

Agenda Item
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Report Status

For information/note ☒
For consultation & views ☒
For decision ☒

Report to Haringey Schools Forum – Thursday 23rd February 2017

Report Title: Response to DfE Consultation on Stage 2 National Funding Formula

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Purpose:

To seek Schools Forum agreement to the draft response to the DfE's consultation on the National Funding Formula, which have been considered by the High Needs and Formula Working Groups.

Recommendations:

1. That Schools Forum notes and discusses the implications for Haringey Schools of the introduction of the National Funding Formula arrangements set out in the DfE consultation paper.
2. That Schools Forum agrees to the proposed response to the Schools National Funding Formula Stage 2 consultation as per Appendix 3.
3. That Schools Forum agrees to the proposed response to the High Needs National Funding Formula Stage 2 consultation as per Appendix 4.

1. Background to the National Funding Formula

- 1.1 Schools Forum has considered the development of a national funding formula over many years. At the end of 2015/16 financial year, the DfE launched a Stage 1 consultation about the arrangements for moving to an NFF for Schools and High Needs from 2017/18. Schools Forum provided a response in the summer of 2016.
- 1.2 The Stage 1 proposals would separate the Schools Block into two. The first would be the sum of a formulaic allocation for every school. The second would be a discrete amount for the local authority to use for centrally retained activities. The High Needs Block would continue with the approach of having £10k per place at each specialist High Needs institution plus individual top-ups for pupils on the roll at those institutions, paid by the commissioning body. The main change for the High Needs Block was that the amount for the block would be determined using proxy indicators for high needs.
- 1.3 The proposals would introduce a national funding formula for all schools, based on the factors currently permitted for use locally, but using nationally determined values and weightings. Haringey, in common with much of London, was expected to lose up to 10% eventually, once the transitional arrangements (Minimum Funding Guarantee) arrangements worked themselves out over a number of years.
- 1.4 The Department for Education sought details of current spending within blocks so that they could ensure that the baselines were right for the new arrangements. This made permanent some transfers which Schools Forum had been agreeing between blocks (particularly from the Schools Block to the High Needs Block).
- 1.5 The Stage 2 consultation papers from the DFE require a response by 22nd March 2017 and can be found in the following locations:
 - All documents on Schools NFF Stage 2:
<https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula2/>
 - Schools NFF Stage 2 Consultation Paper:
https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula2/supporting_documents/NFF_Stage2_schools_consultationdoc.pdf

- All documents on High Needs NFF Stage 2:
<https://consult.education.gov.uk/funding-policy-unit/high-needs-funding-reform-2/>
- High Needs NFF Stage 2 Consultation Paper:
https://consult.education.gov.uk/funding-policy-unit/high-needs-funding-reform-2/supporting_documents/High%20needs%20funding%20reform%20%20government%20response%20and%20stage%202%20proposals.pdf

2 Proposals for Stage 2 Consultation on NFF (Schools)

- 2.1 The DfE confirmed that their proposals to introduce an NFF for schools would be deferred until 2018/19, rather than from April 2017. The DfE determined also, that the level of protection for individual schools had to increase. The standard Minimum Funding Guarantee that schools' budgets would be protected at 98.5% of the per pupil funding from the previous year remains (ie -1.5% reduction). As an added protection for schools, however, the DfE are now proposing that no school should see a reduction of no more than 3% per pupil against their 2017/18 budget for the remainder of the parliament. This is referred to as a -3% floor.
- 2.2 The formula allocations used by the DfE to illustrate the formula are set out in **Table 1**.

Table 1: DfE Formula Factors and Illustrative Values in Schools NFF (National position)

Factor		Proposed weighting for the national funding formula	Total we propose to spend through factor in the formula. NB These include area cost adjustment funding		Per-pupil/school funding under the proposed national funding formula. NB These exclude area cost adjustment funding.			
					Primary		Secondary	
Basic per-pupil funding (£ per pupil)		72.5%	£23,255m		KS1	£2,712	KS3	£3,797
					KS2		KS4	£4,312
Deprivation (£ per pupil)	Ever6 FSM	9.3%	£1,746m	£2,985m	£540		£785	
	Current FSM		£980		£1,225			
	IDACI A		£575		£810			
	IDACI B		£420		£600			
	IDACI C		£360		£515			
	IDACI D		£360		£515			
	IDACI E		£240		£390			
	IDACI F		£200		£290			
Low prior attainment (£ per pupil)		7.5%	£2,394m		£1,050		£1,550	
English as an additional language (£ per pupil)		1.2%	£388m		£515		£1,385	
Mobility (allocated to LAs on basis of historic spend)		0.1%	£23m		N/A			
Lump sum (£ per school)		7.1%	£2,263m		£110,000		£110,000	
Sparsity (£ per school)		0.08%	£27m		£0 - £25,000		£0 - £85,000	
Premises (allocated to LAs on basis of historic spend)	Rates	1.8%	£569m	N/A				
	PFI							
	Split sites							
	Exceptional circumstances							
Area cost adjustment			£792m		A multiplier that is applied to certain factors. Shown in italics because it is already included in the total spend through each factor.			
Explicit spend on growth (allocated to LAs on basis of historic spend)		0.5%	£167m		N/A			
		Total	£32,071m					

- 2.3 The DfE will allocate funding to local authorities in 2018/19 on the basis of the sum of the formula entitlements for each school, but local authorities may continue to use their local formulae to distribute that funding among schools. This is referred to as the Soft NFF. For 2019/20, the formula allocations per school (including any MFG and floor protections) will determine the actual budget each school will receive. This is referred to as the Hard NFF.

3 Impact on Haringey schools of NFF proposals

- 3.1 The DfE has provided information to allow each school to consider its own circumstances with respect to the impact of the NFF. The DfE COLLECT portal, which all schools have access to, provides details of the formula factors and how this would impact on the pupil driven and premises driven allocations for them. Given that Haringey schools were expecting an average loss of up to 10% in the previous proposals, it is welcome that the DfE has included a 3% floor. The illustrations on the DfE web-site suggest that all Haringey schools listed would have been funded at the level of the Minimum Funding Guarantee (-1.5%) if the NFF had been applied for 2017/18 and all Haringey schools, too, would have required protection from the -3% floor.
- 3.2 The Formula Working Group met twice since last Schools Forum to consider what the underlying position was for Haringey Schools. The DfE illustrations were based on a comparison with the 2016/17 formula budgets and the prevailing 2016/17 data and pupil numbers for each school. The Formula Working Group wanted to understand what the position looked like using the 2017/18 data and pupils numbers in the recently agreed formula and it wanted to understand what the pure NFF position would be, if there was no -3% floor. Without knowledge of the pure formula position, it would not be clear whether transitional arrangements would be in place for one year or many years.
- 3.3 **Appendix 1** sets out how the overall formula is expected to work for Haringey schools and **Appendix 2** gives an indication of each school's pure NFF allocation, compared to the 2017/18 budget (after MFG, but before de-delegation).
- 3.4 This indicates that Haringey schools on average can expect to lose 5.7% of their formula budget through the introduction of the NFF. The NFF would allocate £10.8m less to Haringey schools than the 2017/18 Authority Proforma Tool (after MFG and before de-delegation). The position is different between sectors (-7.8% for primary schools and -2.7% for secondary schools). Moreover, as can be seen from the list of schools in **Appendix 2**, 4 schools may gain from the new arrangements.
- 3.5 The figures for each school indicate the level of the floor, if their pupil numbers are identical to those in October 2016 in future years. The floor applies to the pupil led budgets in the 2017/18 APT, which is why the reduction is not a flat -3%. With the same pupil numbers, the protected amount is 97% of the 2017/18 budget, excluding the NFF premises-led budgets (lump sum, split site and rates), then adding the full amount of the NFF premises-led budgets back in. On average, the floor for Haringey schools is -2.8%

- 3.6 Each individual school will be in a different position. Pupil numbers may go up, down or stay the same. Levels of deprivation or prior attainment or other indicators may vary. The DfE may change the values in the formula for 2018/19, possibly to recognise some of the cost pressures which schools overall are facing. Schools identified as gainers in the new formula are not guaranteed to stay as gainers if their data changes.
- 3.7 It must be stressed that the illustrations, school-by-school, are based on an interpretation of the DfE's proposals, which appear to correspond to the information on the COLLECT system, as applied to the 2017/18 APT data. How the DfE uses the data in the final analysis will be down to them.
- 3.8 Nonetheless, the picture emerging for Haringey schools is that secondary schools can generally expect to be funded at the level of the Minimum Funding Guarantee for the next couple of years before the NFF itself starts to drive the resources they receive. Primary schools, too, can expect to be funded at the level of the MFG for the next couple of years, then they can expect a cash flat per pupil position for a further couple of years before the NFF starts to drive their resource.
- 3.9 This situation points to the need for Haringey schools to recognise the reducing funding which will be available to them in the coming years in the context of real cost pressures that schools will continue to face. For some schools, these future reductions are an extension of what has been happening in recent years (more than 1/3rd of schools in each of 2015/16 and 2016/17 financial years had budgets protected at the MFG (-1.5% per pupil) level.)
- 3.10 The DfE consultation document makes explicit this challenging financial context:

4.22 At the same time, like many organisations, schools are facing pressures – for example from pay increases and employers contributions to National Insurance and pensions. On a per pupil basis, these pressures are estimated at around 8% between 2016-17 and 2019-20, including around 1.6% in each of 2018-19 and 2019-20 – the first two years of the national funding formula. They sit alongside very significant scope for efficiency in the system – on non-pay and procurement, where we have set an ambition of a least £1 billion of savings by 2019-20, and through better deployment and use of the workforce. (Source: DfE - Schools NFF – Government Consultation Stage 2)

- 3.11 In effect, the document is flagging up pressures, but they are suggesting that this can be offset by savings in the system. Some Governing Bodies may well have pared back to an extent that now may be the time for a more fundamental strategic review of how they organise their budget.
- 3.12 The DSG Strategy Update paper elsewhere on this agenda refers to the timetable of when schools will be advised of budget information. Officers will endeavour to quantify cost pressures and provide some typical staffing models in the context of DfE policy and guidance in the next few weeks.
- 3.13 The Formula Working Group considered the consultation paper in the context of how the National Funding Formula would impact on Haringey. Appendix 3 questions 1-15 have been prepared for submission to the DfE as a Schools Forum response.

4 Proposals for Stage 2 Consultation on NFF (Central Block)

- 4.1 The DfE plan to bring together the retained central spend in the Schools Block in the DSG with the spending on former Education Services Grant activities. Local authorities will be funded for historic commitments for as long as they are valid and compliant with the regulations, but the DfE would expect these to unwind over time. Local Authorities will also be funded for on-going responsibilities such as admissions and asset management, but this will be on a formulaic basis.
- 4.2 There will be transitional protection in the funding arrangements, such that no local authority's budget will reduce by more than 2.5% per pupil in 2018-19 and 2019-20 until the end of the spending period. The level of funding allocated for historic commitments will reduce over time, as historic commitments themselves unwind.

Table 2. Arrangements for funding Central Block activities

Section 251 budget line		LBH 17/18 £'000	DfE view of these components of the DSG in the future
1.4.1	Contribution to combined budgets <ul style="list-style-type: none"> • School Standards £484k • LAC Placements £800k • Early Help £350k • Music & Performing Arts £168k • Governor Support £130k • Support Services £192k 	2,124	historic commitments
1.4.2	School admissions	300	ongoing responsibilities
1.4.3	Servicing of schools forums	10	ongoing responsibilities
1.4.4	Termination of employment costs	0	historic commitments
1.4.5	Falling Rolls Fund	0	neither; funding for falling rolls will be allocated to local authorities through the schools block
1.4.6	Capital expenditure from revenue (CERA)	0	historic commitments
1.4.7	Prudential borrowing costs	0	historic commitments
1.4.8	Fees to independent schools without SEN	0	ongoing responsibilities
1.4.9	Equal pay - back pay	0	historic commitments
1.4.10	Pupil growth / Infant class sizes	1,100	neither; funding for pupil growth will be allocated to local authorities through the schools block
1.4.11	SEN transport	0	neither; funding for special educational needs (SEN) transport will be allocated to local authorities through the High Needs Block.
1.4.12	Exceptions agreed by Secretary of State	0	historic commitments
1.4.13	Other Items (Licences)	160	ongoing responsibilities
1.5.1	Other Specific Grants	0	historic commitments
2.0.3	Education welfare service	172	ongoing responsibilities
2.0.5	Asset management – education	0	ongoing responsibilities
2.0.6	Statutory/Regulatory duties – education	378	ongoing responsibilities
TOTAL Haringey 2017/18		4,244	

5 Impact of Central Budget Proposals for Haringey

5.1 Table 3 sets out how the current centrally retained funding within the DSG.

- On-going funding will need to pay for £1.020m of funding commitments.

- The growth fund of £1.1m will be managed differently in the future, with funding being provided to schools in retrospect (ie in the financial year following an expansion). This will require supportive cash flow arrangements either from the Authority or from the Education Funding Agency (for Free Schools and Academies).
 - Historic funding accounts for £2.124m of items within the Combined budget. The nature of these items is that they are contributions to other activities which Schools Forum has supported for a number of years. They are not necessarily commitments that will wind down over time, although the funding attributed to each cannot increase year-on-year. The DfE may have a view about whether these amounts will be permitted in the longer term.
- 5.2 The DfE will fund historic commitments for as long as they remain valid and that on-going commitments will be funded by a formula. Transitional protection will limit any losses on on-going commitments year-on-year to -2.5%.
- 5.3 The Formula Working Group has included proposed responses to the consultation on the Central Block arrangements. **Appendix 3** questions 16-18 have been prepared for submission to the DfE as a Schools Forum response.

6 Proposals for Stage 2 Consultation on NFF (High Needs)

- 6.1 The High Needs Working Group met twice since the last Schools Forum meeting to consider the proposals included in the DfE consultation on the arrangements for the High Needs National Funding Formula in the future.
- 6.2 The proposals on the High Needs National Funding Formula are different in nature to those for the Schools National Funding Formula. The schools NFF will ultimately determine formula allocations for individual schools and the arrangements for central spend are being reshaped.
- 6.3 The High Needs NFF leaves much of the mechanics of how specialist High Needs institutions are funded untouched: the principle of a place factor of £10k and a top-up for the balance for individual pupils is retained.
- 6.4 There is one change to the way that specialist High Needs units in mainstream schools are funded. At present, these schools are funded for £10,000 per place and the number of places is deducted from their roll when calculating the Authority Proforma Tool (school budget formula) allocation. The DfE propose that from 2018/19,

pupils in the special unit who are on-roll will be counted in the APT and used to calculate the formula budget allocation for the school. Those filled special unit places will also attract an additional £6,000 place factor allocation. For unfilled places in the October census, the school will receive a place factor of £10,000, as currently. In principle, this appears to be a minor technical adjustment, but will favour schools where the sum of the pupil-led formula factors for marginally greater pupils in the APT is greater than £4,000 each.

- 6.5 The main change for High Needs is that the way that the High Needs Block is calculated will change.
- 6.6 Currently, the High Needs Block for Haringey and for other authorities is based on levels of funding from 2006, incrementally adjusted by changes to place numbers and periodic allocations of additional funding, changes of responsibilities within the system and periodic adjustments to reflect actual spending.
- 6.7 The proposals from the DfE are to move to a more formulaically driven allocation, based on proxy measures of High Needs funding requirements. Half of the allocation will be driven by historic spending levels and the other half through proxy indicators. **Table 3** sets out the components.

Table 3: Illustration of how High Needs NFF would be calculated for Haringey

Factor	Amount
(A) Basic entitlement factor (6%)	£1,945,689
(B) Historic spend factor (47%)	£16,144,358
(C) Population factor (20%)	£6,880,263
(D) FSM factor (5%)	£1,874,326
(E) IDACI factor (7%)	£2,542,523
(F) Bad health factor (5%)	£1,593,577
(G) Disability factor (3%)	£864,001
(H) KS2 low attainment factor (3%)	£1,134,441
(I) KS4 low attainment factor (3%)	£1,032,493
(J) Funding floor factor (1%)	£222,734
(K) Hospital education funding (1%)	£185,659
NFF allocation before import/export adjustment (100%)	£34,420,063
(L) Import/export adjustment (2%)	£612,000

Illustrative high needs NFF final allocation
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£35,032,063

- 6.8 The use of proxy factors could see some variability in funding allocations over time. Schools Forum is acutely aware of the impact that methodology changes to, say, IDACI data from year-to-year can have. An important consideration, however, is that the DfE have guaranteed that the cash amount of the High Needs Block in 2017/18 will be a floor for the future: High Needs budgets will be protected in cash terms at the 2017/18 rate. This is very helpful in planning and somewhat overshadows the technicalities of the formula itself.
- 6.9 The illustrations provided by the DfE are based on the 2016/17 High Needs Block and the total of £35.032m is after support of £0.223m from the funding floor. This means that the proxy based formula would give less than the previous allocation. The High Needs Block for 2017/18 is £35.8m, so it is this which will be protected on a cash basis.
- 6.10 The High Needs Working Group considered the nine questions in the consultation paper and offer these as the Schools Forum response. This is included in **Appendix 4**.