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Report title:	Schools National Funding Formula Consultation – Stage 2	
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Executive Summary

This report summarises the recently issued Schools National Funding Formula Consultation (Stage 2).

Schools Forum Actions

The Schools Forum is asked to note that:

- The second stage of the Schools National Funding Formula was issued on 14 December 2016
- The illustrative impact of the proposed new formula on LAs and individual schools has been issued
- The deadline for making responses to the consultation questions is 22 March 2017 (see Appendix A). The Authority will issue a response to the consultation which will be shared with Schools Forum.
- Separately the EFA has issued a second stage consultation on the High Needs Funding (this is currently being reviewed and a summary together with any LA response will be shared at the March meeting of Schools Forum – no reductions to the allocations on this block are proposed on the basis of illustrative allocations).

Background

1. The Second Stage consultation builds upon the earlier funding consultation in particular the government's belief that the current system is lacking transparency, is out of date and unfair .It also builds upon a number of principles for a new funding system.

Second Stage Consultation: A Brief Summary

2. As part of the second stage consultation the government outlines:
 - The overall approach to constructing the national funding formula for schools, together with the detailed formula design proposals
 - The impact of the proposed national funding formula for schools
 - The implementation stages for the national funding formula for schools
 - Proposals for the central school services block.
3. The government confirms there will be 13 factors in the formula across the 4 building blocks outlined in stage 1 of the consultation. The four blocks were: per pupil costs, additional needs, school costs and geographic costs. The government says that the second stage proposals and weightings flow from the collective formulae that LAs already have in place. It also builds upon the principle of maximising the pupil led element of funding where 80% is the current requirement but many LAs are going further and distributing nearer 90% that way. Whilst taking into account

local decisions the government states that its proposals on weighting formula factors is underpinned by evidence as to what impacts the most on attainment.

4. The following summarises the main proposals in relation to the overall principles and the building blocks.
5. **Whole Formula.** Maintaining the primary to secondary ratio in line with the current average. Maximising pupil led factors so that as much as possible is based on pupils and their characteristics, rather than school led factors.
6. **Basic per pupil funding.** Whilst the majority of funding to be focussed on basic amount for every pupil there needs to be some focus upon disadvantaged pupils. To do this there needs to be an increase in spend on additional needs in the national funding formula. Continue to increase the basic rate as pupils progress through the key stages.
7. **Additional Funding.** Increase spend on additional needs (using broad measures of educational disadvantage) to reflect that some basic per pupil funding is currently supporting pupils from disadvantaged backgrounds. Continuing to have a substantial deprivation factor in addition to the pupil premium (using pupil and area deprivation data). Increase the weighting of low prior attainment and change the secondary LPA factor. Continue EAL as a factor and increase and extend total spend. Continue and develop the mobility factor.
8. **Schools Led Funding.** Continuing to provide every school with a lump sum, but this to be lower than the current national average to move balance to pupil led funding. Fund rates and premises factors (split sites, PFI etc) in 2018-19 on the basis of historic spend but with an adjustment for inflation. Funding the growth factor on an historic basis for 2018-19, whilst seeking views on what would be a better approach in the long term, using lagged growth data.
9. **Geographic Funding.** Recognising the higher salary costs faced by some schools, especially in London, by making an area cost adjustment. This would use the hybrid area cost adjustment which takes into account variation in both the general and teaching labour markets.
10. **Ensure Sufficient Stability.** Build in an overall funding floor so that no school faces a reduction of more than 3% per pupil overall as a result of this formula (and take into account schools filling up). During transition, the Minimum Funding Guarantee (MFG) will continue at -1.5% per pupil in any year, and will continue to provide additional stability for schools. Gainers will receive up to 3% in 2018-19 and then up to a further 2.5% in 2019-20.

Implementation timescales and arrangements for the national funding formula for schools

11. The paper outlines how it intends to move towards the implementation of the new national schools formula.
12. **2017-18.** The current system will operate in terms of allocations and the local formula.
13. **2018-19.** A soft national funding formula will operate. The national formula will be used to allocate funding to the LAs but allocations to schools will be based upon the local formula. MFG will apply at -1.5% and gainers will be limited to 3%. There will continue to be flexibility to undertake block transfers.

14. **2019-20.** The hard national formula will operate on individual schools budgets – no reduction by more than 3%. There may be some local flexibility particularly as regards pupil growth. The government will consult on the precise arrangements for the hard formula including the arrangements to reflect the latest data and will also consider the role of Schools Forum.

Proposals for the central school services block

15. Stage 2 confirms that the government will proceed with the creation of the central school services block as planned and it sets out the proposed formula for its allocation from 2018-19 onwards. It also sets out the transition arrangements. This flows from the current ESG retained duties element and the centrally retained element of the DSG.
16. The transition elements of the ESG and DSG have largely been covered by the report for ESG at this Schools Forum and the DSG central retentions at the December 2016 meeting and do not need to be repeated here.
17. An element has been included in DSG for the retained duties element of ESG. There will also be provision within the DSG for asset management and admissions, and historic commitments. Funding will be allocated on the basis of pupils, deprivation and an area cost factor.

Published Illustrative allocations for NFF

18. An illustrative impact on future funding of LAs with protection with no protection against 2016-17 allocations. The EFA have also published information at the individual schools level. The range of reductions with transitional protection would be between -1.3% to -1.5% and between -2.1% to -3% without the transitional protection. There has already been high profile concern raised about the level of reductions being faced by inner London authorities compared to the rest of the country flowing from a range of historic funding factors, inner London cost pressures, improving attainment levels and demographic factors which have been well documented. The reduction in FSM levels in London particularly under UIFSM and the supplementary local free healthy school meals programme may also be impacting upon funding. In addition to this, the National Audit Office have recently issued a report which notes significant concerns regarding the financial sustainability of schools given pupil growth, cost pressures and likely reductions in funding.
19. The table below summarises the overall funding changes for this Authority

	NFF with transitional protection	Full NFF Year
Overall	-1.1%	-2.3%
Schools Block	-1.4%	-2.7%
High Needs Block	0%	0%
Central Schools Block	-2.5%	-12.8% ¹

¹ The consultation question 17 implies this will be limited to 2.5%.

Appendix A**Consultation Questions**

1. In designing our national funding formula, we have taken careful steps to balance the principles of fairness and stability. Do you think we have struck the right balance?
2. Do you support our proposal to set the primary to secondary ratio in line with the current national average of 1:1.29 which means that pupils are funded overall 29% higher than pupils in the primary phase?
3. Do you support our proposal to maximise pupil led funding , so that more funding is allocated to factors directly relate to pupils and their characteristics?
4. Within the total pupil-led funding, do you support our proposal to increase the proportion allocated to the additional needs factors (deprivation, low prior attainment and EAL)?
5. Do you agree with the proposed weightings for the additional needs factors?
6. Do you have any suggestions about potential indicators and data sources we could use to allocate mobility funding in 2019-20 and beyond?
7. Do you agree with the proposed lump sum of £110,000 for all schools?
8. Do you agree with the proposed amounts for sparsity funding of up to £25,000 for primary schools and up to £65,000 for secondary, middle and all-through schools?
9. Do you agree that lagged pupil growth data would provide an effective basis for the growth factor in the longer term?
10. Do you agree with the principle of a funding floor that would protect schools from large overall reductions as a result of the formula?
11. Do you support our proposal to set the floor at -3%, which will mean that no schools will lose more than 3% of their current per-pupil funding level as a result of the formula?
12. Do you agree that for new or growing schools the funding floor should be applied to the per pupil funding they would have received if they were at full capacity?
13. Do you support this proposal to continue the minimum funding guarantee at -1.5% per pupil? This will mean that schools are protected against reductions of more than -1.5% per pupil per year.
14. Are there further considerations that we should be taking into account about the proposed national funding formula?
15. Are there further considerations we should be taking into account about the impact of the proposed national funding formula?
16. Do you agree that we should allocate 10% of funding through a deprivation factor in the central schools block?
17. Do you support our proposal to limit reductions on local authorities central school services block funding to 2.5% per pupil in 2018-19 and 2019-20?
18. Are there further considerations we should be taking into account about the proposed central school services block formula.