil Premium) along with some specific school examples.

<u>Averages</u>	Current rate per pupil inc. Pupil Premium	NFF rate per pupil inc. Pupil Premium
Non-selective	£5,503	£5,813
Selective	£4,413	£4,455
Difference	£1,090	£1,359
%	25%	30%

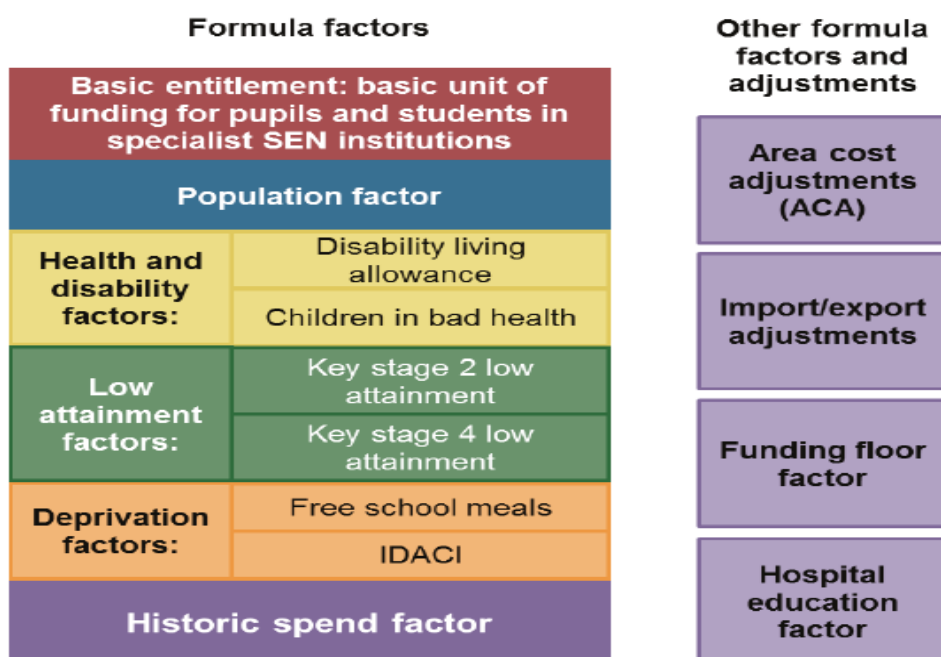
<u>Specific school examples</u>	Current rate per pupil inc. Pupil Premium	NFF rate per pupil inc. Pupil Premium
Invicta Grammar School for Girls, Maidstone	£4,241	£4,288
Queen Elizabeth Grammar, Faversham	£4,367	£4,318
Bennett Memorial Diocesan School	£4,372	£4,574

Isle of Sheppey Academy	£5,574	£6,291
Royal Harbour Academy, Thanet	£6,301	£6,904
New Line Learning Academy, Maidstone	£7,447	£7,243

- 7.3 A further impact on Kent schools will be the reduction in the lump sum from £120,000 to £110,000. This reduction is likely to have the greatest impact on a number of small rural Primary schools.
- 7.4 The inclusion of a sparsity factor will help offset some of these lump sum losses. For example, High Weald Academy set to receive the largest allocation of £65k per annum.
- 7.5 Appendix 3 provides a table showing the impact of these proposals on Kent schools, expressed as a percentage movement in funding.
- 7.6 In relation to the change in funding from these proposals, the interaction between the new NFF and schools' current MFG funding needs to be considered when calculating if a school is gaining or losing funding from these proposals. Generally speaking if a school, which is not currently on the MFG, gains funding under the NFF then they will receive all of that gain. If a school that is currently receiving high levels of additional funding through the MFG and gains from the NFF, then they might actually not receive any additional funding from the NFF proposals. In fact they could lose funding if the -1.5% reduction to their MFG is greater than the gain on the NFF. This last point accounts for the majority of Kent schools shown with a negative % movement in appendix 3.

8 Proposed High Needs formula

- 8.1 There is a strong desire to maintain stability in High Needs funding with the inclusion of a historic spend factor. The DfE have also made funding available to ensure that no local authority will see a reduction in the level of funding received currently. Whilst this is welcome, our concern is that local authorities like Kent will not receive any additional growth funding for the next few years until our protection has been eroded. Based on recent years' experience with growth in High Needs pupil numbers, this is a major cause for concern for this Council.
- 8.2 Initial analysis shows that 78 OLA will receive additional funding through the floor factor, and therefore be treated the same as Kent. 72 OLAs are receiving increases, with the largest increase equating to an uplift of just over 20% from these proposals.
- 8.3 The proposed high needs formula allocation uses the factors contained within the first stage consultation. This is shown in the table below:



8.4 The DfE proposes a further review of the High Needs formula in four years' time.

9 Conclusion

- 9.1 The proposed increase in funding to Kent is welcomed and is a positive step towards recognising and addressing the long term impact of historic lower levels of funding. However it does little to compensate schools for seven years of flat cash funding which effectively means schools have had to absorb year on year inflationary budget pressures.
- 9.2 We are concerned that the absolute 3% funding floor is flawed as this enhanced level of protection will not result in fair funding.
- 9.3 We are also concerned that the schools' NFF rates are not based on a needs led or evidence based model. Our concern is that the amount of funding some schools (those that do not attract much additional needs funding) are set to receive is insufficient to cover the core costs of running a school.
- 9.4 We have approximately 140 schools in Kent that are likely to lose funding from these proposals. There is no consistent pattern of schools that are losing, as it depends on individual circumstances. Generally speaking schools that currently receive a large amount of minimum funding guarantee funding, on top of the local formula, account for a large proportion of this group of schools. In addition a number of our small schools are set to lose funding from these proposals because the lump sum proposed is £10k lower than our current formula. In addition the Primary basic entitlement per pupil rate (known as the age weighted pupil unit or AWPU) is slightly lower.

9.5 All schools have been informed of the consultation and the potential impact on them through an illustration tool.

11. Recommendation(s)

11.1 The Education and Young People's Services Cabinet Committee is asked to note the proposals within the Department for Education consultation as outlined in this report.

11.2 The Education and Young People's Services Cabinet Committee is invited to make suggestions to the Cabinet Member for Education and Health Reform on any issues which should be reflected in the Council's consultation response.

12. Background Documents

9.6 The Government has launched consultations on the second stages of reforming the School and High Needs funding formulas respectively. Government responses to the previous consultations have also been published.

Second stage consultations:

Schools national funding formula:	https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula2
High needs national funding formula:	https://consult.education.gov.uk/funding-policy-unit/high-needs-funding-reform-2/

Consultation responses from the first stage:

Schools national funding formula:	Response to Stage 1 Schools NFF
High needs national funding formula:	Response to Stage 1 High Needs NFF

8. Contact details

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Appendix 1 – Comparison of DfE proposed and existing Kent Formula values

		Kent		National Funding Formula		Current national average values
Factor	Phase	Current 2016-17 values	% of Overall budget	Proposed values	% of Overall budget	
AWPU	Primary	£2,740	78.50%	£2,712	72.50%	£3,024
	Secondary KS3	£3,803		£3,797		£4,169
	Secondary KS4	£4,173		£4,312		£4,683
Deprivation - FSM	Primary	£359	5.2%	£980	9.30%	£963
	Secondary	£334		£1,225		
Deprivation - Ever 6 FSM	Primary	£0		£540		£1,132
	Secondary	£0		£785		
Deprivation (IDACI - Primary)	Band 1 (f)	£415		£200		£128
	Band 2 (e)	£435		£240		£191
	Band 3 (d)	£468		£360		£320
	Band 4 (c)	£515		£360		£476
	Band 5 (b)	£566		£420		£626
	Band 6 (a)	£708		£575		£704
Deprivation (IDACI - Secondary)	Band 1 (f)	£447		£290		£161
	Band 2 (e)	£469		£390		£254
	Band 3 (d)	£504	£515	£417		
	Band 4 (c)	£555	£515	£639		
	Band 5 (b)	£640	£600	£840		
	Band 6 (a)	£763	£810	£874		
LAC	All	£525	0.1%	£0	0.00%	£662
Low prior attainment	Primary	£729	4.3%	£1,050	7.50%	£812
	Secondary	£863		£1,550		£1,058
EAL	Primary	£885	1.5%	£515	1.20%	£482
	Secondary	£3,344		£1,385		£926
Mobility	Primary	£0	0.0%	Subject to historic spend	0.10%	£346
	Secondary	£0				£532
Lump Sum	Primary	£120,000	8.2%	£110,000	7.10%	£128,213
	Secondary	£120,000		£110,000		£139,473
Sparsity	Primary	£0	0.0%	Up to £25,000	0.08%	£6,206
	Secondary	£0		Up to £65,000		£10,515
Other - Rates, PFI, Rents			2.3%		2.22%	

Appendix 2 – High Needs NFF illustration – Kent

A) Current High Needs block allocation = **£182,454,260**

B) Proposed High Needs block allocation is calculated as follows:

	Factor	Amount £	
a)	Basic entitlement factor	£16,722,100	9%
b)	Historic spend factor	£82,042,703	45%
c)	Population factor	£35,415,639	19%
d)	FSM factor	£5,499,531	3%
e)	IDACI factor	£5,468,987	3%
f)	Bad health factor	£4,973,866	3%
g)	Disability factor	£6,409,084	3%
h)	Key Stage 2 low attainment factor	£6,023,519	3%
i)	Key Stage 4 low attainment factor	£5,841,227	3%
j)	Funding floor factor	£12,410,849	7%
k)	Hospital education funding	£2,822,754	2%
	NFF allocation before import/export adjustment	£183,630,260	100 %
l)	Import/export adjustment for OLA children	-£1,176,000	
	Illustrative high needs NFF final allocation	£182,454,260	

Note the inclusion of item j) Funding Floor factor of £12.4m ensures we receive the same allocation.

Appendix 3 – Impact on Kent Schools (high level view) of % movement

% Movement in Funding (count of schools)			
	Primary	Secondary	Total
-3%	30	8	38
-2%	44	4	48
-1%	52	3	55
0%	85	4	89
1%	83	10	93
2%	58	10	68
3%	41	6	47
4%	30	3	33
5%	8	4	12
6%	7	4	11
7%	1	8	9
8%	2	12	14
9%	1	11	12
10%		4	4
11%		4	4
14%		1	1
15%		1	1
Totals	442	97	539