



**Report to:** Schools Forum

**Date of Meeting(s):** 15 February 2017

**Subject:** National Funding Formula – Stage 2

**Report of:** James Winterbottom - Director for Children and Families

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**Summary:** To provide a summary of the key changes, what it means for Wigan and to provide an appropriate response to stage 2

**Recommendation(s):** For Schools Forum to agree a response to the consultation and issue a statement of concern regarding school funding

**Implications:**

*What are the **financial** implications?* The DSG allocation for Schools and High Needs would reduce by 0.7% under the proposed formula based on 16/17 data. This is a loss of £1.5m.

*What are the **staffing** implications?* n/a

**Risks:** n/a

Please list any appendices:-

Appendix number or letter	Description
1	Factor Data
2	School Information

## **INTRODUCTION**

In December 2016 the government issued the response to stage 1 of the consultation on a national funding formula for schools (including high needs).

Stage 2 of the consultation was released at the same time with details of the proposed formula, the approach, impact on schools, implementation details and proposals for the central services block. The consultation closes on the 22 March 2017.

This report will attempt to produce a high level summary of the consultation documents and what it means for schools. All detailed documents are contained on the consultation website. If a school requires the technical breakdown of the formula it can request this from the Schools Finance Manager – [c.myers@wigan.gov.uk](mailto:c.myers@wigan.gov.uk).

## **NATIONAL OVERVIEW**

The proposed national funding formula will mean, for the first time, all schools being funded on the same basis. The current levels of funding for individual schools have been reached through years of successive decision making by local and central government. For example, the dedicated schools grant (DSG) has its original basis in local authority spending patterns in 2005-06; schools benefitted from many separate additions through the DSG and separate grants before these were consolidated in 2011-12; and each local authority has had markedly different formulae in place during this time.

There is therefore no rationale for why any individual school receives the funding level it does, compared to other similar schools across the country. This is one of the key reasons for the introduction of the national funding formula. The same reasons make it very difficult to explain the full gain or loss that individual schools and areas would see under a fair and consistent funding system. However, there are clear themes to the types of schools and areas that would gain and lose – and the Government has looked very closely at the distributional impact in designing the national funding formula.

Under the new formula 10,740 schools would get extra (54 per cent of all schools). The remaining 9,128 will lose money (46 per cent). However the government has confirmed that schools will have losses capped at three per cent against their current per-pupil funding level. London schools are most likely to lose out, with rural schools set to gain funding. A total of 101 local authority areas will see gains and 49 will see reductions.

There will be a 3 per cent per-pupil cap on schools set to have increased funding from 2018-19, reducing to 2.5 per cent in 2019-20.

Councils will continue to have a say in “limited parts” of the formula, particularly in relation to funding for pupil growth. The consultation confirmed local areas will have flexibility to move cash from their school and high needs budget – as long as they get agreement from the majority of schools and school forums.

The formula is a reallocation of funding - it does not tackle the overall lack of funding, with school budgets not keeping up with rising costs. An analysis last month from the National Audit Office said state schools in England would have to reduce spending by £3bn by 2019-20 to address cost pressures. The DfE’s overall school budget is protected in real terms but does not provide for funding per pupil to increase in line with inflation.

## **THE FORMULA**

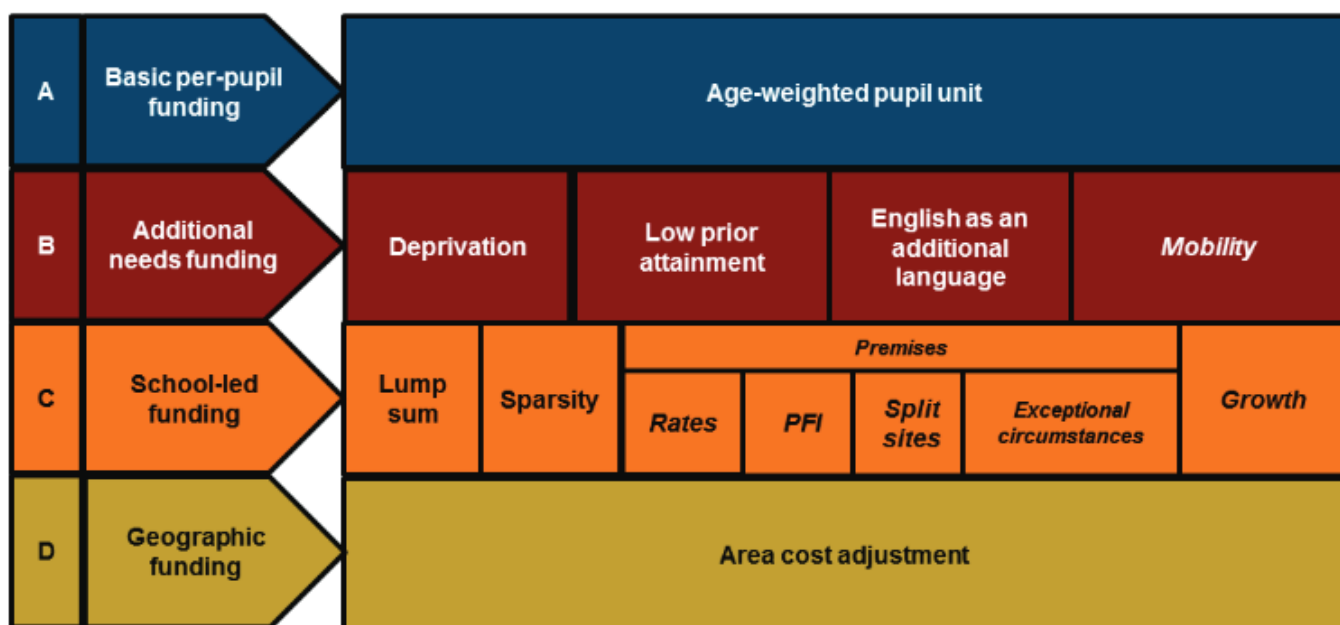
The funding formula is made up of four building blocks: basic per-pupil funding, additional needs funding, school-led funding and geographic funding.

These are each broken down into another 13 factors (detailed in image below) – which decide how schools will get funding.

Each of these factors has a certain weighting attached – basically how much importance it is given in the funding calculation.

The ratio of funding will be maintained at the current level of 1:1.29. This means on average funding per pupil is 29% higher in the secondary phase than primary.

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



Source: Schools national funding formula Government consultation - stage 2

### Block A: Per-pupil funding

This is by far and away the largest factor. It will be given a weighting of 72.5 per cent of the school block budget – amounting to **£23 billion** overall.

Primary pupils will be funded at £2,712 each. At key stage 3 this is £3,797, and at key stage 4 this is £4,312.

The reasoning for separating secondary funding is to match the “increase in complexity of the curriculum” as pupils move through the system.

Respondents to the first consultation said they need to employ more subject experts, specialist teaching facilities and have additional costs of exam fees at key stage 4.

N.B. (These sums DO NOT include the area adjustment costs)

### Block B: Additional needs funding

The government said investment in this area is “vital to improve social mobility”. Local authorities currently spend £4.1 billion in this area, the report said.

But the government is upping that to **£5.8 billion** (or 18 per cent) of the national schools block budget.

### Factor 1: Deprivation

This is the biggest additional needs factor – accounting for **£3 billion** of the spend (9.3 per cent) of the school block budget. (Schools will also get pupil premium cash on top of this).

A total of 5.4 per cent of this will be based on pupil-level deprivation data, and 3.9 per cent for area-level data, which the report states will ensure pupils that have a “double disadvantage” will be targeted.

Here’s the full breakdown of costs:

<b>Figure 5: Unit values for the NFF deprivation factor</b>						
Factor		Proposed weighting	Total spend		Per-pupil funding	
					Primary	Secondary
Deprivation	Ever6 FSM (pupils eligible for FSM at any point in the last 6 years, but not the most recent academic year)	5.4%	£1,746m	£2,985m	£540	£785
	Current FSM (includes an additional £440 on top of the Ever6 rate to reflect the cost of the meal)				£980	£1,225
	IDACI A (the highest deprivation band)	3.9%	£1,239m		£575	£810
	IDACI B				£420	£600
	IDACI C				£360	£515
	IDACI D				£360	£515
	IDACI E				£240	£390
	IDACI F				£200	£290

**Figure 5: This table shows the unit values for the deprivation factor at primary and secondary; the proposed weighting for the pupil-level and area-level elements; and total spend through this factor.**

## Factor 2: Low prior attainment

The government highlighted research that shows a pupil’s prior attainment is the strongest predictor of their likely later attainment – meaning this is an important tool to identify pupils needing extra support. The factor directs additional funding to each pupil who did not reach the expected standard at the previous stage.

The factor will be given 7.5 per cent of the total school block budget, which equates to **£2.4 billion**. The current system allocates 4.3 per cent.

In the longer term there may be a tier system to the secondary attainment factor. This would target additional funding for the lowest 10% or 20%.

### **Factor 3: English as an additional language**

Pupils defined as having English as an additional language (according to the census) and that have entered the system during the last three years will get extra

This amounts to 1.2 per cent of block funding, compared to 0.9 per cent in the current system. Some local authorities don't even use an EAL factor in their funding distribution, the report stated.

The government will use new data that schools have had to collect from September.

Three-quarters of the proposed **£388 million** pot will go to primaries. Although secondary pupils will attract higher per-pupil levels (£1,385, compared to £515 for primary).

### **Factor 4: Mobility**

This was due to be excluded from the funding formula, but after concerns in the first consultation, was added in.

There will be a **£23 million** (0.1 per cent) funding pot to go towards schools that have high numbers of pupils joining through the year.

However the government is not "convinced" the current mobility factor criteria used by councils actually works well. (Schools with mobile pupils of at least 10 per cent get cash, but only for pupils that join in any month other than August or September).

Views are wanted to help shape how the government dishes this out in the future.

## **Block C: School-led funding**

### **Factor 1: Lump sum**

This is an amount of cash that is given to every school. (It basically gives really small schools certainty that they will get a set amount per year).

The government is proposing to set the formula at £110,000 – which is less than some councils currently give (that varies from £59,000 to £175,000).

The department states the lower amount will "encourage schools to share services and functions" so resources are freed up for teaching and leadership.

This will make up 7.1 per cent of the block budget – a total of **£2.3 billion**.

## **Factor 2: Sparsity**

This kind of relates to the lump sum above – it's basically an extra bit of cash for small schools that *can't* "share services" with nearby schools because they are so isolated.

The government said it's methodology for how cash is distributed is in a technical note. But for the first year of the new formula, 2018-19, local authorities will be able to adjust criteria locally for what schools receive.

It will be 0.08 per cent of the block budget, worth **£27 million**. Primaries will be eligible for up to £25,000, and secondaries £65,000. This is lower than the current £100,000 some councils offer.

## **Factor 3: Premises-related**

This will consist of **£569 million** (1.8 per cent of the school block budget) and for the first year of the new formula will be based on historic spend and given to local authorities to dish out. It's still undecided on how it will be distributed after that.

There are four areas that make up the factor: **rates**, **split sites**, **private finance initiative** (PFI) and **exceptional circumstances**.

There is only one difference from the government's initial proposals – PFI funding will be linked to rise with inflation (after schools pointed out in the first consultation that PFI contracts are often index-linked). This resulted in an extra £2 million for PFI costs.

## **Factor 4: Growth**

A total of **£167 million** has been set aside for schools that have significant changes in pupil numbers that don't get recognised under lagged funding.

This will be based on historic spend on growth for the immediate future (the government has looked at whether school capacity survey or Office for National Statistics forecasts would work better, but is undecided and open to ideas).

It recognises the complexity of the issue and is open to suggestions. One proposal is to fund growth based on the pupil number increases in every school at a year group level between the previous 2 years.

## **Block D: Geographic funding – area-cost adjustment**

The government said it received strong support for plans to include an area-cost adjustment to reflect the variation of labour market costs.

The department will use a new hybrid model that takes into account both the General Labour Market trends, and the particular salary variations in the teaching workforce.

This adjustment is applied to schools' allocations once the rest of the formula has calculated. The document states the adjustment will provide for increases of up to 18 per cent.

## LOCAL IMPACT

**Appendix 1 shows the factor values and proposed weightings. For comparison purposes Wigan's current rates and weightings are also shown.**

The proposed weightings are based on the current averages but adjusted to take stock of the best evidence about factors which most affect attainment. This does mean they are taking an easier option rather than create a more objective approach to a formula based on real costs.

The illustrative impact for Wigan is shown in the table below

Block	Baselines	Illustrative NFF allocations if formulae were fully implemented in 2016-17	Value	%	Illustrative NFF year 1 schools block	Value	%
Schools	193,011,726	188,878,090	-4,133,636	-2.1%	190,880,505	-2,131,220	-1.1%
High Needs	26,627,727	28,717,263	2,089,536	7.8%	27,353,581	725,853	2.7%
*Central Services	870,404	1,391,224	520,820	59.8%	891,694	21,290	2.4%
	<b>220,509,857</b>	<b>218,986,576</b>	<b>-1,523,280</b>	<b>-0.7%</b>	<b>219,125,780</b>	<b>-1,384,077</b>	<b>-0.6%</b>

In terms of schools 11 primary schools will gain from the formula but 88 will lose. All our secondary schools will lose under the NFF.

Wigan did sit at 72/152 in terms of funding. We now sit at 109. In terms of f40 only 3 other authorities lost – Cheshire West and Chester, Cheshire East and Wakefield.

In terms of per pupil funding we would become 9th lowest funded in terms of our group of 10 (?) DFE statistical neighbours - £4,452. (£4,799 Barnsley is the highest) this begs the question how can there be a funding gap of £347 between so called profile neighbours.



F40 modelling proposal was only a loss of £2.1m (1.3% based on 2015/16 data)

The impact of the formula as a whole depends on two key factors

- historic funding levels
- the characteristics of individual schools

## **IMPLEMENTATION**

### **2018-19 the 'soft' national funding formula**

In the Government's response to the first stage consultation, it confirmed that we will move to a 'soft' national funding formula in 2018-19. This means that although it will use the national funding formula (once it has been finalised following this consultation) to calculate local authorities' funding allocations, local authorities will still determine individual schools' funding allocations through their local formula.

It will be for local authorities to agree their individual formulae for 2018-19, according to the usual rules including the MFG of minus 1.5% per pupil. We do not intend to make any substantive changes to the arrangements for local formula construction.

### **2019-20 the 'hard' national funding formula**

From 2019-20, the national funding formula will be used to calculate the vast majority of each individual school's budget. This will mean that all schools are predominantly funded through a consistent national approach, removing the additional layer of variation and complexity created by the current existence of a different formula in every local authority. The Government will be bringing forward legislation to implement this change to the funding system in due course.

While the vast majority of funding will be determined by the national funding formula, we anticipate local authorities continuing to have flexibility on some parts of the formula, particularly in relation to funding for pupil growth. The Government will consult on the precise arrangements for the hard formula (in particular, the arrangements for allocating funding to factors such as premises which we will fund on the basis of historic spend in 2018-19) in due course. In parallel, we will be considering the role of schools forums under the hard national funding formula.

## **CENTRAL SERVICES BLOCK**

Local authorities have an important role in supporting the provision of excellent education for all children of compulsory school age. They do this by ensuring every child has a school place; ensuring the needs of vulnerable pupils are met; and acting as champions for all parents and families. In the first stage of consultation, a proposal was made to create a central schools block within the dedicated schools

grant (DSG) to reflect the ongoing local authority role in education. This will be renamed the **central school services block** to distinguish it more clearly from the schools block. The proposal was to create this from 2 different government funding streams: the schools block funding that is currently held centrally by local authorities and the retained duties element of the Education Services Grant (ESG), and to distribute it on a simple formulaic basis. 64% of respondents agreed with our proposal.

The central school services block will include funding for responsibilities previously included within ESG and responsibilities previously funded through centrally retained DSG. The government will make the necessary changes to the financial regulations and conditions of grant in order to make this possible.

In addition to the responsibilities that will be funded through the central school services block, local authorities have other responsibilities in respect of education, for which they use funding from other sources. These responsibilities include the provision of home to school transport, assessing pupils with SEN, and planning for and supply of sufficient school places. The funding for these responsibilities is not within the scope of this consultation.

### **Formula for allocating the central school services block**

The central school services block will be created from two existing funding streams: the DSG funding that is held centrally by the local authority for central services, and the retained duties element of the ESG. Funding will cover two distinct elements which will be handled separately within the formula: **ongoing responsibilities** such as asset management and admissions and **historic commitments (not applicable to Wigan)**

The proposal is to distribute funding to local authorities using a simple formula which distributes an element of funding according to a per-pupil factor and an element according to a deprivation factor. Both elements will be adjusted for area costs. The largest factor should be simple per-pupil funding which means that each local authority will receive an amount for every pupil in the schools block. In the first stage of the consultation, 64% of respondents agreed with our proposal to distribute funding on a per-pupil basis.

The indicative per-pupil rate will be £28.64. The rate has been calculated so that – once the ACA has been applied – 90% of the total funding for the central school services block will be allocated according to pupil numbers.

This block will fund

Admissions, Education Welfare, Asset Management, Statutory and Regulatory services, and Schools Forum.

### **A new proposal to include a deprivation factor for ongoing responsibilities**

The government is proposing to include a deprivation factor to allocate funding for ongoing responsibilities. This is to recognise the importance of particular central services for schools, such as education welfare services, in areas with high levels of socio-economic deprivation. We are proposing to use Ever6 FSM46 as our deprivation measure to reflect the number of pupils who have some history of socio-economic deprivation.

The deprivation factor will be weighted at 10% of the total funding for ongoing responsibilities. This results in a national per-pupil top-up for deprived pupils of £11.62.

Wigan will benefit from the new formula for central services but it is capped at 2.5% which provides for a very small increase. In terms of ESG the authority will lose £2m. The DfE expect authorities to step back from running school improvement and this one reason for the reduction to the ESG. We will however continue to support school improvement until a school led system is fully developed.

## **DFE SUPPORT TO SCHOOLS**

The first stage of the consultation set out the intention to launch an 'invest to save' fund to allow schools to invest in ways to save money in future, helping them manage the transition to a national formula. The proposed floor will mean that no school will lose more than 3% of its funding per pupil overall as a result of this formula. Rather than creating a specific 'invest to save' fund, priority has been given to this floor, alongside allocating gains more quickly to schools that are due increases. In addition, Government has announced £140m per year for a new Strategic School Improvement Fund to support school improvement (including in relation to financial health and the use of resources) alongside building school-led capacity in parts of the country where it is needed.

DfE will continue to develop the package of support that is available. In particular, it will shortly be publishing a procurement strategy to help support a step change in school buying and underpin significant savings in non-pay costs across the system. This includes building on existing school business manager networks to ensure that all school business managers can share knowledge and good practice, making it easier for schools to access national-level deals which offer considerable savings, and testing an online tool to simplify the buying process for schools. It has developed the strategy in close consultation with a range of schools and suppliers. Upcoming products also include planning guidance to help school leaders to develop the most effective staff structures for their school and financial training for school leaders.

## **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 in the secondary phase 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 that relate directly 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 English as an additional language)?
5. Do you agree with the proposed weightings for each of 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 amount 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 this formula? This would be in addition to the minimum funding guarantee.
11. Do you support our proposal to set the floor at minus 3%, which will mean that no school will lose more than 3% of their current per-pupil funding level as a result of this 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 our proposal to continue the minimum funding guarantee at minus 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 we should be taking into account about the proposed schools national funding formula?
15. Are there any further considerations we should take into account about the impact of the proposed schools national funding formula?

16. Do you agree that we should allocate 10% of funding through a deprivation factor in the central school services 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 in 2019-20?

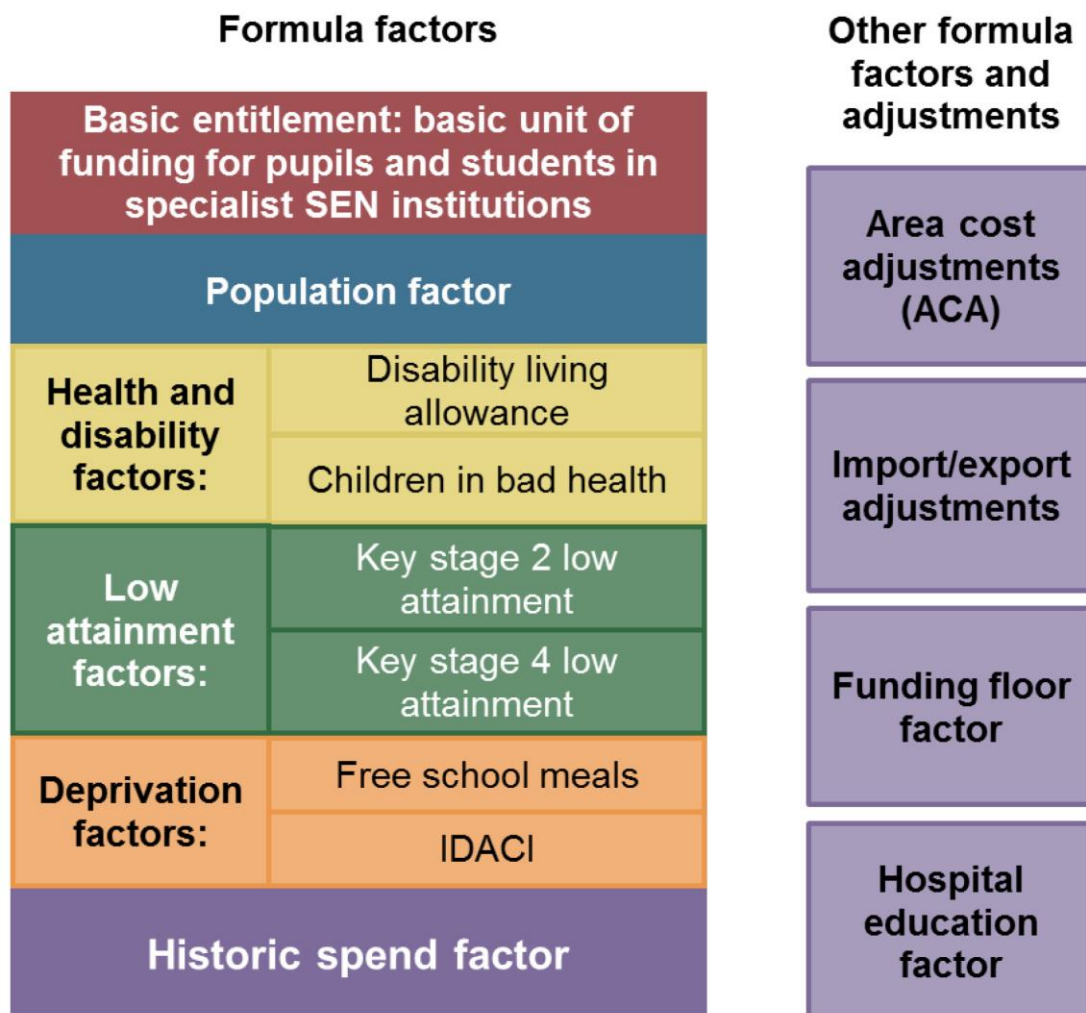
18. Are there further considerations we should be taking into account about the proposed central school services block formula?

## NATIONAL OVERVIEW – HIGH NEEDS

No local authority would face a reduction in high needs funding. The government will propose gains of up to 3% in the next two years for underfunded authorities. Like the schools block the funding for high needs has been loosely based on historic spending. It does not reflect the need across different local authorities or nationally.

The government has recognised the financial pressures faced by authorities and has awarded an extra £130million in 2017/18. There will be a separate grant to undertake more strategic thinking and to work in collaboration with partners, other local authorities and families. There is also a £200m capital fund to help build extra and more effective provision.

The formula factors are confirmed below



Stage 2 is now consulting on the relative weighting of each factor.

50% is to be allocated based on historic spending to avoid creating unmanageable turbulence.

A basic entitlement rate based on the 16-19 national formula of £4,000 per pupil

The remainder of the block to be funded through the remaining factors

- Population 50%
- Deprivation – FSM 10%
- Deprivation – IDACI 10%
- Low Attainment – KS2 7.5%
- Low Attainment – KS4 7.5%
- Health and Disability 7.5%

### **CONSULTATION QUESTIONS (THE FORMULA)**

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?

We ask respondents to bear in mind with the following two questions that we are redistributing funding. Any money that we put into one factor will have to come from another factor. We have indicated what we think is the right proportion or amount for each factor.

2. We are proposing a formula comprising a number of formula factors with different values and weightings. Do you agree with the following proposals?

- Historic spend factor – to allocate to each local authority a sum equal to 50% of its planned spending baseline
- Basic entitlement – to allocate to each local authority £4,000 per pupil

3. We propose to use the following weightings for each of the formula factors listed below, adding up to 100%. Do you agree?

- Population – 50%
- Free school meals eligibility – 10%
- IDACI – 10%
- Key stage 2 low attainment – 7.5%
- Key stage 4 low attainment – 7.5%
- Children in bad health – 7.5%
- Disability living allowance – 7.5%

4. Do you agree with the principle of protecting local authorities from reductions in funding as a result of this formula? This is referred to as a funding floor in this document.
5. Do you support our proposal to set the funding floor such that no local authority will see a reduction in funding, compared to their spending baseline?

## **LOCAL FLEXIBILITY**

As announced in July 2016, there will be no ring-fence on the schools block in 2017-18. Local authorities are able to transfer funding between their schools and high needs budgets. We will monitor this carefully and in March 2017 will collect more information to establish new planned spending baselines on schools and high needs,

In 2018-19 and subsequent years there will be no restrictions on the transfer of funding between the high needs funding block, the central schools services block and the elements of early years funding that local authorities are allowed to retain for central spending. It will also remain possible for local authorities to transfer funds into their high needs budgets from sources other than their DSG allocation.

Furthermore, in 2018-19 we propose to provide an opportunity for local authorities to transfer funds, from the funding that schools are due to receive through the schools formula, to their high needs budget. To exercise this flexibility, local authorities would have to get the agreement of their schools forum and a majority of primary and/or secondary schools and academies (with transfers confined to the primary and secondary elements of the schools block as agreed by phase). We will review the degree of movement in 2017-18 through a second baseline exercise and, in the light of that, consider whether there should be a limit on transfers in 2018-19, amounting to no more than, say, 2% or 3% of the high needs block allocation. In any case local authorities would continue to be obliged to meet the minimum funding guarantee for mainstream schools.

It is important that over the next two years this budget flexibility is used with care, and in the context of the local strategic review and planning they are carrying out to ensure the sustainability of future special provision (see below). It should be used to help reshape the local offer, to prepare for future funding levels

6. Do you agree with our proposals to allow limited flexibility between schools and the high needs budget?



The consultation proposes that from 2019-20 it could be possible for schools to pool funds to continue to work in partnership with the authority to direct funding to those schools that need it most. (This could operate like the disproportionate SEND fund)

7. Do you have any suggestions about the level of flexibility we should allow between schools and high needs budgets in 2019-20 and beyond? Are there further considerations we should be taking into account about the proposed schools national funding formula?
8. Are there further considerations we should be taking into account about the proposed schools national funding formula?
9. Is there any evidence relating to the eight protected characteristics as identified in the Equality Act 2010 that is not included in the Equalities Analysis Impact Assessment and that we should take into account?

## **WHAT HAPPENS NEXT?**

The consultation closes on the 22 March and the department will continue to undertake further consultations for special free schools and post 16 providers. They will continue to assess the budget movements between blocks and the baseline information from authorities. Allocations for 2018/19 will be made in the summer.

The EFA intend to make better use of research to help inform the planned review of the high needs national funding formula, and to inform local authorities and schools as they consider how to develop future provision to achieve the greatest impact on the lives of vulnerable children and young people. They will explore how best to do this through existing ongoing research in the short term, and commissioned external research in the longer term. Such research would aim to:

- investigate the complex relationship between costs, provision and outcomes for children and young people with special educational needs (SEN) and disabilities;
- recommend any consequential changes to the high needs funding formula that could be included in the department's formula review, including the use of more appropriate formula factors; and

- Consider whether more needs to be done to protect and fund national and regional centres of specialist provision and expertise, including provision for those with the most complex needs.