

Schools National Funding Formula – Stage One

Summary

This brief provides the key headlines coming out of the consultation on the schools national funding formula published by the Department for Education (DfE) on 7 March 2016. Consultation responses are required by 17 April 2016. The full consultation documents can be found at <https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula>. The DfE will be consulting on a national funding formula and associated reforms for early years later this year.

Background

In the Spending Review 2015, it was announced that the government would introduce the first ever national funding formula for school, early years and high needs, with the intention of matching funding directly and transparently to need. This consultation is the beginning of this process.

From 2013-14 the government has introduced significant reforms to the local funding formulae used by local authorities to distribute funding to schools to bring greater consistency across all schools nationally.

However it remains the case that similar schools in different parts of the country continue to receive very different levels of funding. This is due to local decision making within the limited flexibility of local funding formulae and more significantly to the variances in levels of DSG received by local authorities. The government are committed to tackling this unfairness in funding and to implement a national funding formula for schools from April 2017.

Key Issues

Formula Schools National Funding

This is the first of 2 planned consultations on the national funding formula for schools. This first consultation seeks views on:

- Principles that underpin the formula
- The building blocks to use to construct the formula
- The factors to include in the formula

The DfE is also seeking views on the structure of the formula; in particular, the government proposes to:

- Introduce a school-level national funding formula, where the funding each pupil attracts to their school is determined nationally;
- Implement the formula from 2017-18 allocating funding to local authorities to distribute according to a local formula for the first two years, and then setting each school's funding directly from 2019-20;
- Allocate some funding to local authorities to distribute where there is need for local flexibility, and to create a central funding block for local authorities' ongoing duties; and
- Ensure stability for schools through the minimum funding guarantee and by providing practical help, including an 'invest to save' fund.

There will be further phases, with the second consultation covering how the government proposes to balance different factors in the national funding formula of the formula on funding for individual areas and schools.

Chapter 1: Reforming the funding system

The government sets out seven objectives for the new national funding formula. These are that the formula will:

- *Support opportunity.* Fundamentally, the funding system should support schools and local authorities to extend opportunity to all pupils to achieve their potential;
- *Be fair.* It should allocate funding to schools and local authorities on the basis of objective measures of the needs and characteristics of their pupils;
- *Be efficient.* It should support efficiency within schools and local authorities, and across the system as a whole;
- *Get funding straight to schools.* It should maximise the resources available for teaching and learning and enable head teachers and local authorities to achieve value for money;
- *Be transparent.* It should be easily understood and justified;
- *Be simple.* It should rationalise funding streams as far as possible; and
- *Be predictable.* It should ensure schools and local authorities can manage and plan for year on year changes.

The DSG is currently divided into 3 blocks: schools; high needs; and early years. These blocks are notional and local authorities are free to move funds between them. The reforms propose creating a fourth block of the DSG, the 'central schools block'. This block would contain funding for central schools services, historic local authority sending commitments on schools and the retained rate of the Education Services Grant (ESG).

The proposals include calculating the schools block according to a national funding formula and intend that this would be at school level for 2019-20 (a 'hard' national funding formula). This means that the vast majority of funding each pupil attracts to their school would be determined nationally, not according to a local formula. For 2017-18 and 2018-19 the national funding formula would be used to calculate the schools block, but local authorities would continue to distribute this funding according to their local formula (a 'soft' national funding formula). There are no proposals to make significant changes to the factors that are currently allowable in the local formula in 2017-18.

The proposal is to require local authorities to pass on all of their schools block funding to schools from 2017-18

Chapter 2: The schools national funding formula

The proposed building blocks of the schools national funding formula are as follows:

- Basic per pupil funding – a core funding allocation for each primary pupil, each Key Stage 3 pupil and Key Stage 4 pupil.

Rotherham’s local funding formula currently has 3 different year grouping rates.

- Additional needs – based on pupil characteristics that are linked to a likely need for additional educational, pastoral or administrative support. The proposal is to use socio-economic deprivation – a combination of current FSM, Ever 6 FSM and IDACI data; low prior attainment data and English as an additional language (EAL) – pupils with EAL who entered the state education system at any point during the previous 3 years.

Rotherham’s formula does not currently use current FSM or IDACI

- School costs – to reflect fixed premises costs

Rotherham allocate a lump sum of £117,000 to both primary and secondary schools (a different lump sum per sector is now permitted) but lump sums used by local authorities vary significantly up to a maximum of £175,000. The consultation welcomes evidence for how much lump sum funding should be included in the national funding formula.

Other school costs cannot easily be allocated on a formulaic basis and therefore it is proposed to allocate funding for rates, split sites, private finance initiatives (PFI), exceptional premises circumstances and pupil growth to local authorities on the basis of historic spend in 2017-18 and 2018-19. The Government want to explore whether this funding could be distributed on a formulaic basis from 2019-20 and welcomes views on how this can be achieved.

- Geographic costs – inclusion of an area cost adjustment (ACA). A multiplier applied to factors for schools in areas of high cost consisting of 2 elements: teacher pay costs and non- teaching staff costs. The hybrid ACA was designed and used in order to reflect that the costs of teachers are lower in high cost areas than the general labour market (GLM) indices would suggest. The GLM measure was used prior to the ACA.

The proposed building blocks and factors of the schools national funding formula are shown in the table below.

A	Per-pupil costs	Basic per-pupil funding			
B	Additional needs	Deprivation	Low prior attainment	EAL	
C	School costs	Lump sum and Sparsity	Rates	Premises (PFI, split sites, exceptional circumstances)	Growth (New)
D	Geographic costs	Area cost adjustment			

The reforms propose to retain 11 of the 14 permissible factors that local authorities can currently include in their local funding formula and to add a new factor to recognise in-year growth in pupil numbers. The 3 current optional factors that are proposed to be excluded in the national funding formula are looked after children, mobility and post 16. Rotherham's current local formula does include a mobility factor.

The 8 factors of the 14 permissible ones Rotherham currently use are shown in the table below. The highlighted 6 factors and the IDACI and current FSM methodology for deprivation are the ones Rotherham does not currently use.

Factor		Description
Per pupil (mandatory factor)		Basic unit of funding for every pupil weighted according to age
Deprivation (mandatory factor)	Free School Meals (FSM)	Funding for schools based on pupils' entitlement to FSM (current FSM entitlement and/or entitlement during the last 6 years)
	Income deprivation affecting children index (IDACI)	Funding for schools based on the relative socio-economic deprivation of the areas in which their pupils live
Low prior attainment (LPA)		Funding for schools with pupils who did not reach the expected standard at the previous stage
English as an additional language (EAL)		Funding for schools with pupils whose first language is recorded as being a language other than English
<i>Looked after children (LAC)</i>		<i>Funding for schools with children who have been looked after for one day or more as recorded by the local authority</i>
<i>Mobility</i>		<i>Funding for schools where more than 10% pupils entered a school during the last 3 academic years, but did not start in August or September (January for reception)</i>
Lump sum		A fixed amount allocated to each school in a local authority area
Sparsity		Funding to support small schools without which pupils would have to travel long distances to their nearest appropriate school
Other school costs	Private Finance Initiative	Funding to support schools with unavoidable extra premises costs arising from PFI
	Rates	Funding to meet the cost of business rates
	Split sites	Funding to support schools with unavoidable extra premises costs because school buildings are on separate sites
	<i>Post 16</i>	<i>Funding to continue historic arrangements for funding post-16 pupils</i>
	Exceptional circumstances	Local authorities can apply to the Education Funding Agency to use exceptional factors related to premises
Area cost adjustment (ACA)		An adjustment to support schools which have to pay higher teacher salaries because they are in the London fringe area

The transition to a new formula

The government are asking local authorities to provide information on their planned spend for 2016-17 so that they can re-set DSG baselines to this planned spend rather than how the government allocated funding.

The government intends to use the new funding formula from 2017-18 to build-up each local authority's block funding. All block funding will be required to be passed on to schools. For the first two years of the formula, this will continue to be allocated to the local authority for it to distribute according to its own local formula. This is referred to as a 'soft' national funding formula. From 2019-20 funding would be direct to schools – a 'hard' national funding formula.

Schools block allocations will be calculated as follows:

- calculate each school's allocation using the formula factors (basic per-pupil, additional needs, lump sum, sparsity and ACA)
- apply the national minimum funding guarantee to each school
- add together all the resulting individual school allocations to give a local authority total
- add funding for premises and growth factors based on historic spend at local authority level

The government are proposing to phase in the national funding formula by putting in place a national Minimum Funding Guarantee, funded through a national cap on gains. The second stage of the consultation will on the new national funding formula will contain proposals for how the MFG and the cap on gains would work in future and the levels they would be set at.

The government anticipate that there will be some schools that lose funding as a result of the national funding formula therefore they will continue to support schools to become financially healthier and more efficient through support tools, training and sharing best practice. They will also launch an invest to save fund in 2016-17 to allow schools to invest in ways to save money in future, helping them manage the transition to the national formula.

There is a continuing role for Schools Forum in 2017-18 and 2018-19 in carrying out their current role of advising on the schools budget and local formula. Moving to a hard national formula in 2019-20 removes this role from Schools Forum.

Funding that will remain with local authorities.

Local authorities currently receive funding from the government for their responsibilities from 2 different funding streams – the DSG funding that is held centrally by the local authority and the retained duties element of the ESG. The proposal is to bring these 2 funding streams together into a new fourth block of the DSG the 'central schools block' distributed on a simple per-pupil formula.

ESG funding for retained duties is already allocated to local authorities according to a per pupil rate of £15 for all maintained school and academy pupils. Centrally retained DSG is not currently allocated on a formulaic basis. The government plans to collect evidence from local authorities about their historic commitments, during the spring 2016 and to allocate funding for historic commitments on the basis of this evidence. The second phase of the consultation will set out a proposal for a formula and the pace of transition.

The future of the Education Services Grant (ESG)

The ESG is paid to local authorities and academies according to 2 national per pupil rates. The general funding rate (£77 per pupil in 2016-17) is paid to both academies and local authorities to fund duties that academies are responsible for delivering for their pupils and that local authorities deliver for maintained school pupils. The retained duties rate (£15 per pupil in 2016-17) is paid only to local authorities to fund the duties that local authorities deliver for all pupils.

The government's plan are to remove the general funding rate from 2017-18 and to address this by school and local authority efficiencies and the removal of some statutory duties. The expectation is that local authorities will step back from running school improvement for September 2017 and therefore will not require funding for this function.

The government is keen to receive suggestions for additional duties that could be removed or reformed to support the move to a school-led system and help with managing the savings.

They recognise that local authorities will need to use other sources of funding to pay for education services once the general funding rate has been removed. The proposal is to allow local authorities to retain some of their maintained schools' DSG to cover the statutory duties that they may carry out for maintained schools. This would need to be agreed by the maintained school members of the Schools Forum.

The proposal is for transitional arrangements for the removal of the ESG general funding rate for academies and local authorities. The general funding rate would be removed completely for both academies and local authorities from September 2017 (subject to a protection arrangement for academies). This government plan to unwind this protection by 2020.

Vera Njelic
Principal Finance Officer