

# SCHOOLS' FUNDING FORUM

<b>SUBJECT:</b>	School Funding Arrangements for 2018-19 including the introduction of the National Funding Formula
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<b>DATE:</b>	29 September 2017

## SUMMARY OF REPORT:

To provide Forum members with details of the recent National Funding Formula announcement, to explain where possible the implications for Kent and to start to consider principles on how the additional funding that Kent is set to receive should be allocated.

<b>FOR:</b>	Information and Comment
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## 1. Introduction and Background

- 1.1 On the 17 July 2017 the Secretary of State (SofS) for Education announced in her speech to Parliament the schools' funding arrangements for 2018-19 and beyond. A further £1.3 billion of funding has been allocated nationally to schools for the period 2018-19 (£416m) to 2019-20 (£884). This is in addition to the £1.3 billion already committed for this period in the 2015 spending review. Nationally, schools and high needs funding will rise from £41 billion in 2017-18 to £42.8 billion in 2018-19 and to £43.5 billion in 2019-20, a total increase of £2.6 billion between 2017-18 and 2019-20. This is an overall increase of 6.3% over this period.
- 1.2 The government consulted on the introduction of a National Funding Formula (NFF) for schools in the early part of 2017 and had an unprecedented 26,000 responses. The government have listened carefully to the feedback and have decided to implement a NFF from 2018-19 and have confirmed arrangements for the period 2018-19 to 2019-20. Spending plans for the years beyond 2019-20 will be set out in the next spending review. The long term aim is to have a NFF that funds all schools directly from central government.

1.3 By way of background, the LAs response to the NFF consultation (submitted in March 2017) can be summarised under the 5 following headings:

- **An absolute -3% funding floor, which locks in historical funding inequalities** – A fundamental principle in moving to a NFF was to have fair and transparent distribution to schools. The consultation proposals included a -3% floor which meant that a number of schools would continue to be protected on the majority of their historic funding levels.
- **Weakness of evidence for proposals and continued use of averages** – A formula should be based on a needs led formula, not an average based on historic distribution.
- **The proportion of weighting given to AEN rather than basic entitlement** – In a formula that was re-distributing existing funding there was no evidence that supported the rational for reducing the basic entitlement and increasing funding into additional need.
- **Quantum and spending cuts** – Schools have received flat cash for seven consecutive years, and schools are finding it difficult to continue to find efficiency savings to balance their budgets.
- **Movement between blocks** – There are significant pressures on the High Needs block and the NFF proposed that a) as a floor authority we would receive no annual increase for many years and b) the flexibility that we have utilised in previous years to transfer unallocated funding from the schools block is being removed.

1.4 Under a 'soft' system, the NFF will be used to set notional budgets for each school. These will be aggregated to give the total schools block schools block funding for each local authority. For the next two years, local authorities will continue to set a local formula to distribute their schools block funding, in consultation with their local schools and their schools forum.

1.5 DSG funding from 2018-19 will be allocated through 4 blocks; each block will be calculated using their own national funding formula. The four blocks and their calculation methodology are as follows;

**Schools Block (SB)**– Individual allocation for each school based on NFF, aggregated up to make a total allocation for the LA.

**High Needs Block (HNB)** – proxy indicators and partial historic spend.

**Central Schools Services Block (CSSB)** – National rate per pupil X no of pupils in the LA as at previous October census.

**Early Years Block EYB)** - NFF for early years X January count.

## **2. Methodology for calculating the LA Schools Block allocation under the National Funding Formula (DfE to Kent)**

2.1 In 2018-19, LAs will receive the NFF for each individual school and academy within their area. This will then be aggregated up to provide the overall total LA allocation. This sum of funding will be based on the following.

- Increases delivered through the NFF factors will be capped at 3%
- School baselines for 2017-18 will be protected including MFG, and all schools will receive a minimum increase of 0.5%.
- By 2019-20 there will be a Minimum Funding Level (MFL) of £3,500 for a primary school pupil and a MFL of £4,800 for a secondary school pupil.
- In moving to MFLs, the rates for 2018-19 (the transition year) will be set at £3,300 for a primary school pupil and £4,600 for a secondary school pupil.

2.2 In 2019-20 the following criteria will be applied to the LA schools block calculation.

- Further increases delivered through the NFF factors will be capped at +3% (this represents a cumulative +6% over the two years).
- School baselines for 2018-19 will be protected including MFG, and all schools will receive a minimum increase of 0.5%.
- The MFL for a primary school pupil will be £3,500 and a MFL for a secondary school pupil will be £4,800.

2.3 Confirmation of when the remaining funding for those schools that have not yet received their full entitlement to the NFF by 2019-20 will be provided in the next spending review.

2.4 It should be noted that the MFL takes precedence over the annual maximum 3% increase. This means that the allocations for some schools will be significantly higher in 2018-19 and 2019-20 than the annual +3% cap (or collective +6% over the two years).

### Operation of a Soft NFF (KCC to Schools)

2.5 LAs will continue to have discretion on how they allocate/target the funding at a local level and this is explored in a later section within this paper.

2.6 There are two major changes in respect of the operation of the soft formula in both 2018-19 and 2019-20. The first is that the MFG percentage rate can be set locally at anywhere between 0% and -1.5%, and the second is that LAs can choose to introduce/replicate the new Minimum Funding Level (MFL) factor into their formula.

### General observations

- 2.7 In the policy document that accompanies the NFF announcement, reference is made to the historic primary to secondary school funding ratio, which is 1 to 1.29. This means that on average each secondary school pupil receives £1.29 to every £1 a primary school pupil receives. As there was no strong evidence to suggest that this was not the right level, the same ratio has been retained in the NFF. For information Kent's 2017-18 ratio is 1 to 1:28. An interesting point to note is that the ratio for the MFL (Primary £3,500, Secondary £4,800) is 1 to 1:37 which is move away from the overall ration used in the NFF. DfE officials have confirmed that there is no needs led evidence to support these levels.
- 2.8 One principle that we may want to incorporate when allocating the funding generated from the NFF is to replicate the final distribution of the NFF. If this was the chosen direction of travel it would not be possible to replicate fully as the NFF minimum increase of 0.5% per school in 2018-19 and a further 0.5% in 2019-20 cannot be reflected in the local MFG as the range allowed is only 0% to -1.5%. The only option would be to apply to the SofS for special dispensation to apply a +0.5% MFG percentage.

## **3. Analysis of impact within Kent and nationally**

### Kent's DSG blocks

- 3.1 The analysis in table 1 below is based on the information provided by the DfE and illustrates the additional funding Kent expects to receive in 2018-19. 2019-20 and in the future once the National Funding Formula has been fully implemented.

Table 1 - Funding allocations for the SB, HNB and CSSB

	Schools Block	High Needs Block	Central School Services Block
2017-18 Baseline	£839.4m	£194.5m	£13.8m
2018-19 Indicative allocation	£867.0m	£196.6m	£13.6m
Movement (17-18 to 18-19)	£27.6m	£2.1m	(£0.15m)
% movement	3.3%	1.1%	-1.2%
2019-20 Indicative allocation	£889.3m	£197.5m	£13.5m
Movement (18-19 to 19-20)	£22.3m	£0.9m	(£0.15m)
% movement	2.6%	0.4%	-1.2%
2 year movement (17-18 to 19-20)	£49.9m	£3.0m	(£0.3m)
% increase	5.9%	1.5%	-2.4%
Total NFF when fully implemented	£901.5m		
To be paid post 19-20	£12.2m		
% to be funded post 19-20	1.4%		
% increase full implementation	7.4%		

Figures subject to rounding

- 3.2 Alongside the LA total data published by the DfE, individual school allocations that form the basis of the LA School Block allocations for 2018-19 and 2019-20 have also been published. It should be noted that this is not what schools will receive, and the remainder of this section focuses on analysing the LA School Block allocations.

#### Analysis Dedicated Schools Grant (DSG) per pupil by Region

- 3.3 Appendix 1 provides an analysis of DSG funding at regional level. The DSG increase for the schools block over the period 2018-19 to 2019-20 is +3.1% (+1.9% in 2018-19 and +1.3% in 2019-20) which represents a genuine funding increases, over and above growth in pupil numbers.
- 3.4 There are 10 regional areas within England and the South East (SE) is ranked 10th lowest funded per pupil. After the NFF is fully implemented the SE will see an increase of 5.0% per pupil in its schools block. In 2017-18 the South East DSG per pupil is 7% below the national average and when the NFF is fully implemented it will be 5.7% below the national average, an increase of +1.3%. In 2017-18 Inner London's DSG per pupil is 35.6% above the national average and when the NFF is fully implemented it will be 32.2% above the national average a decrease of 3.4%. So, in summary, there is a

narrowing of the funding gap between the best and worst funded regions, but it's minimal.

#### Analysis DSG per pupil by Local Authority (LA) area

- 3.5 Appendix 2 shows that Kent's Schools Block DSG per pupil increases from £4,145 per pupil to £4,452 when the NFF is fully implemented, which represents an increase of +7.4%. In 2017-18 Kent were ranked 140 (out of 150) and we will be ranked 114 when the NFF is fully implemented. In 2017-18 Kent's per pupil DSG is 8.8% below the national average and when the NFF is fully implemented it will be 5.5% below the national average, an increase of 3.3%.

#### Analysis of gains by size and type of school

- 3.6 Appendix 3 provides an analysis of the gains by size and type of school in 2018-19, in 2019-20 and once the NFF is fully implemented.
- 3.7 The key points to note are:

##### **In 2018-19**

- 143 (32%) primary schools will see an increase of up to 2%. Of the 113 primary schools that have less than 175 pupils, 64 (56%) will receive an increase of up to 2%.
- 33 (33%) secondary schools will receive an increase of between 4% and 13%. Of these, 28 (85%) are selective schools.

##### **In 2019-20**

- 288 (65%) primary schools will see an increase of up to 2%. Of the 113 primary schools that have less than 175 pupils, 90 (80%) will receive an increase of less than 2%.
- 38 (38%) secondary schools will receive an increase of between 4% and 6%. Of these, 29 (76%) are selective schools.

##### **Once the NFF is fully implemented**

- 135 (31%) primary schools will see an increase of up to 2% in total. Of the 113 primary schools that have less than 175 pupils, 56 (50%) will receive an increase of up to 2%.
- 85 (85%) of secondary schools will receive an increase of between 4% and 17%. In total 30 out of 32 (94%) selective schools and 55 out of 67 (82%) non selective schools are included within this group.

## **4 The NFF compared to Kent's Local Formula - Factors & Funding Rates**

- 4.1 Appendix 4 provides details of the factors and formula funding rates in Kent's current local funding formula and also the NFF when fully implemented.

### Factor 1 Basic Entitlement

- 4.2 Under the NFF the primary basic entitlement will increase by £7 per pupil (+0.3%), the KS3 basic entitlement will increase by £60 per pupil (+1.6%) and the KS4 basic entitlement will increase by £213 per pupil (+5.1%). More significantly the Minimum Funding Level (MFL) has been introduced which guarantees the minimum amount of £3,500 for a primary pupil and £4,800 for a secondary pupil. The calculation of the MFL is based on all factors in the formula excluding non-domestic business rates, divided by the number of pupils in the school (year groups R to 11 only). This means that the MFL will only apply to schools that traditionally have not attracted much in the way of Additional Educational Needs funding and in the case of Primary schools are of a medium to large size.
- 4.3 Nationally 74.7% of funding will be allocated through the basic entitlement, in 2017-18 the Kent formula allocated 81% and when the NFF is fully implemented 79.1% of funding will be targeted through this factor. An additional £10.3m will be allocated through this factor (excluding the MFL). The ESFA are still to provide detail behind the individual school budgets calculations (this should be issued shortly) which is needed to calculate accurately what the full implementation cost will be.

### Factor 2 Deprivation.

- 4.4 Currently Kent uses both Free School Meals (FSM) and Income Deprivation Affecting Children's Index (IDACI) to allocate deprivation funding to its schools. The NFF will include three factors FSM, IDACI and also Ever 6 FSM (the same indicator used to allocate Pupil Premium funding).
- 4.5 Nationally 9.3% of funding will be allocated through deprivation factors. In 2017-18 the Kent formula allocated 5.4% and when the NFF is fully implemented 6.2% will be targeted through this factor generating an additional £8.2m.

### Factor 3 Looked After Children (LAC)

- 4.6 The new NFF will no longer include a factor for LAC and instead the historic level of funding nationally will be topped sliced and passed to Pupil Premium Plus. The rates will increase by £400 per eligible pupil, from £1,900 to £2,300. We will need to consider when we remove this factor from our local funding formula - we currently allocate £0.7m through this factor.

#### Factor 4 English as an additional Language (EAL)

- 4.7 Under the NFF, the primary EAL rate compared to Kent's 2017-18 rate will decrease by £370 (41.8%) and the secondary EAL rate per pupil will decrease by £1,959 (58.6%).
- 4.8 Nationally 1.3% of funding will be allocated through the EAL factor. In 2017-18 the Kent formula allocated 1.48% and the full NFF for Kent will target 0.7% through this factor. The funding allocated through this factor will decrease by £5.6m

#### Factor 5 – Mobility

- 4.9 Currently Kent does not use this factor, where LAs have used this factor their historic allocations have been protected. In time the ESFA plan to develop a methodology that can be applied to all LAs so that it can be included in a Hard NFF.

#### Factor 6 – Low Prior Attainment (LPA)

- 4.10 Under the NFF the primary LPA rate per pupil compared to Kent's 2017-18 rate will increase by £519 (97.9%) and the secondary LPA rate per pupil will increase by £687 (79.6%).
- 4.11 Nationally 7.6% of funding will be allocated through the LPA factor, in 2017-18 the Kent formula allocated 3.7% and the full NFF for Kent will target 6.7% through this factor. The funding allocated through this factor will increase by £26.5m

#### Lump Sum

- 4.12 Under the NFF the lump sum for both primary and secondary will decrease by £10,000 per school from £120,000 to £110,000.
- 4.13 Nationally 7% of funding will be allocated through the lump sum factor, in 2017-18 the Kent formula allocated 8.3% and the full NFF for Kent will target 7.3% through this factor. The funding allocated through this factor will decrease by £5.5m.

#### Sparsity

- 4.14 Currently Kent does not use Sparsity in its formula however it is included in the NFF and maybe a factor that Kent will introduce into its local funding formula in the future (subject to consultation). The maximum amount that can be allocated for a primary school is £25,000 and for a secondary school is £65,000. At this point we do not know which schools are eligible as we are waiting for the ESFA to provide a detailed breakdown of the published NFF for each individual school.



#### London Fringe – Now Area Cost Adjustment (ACA)

- 4.15 Currently schools in the Dartford and Sevenoaks district receive London Fringe at a rate of 1.56%. London fringe in the NFF will be replaced by an ACA. The expectation is that Kent schools will receive two different ACA rates, one rate for Dartford and Sevenoaks and another rate for the remaining schools. At this point we do not know the ACA rate in the NFF as we are waiting for the ESFA to provide a detailed breakdown of the published NFF for each individual school.

#### National Non domestic rates (NNDR)

- 4.16 NNDR will be funded on the basis of historic spend (2017-18).

#### Private Finance Initiative (PFI)

- 4.17 LAs will receive the same level of funding as 2017-18 uplifted for RPIX. This is a welcome addition for Kent's 11 PFI schools and means that we no longer need to ask the Forum to top slice the DSG for the annual inflationary pressure. The amount passed through to schools remains at the discretion of the local funding formula.

#### Exceptional Premises factor

- 4.18 Exceptional premises factor, otherwise known as rentals will be funded on the same basis as 2017-18.

#### Minimum Funding Guarantee (MFG)

- 4.19 A new local flexibility is being introduced for 2018-19. LAs can now set a local MFG within the range of 0% to -1.5%.

#### Growth Fund

- 4.20 LAs will receive the value of their 2017-18 growth fund plus any diseconomy of scale funding included the Accounting Pro-forma Tool (APT). Kent will receive £7.5m from the growth fund and £1.4m for diseconomy of scale funding, making a total of £8.9m.

## 5 Moving funding between DSG blocks and consulting with Schools

### Moving between blocks

- 5.1 In 2018-19 LAs, with the permission of the SFF, can move funding between the four DSG blocks. The only restriction is in relation to the Schools Block where the DfE have set a limit of 0.5%. This equates to approximately £4.3m in Kent. Any transfer from the Schools Block should be included within the local school consultation and be subject to Schools' Funding Forum approval. If the SFF do not agree the transfer or the LA want to transfer more than 0.5% then they can submit an application to the SofS with additional evidence.

### Schools formula consultation

- 5.2 Any changes to the local funding formula must be communicated to schools in the form of a consultation. This should include individual school illustrations. The SFF will make recommendations on the outcome of the consultation and the Cabinet Member for Children, Young People and Education will determine the final distribution.

## 6 Principles

- 6.1 It is now important to seek the Forum's views on the principles that should be adopted to inform the consultation with all schools. To aid discussion we have listed below some of the overarching principles, and against each some of the issues to consider, some of which conflict with each other.

### Overarching Principles

- a) Should the overriding direction of travel be the replication of the NFF?
  - b) Should the direction of travel in general be the aim to replicate the NFF, however take into consideration local circumstances?
  - c) Should local circumstance take priority over the NFF?
- 6.2 The key areas that we aim to consult on and how much additional funding should be put into each of the following priority areas:
- **Transfer at least 0.5% to High Needs Block**
  - **Increase Growth Pot**
  - Basic entitlement
  - Minimum Funding Level
  - Additional Educational Need
  - Lump Sum (retain at £120k/school)
  - Ensure all schools receive an increase (except those on the MFG)
  - Minimum Funding Guarantee (between 0% and -1.5%)

- 6.3 Further information and presentation of these areas will be provided at the Forum meeting on Friday.

## **7 Summary**

- 7.1 So in summary, the increases to the basic per pupil funding rates and the resulting increases to the schools block are welcome. However we remain concerned that the demand for High Needs funding significantly exceeds the increase to the High Needs funding block, and this is compounded by the ring-fencing of the schools block. The High Needs funding system is becoming unsustainable and unmanageable and as we look to the future, this is our major area of concern.
- 7.2 With regards to providing school level illustrations, we are awaiting the publication by the DfE of the underlying data and calculations which we understand will be available to LA's by the end of September. As soon as this data is available, we intend to publish, at individual school level, an illustrative tool that compares current school funding with what they will receive once the NFF is fully implemented.
- 7.3 In relation to future timetable,
- Commence an all school consultation in late October / early November.
  - Share results of the consultation with the Forum on 1 December
  - December - KCC takes decisions on the 2018-19 local formula budget
  - End of February 2018 - 2018-19 school budgets, using our updated formula, will be published.

Additional information can be obtained via the following link:

[The national funding formula for schools and high needs – policy documents](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/644746/National_funding_formula_for_schools_and_high_needs_Policy_document.pdf)

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/644746/National\\_funding\\_formula\\_for\\_schools\\_and\\_high\\_needs\\_Policy\\_document.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/644746/National_funding_formula_for_schools_and_high_needs_Policy_document.pdf)