

Title of meeting: Schools Forum

Date of meeting: 15 February 2017

Subject: 2018-19 and 2019-20 Future School Funding Arrangements

Report from: Alison Jeffery, Director of Children's Services

Report by: Richard Webb, Finance Manager

Wards affected: All Wards

Key decision: No

Full Council decision: No

1. Purpose of report

The purpose of this report is to provide Schools Forum with an initial summary and impact assessment, of the proposals contained within the stage 2 'school national funding formula' consultation issued by the Department for Education (DfE) on the 14th December 2016.

2. Recommendations

It is recommended that Schools Forum:

- a. Note the Department for Education's proposed changes to the school funding arrangements and the potential impact of these changes, as set out within this report; and in particular that:**

2018-19

- i. 2018-19 will be a transitional year. Funding to Local Authorities will be allocated on a national formula basis, but Local Authorities will continue to distribute funding to schools based on a local formula.**
- ii. The 'Schools Block' funding will be ring-fenced within the Dedicated Schools Grant (DSG).**
- iii. The creation of a new 'Central Schools Services Block' which will include the 'retained duties' element of the Education Services Grant (ESG).**
- iv. The introduction in 2018-19 of a formulaic method for distributing High Needs funding from central to local government.**
- v. The mechanism for allocating place funding to Resourced Units will be changing.**

- vi. **The proposed flexibility for local authorities to transfer funds, from the funding schools are due to receive through the schools formula to their high needs budget**

2019-20

- vii. **The implementation of a single National Funding Formula from 2019-20 (at a school level), with funding being passed directly by the Education Funding Agency.**

- b. **Endorse the proposed draft submission of the response to stage 2, of the Department for Education's consultation, as shown at Appendix 1; subject to finalisation of the responses indicated**

3. Background

- 3.1. On the 14th December 2016, the government issued its stage 2 consultation documents, setting out its plans for reforming funding for schools and for high-cost special educational needs and alternative provision.¹

- 3.2. The proposals seek to implement a 'national funding formula for schools' and meet the commitment set out in the Spending Review 2015:

'1.165 The government will introduce the first ever national funding formula for schools, high needs and early years, so that funding is transparently and fairly linked to children's needs. This will end the unfair system where a child from a disadvantaged background in one school attracts half as much funding as a child in identical circumstances in another school, simply because of where they live.

- 3.3. In May 2016, both Cabinet Member and Schools Forum were presented with an initial summary and impact assessment of the proposals set out within the consultation documents at stage 1; together with copies of the responses submitted to the consultation on behalf of both the City Council and Schools Forum.

- 3.4. This report seeks to provide the Cabinet Member with a further assessment, of the proposals contained within the stage 2 consultation documents issued by the DfE. Further updates will be provided as the consultation and implementation processes develop and further details are made available.

4. DfE Consultation Process

- 4.1. In March 2016, the DfE launched a two stage consultation process in respect of both the mainstream schools revenue funding arrangements

¹ <https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula2/>

and high need arrangements. Stage 1 of the consultation closed on 17 April 2016 and stage 2 commenced on 14 December 2016. The sections below outline the purpose of the different stages.

Stage 1:

Mainstream Schools - a vision for the future funding system as a whole:

- the principles that underpin the formula
- the building blocks that are used to construct the formula
- the factors to be included in the formula

High Needs - covers high level principles, key proposals and options for changes to high needs funding to the local authority and changes to the way high needs funding supports providers.

The stage 1 consultation closed on 17th April 2016.

Stage 2:

Mainstream Schools - seeks views on the detail of the National Funding Formula for schools and for the central school services block. It also considers the relative weightings of the different factors and arrangements for the transition to the formulae.

High Needs - seeks views on the detail of the National Funding Formula for high needs and other proposals relating to high needs funding. It also considers the relative weightings of the different factors and arrangements for the transition to the formulae.

The Stage 2 consultation closes on 22 March 2017.

- 4.2. The draft response to the stage 2 consultation can be found at Appendix 1.

5. Underpinning Principles

- 5.1. Stage 1 of the consultation, set out the following principles which would underpin the proposed reforms to the school revenue funding formula:

- **Supports opportunity for all pupils to achieve their potential.**
- **Is fair.** Allocates funding based on objective measures, not historical reasons.
- **Is efficient.** Allocates resources to match need.
- **Gets funding straight to the frontline.**
- **Is transparent.** Schools understand the funding they receive and how it is likely to change.
- **Is simple.**

- **Is predictable.** Enables schools and local authorities to manage and plan for year on year changes.

5.2. In responding to the stage 1 consultation question on the underpinning principles above, we highlighted that it would be helpful to also have a set of principles to guide and support the transition phase towards the new national funding formula. For example: a proposed target ratio for the primary/secondary funding proportions, guidance as to acceptable levels of Minimum Funding Guarantee (MFG) protection. These have now been incorporated within the DfE's proposals as detailed below.

6. Mainstream Funding Arrangements

Main proposals

6.1. The DfE's main proposals for the mainstream funding formula arrangements, are summarised as:

i. Across the whole formula:

- to maintain the primary to secondary ratio in line with current national average of 1:1.29 (*in 2016-17 Portsmouth was 1:1.28*)
- to maximise the proportion of funding allocated to pupil led factors compared to current funding system

ii. Basic per pupil funding:

- to continue to increase the basic rate as pupils progress through the key stages
- to increase the total spend on the additional needs factors in the national funding formula

iii. Additional needs funding:

- to increase the total spend on the additional needs factors (deprivation, prior attainment, English as an additional language (EAL) and mobility)
- to continue to have a substantial deprivation factor, in addition to the pupil premium and include a greater weighting towards areas with high concentrations of just managing families who do not typically qualify for FSM deprivation funding, through the use of a significant area-level deprivation factor (using IDACI).
- to increase substantially the weighting of the low prior attainment factor
- to continue to have an EAL factor, increased in terms of total spend in comparison to the current system because all eligible pupils will be funded consistently
- protect local authorities spend on current mobility factor (*not currently used in Portsmouth*)

iv. School led funding

- to continue to provide every school with a lump sum, but at a lower level than the current national average, to enable more funding to be directed to pupil-led factors
- to provide small and remote schools with additional funding
- to proceed with the original proposal to fund rates and premises factors (PFI, split sites, etc.) in 2018-19 on the basis of historic spend, but with an adjustment to the PFI factor in line with the RPIX² inflation measure
- to proceed with their original proposal to fund the growth factor on an historic basis for 2018-19 and seek views through this latest consultation on a better approach for the longer term

v. Geographic Funding

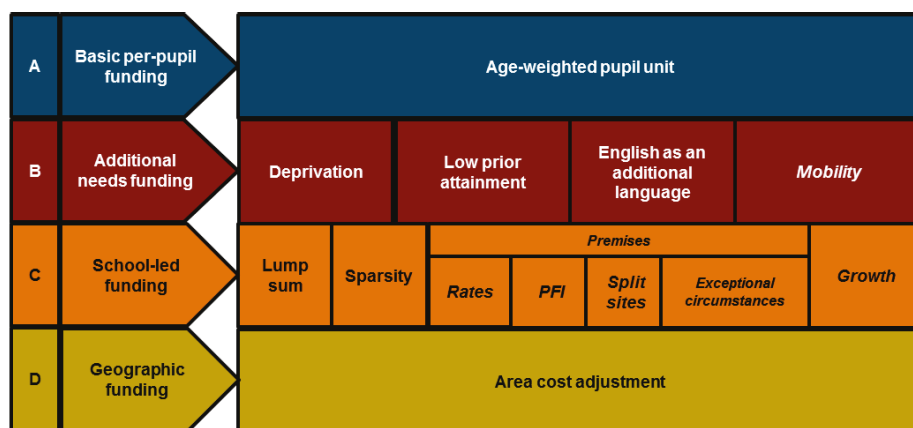
- to recognise the higher salary costs faced by some schools, especially in London, an area cost adjustment will be applied, using the hybrid area cost adjustment methodology, which takes account of the variation in both the general and teaching labour markets

vi. Stability

- an overall funding floor, will ensure that no school will face a reduction of more than 3% per pupil *and during the transition period:*
- a minimum funding guarantee (MFG) of minus 1.5% per pupil will continue
- schools will receive gains of up to 3% per pupil in 2018-19, and then up to a further 2.5% in 2019-20

The mainstream funding formula model

6.2. Following the first stage consultation, the diagram below confirms the new national funding formula model, based on the following 4 building blocks (A to D). The only difference from the proposed model at stage 1; is the inclusion of the mobility factor.



² RPIX - RPI All Items Index Excl Mortgage Interest. See Office for National Statistics 'inflation and price indices'

The funding formula factor weightings

- 6.3. Having established the factors that would be included within the school revenue funding formula arrangements, the purpose of the second stage of the DfE's consultation is to put forward proposals for the relative weighting for each formula factor.
- 6.4. Their starting point for the development of the formula weightings has been the collective formulae used by local authorities to distribute funding to schools; as this represents the conclusions made over a number of years by local authorities and their Schools Forums.
- 6.5. However, they recognise that the funding system is complex and that although there are some similarities, there is also variation. Therefore, the formula that is now proposed within this stage of the consultation is grounded in the current distribution of funding, but also includes a number of proposals to vary from that, where the DfE believe doing so would better support fairness and opportunity for all.
- 6.6. The sections below summarise the DfE's proposals in respect of the funding formula weightings, together with a comparison to the funding arrangements in Portsmouth in 2016-17; as this is the year the DfE are using for comparison purposes. A summary table is shown at Appendix 2.

Primary/Secondary Ratio

- 6.7. One of the DfE's key considerations in designing the national funding formula for schools has been the ratio of funding between the primary and secondary phases. Although the DfE have recognised there are some individual differences from the national average, the DfE believe that the national average ratio has remained steady at around 1:1.29.
- 6.8. The DfE are therefore proposing that the national funding formula will have a primary/secondary ratio of 1:1.29, which is slightly higher than the 2016-17 ratio within Portsmouth, which is 1:1.28. This will mean that on average secondary funding will be on average 29% higher overall than primary funding. However, it does not mean that every secondary pupil will attract 29% more funding than every primary pupil, as the exact amount each pupil attracts to their school will depend on their characteristics.

Pupil-Led Factors

- 6.9. In developing the national funding formula, the DfE have also considered the balance between funding through pupil-led factors and school-led factors. In the current system local authorities are required to allocate at least 80% of funding through the pupil-led factors.

- 6.10. The DfE are now proposing that 91% of total funding is allocated through pupil-led factors in the new national funding formula; which they intend to achieve through the reduction in funding through school-led factors where possible. In comparison, in 2016-17 Portsmouth allocated 92.3% of its funding to mainstream schools through the pupil-led factors; which is slightly higher than the DfE's proposal.

Basic Per Pupil Entitlement

- 6.11. As is the case in the current funding system, the DfE continue to believe that the funding through the Basic Per Pupil Entitlement factor should be the largest formula factor. The DfE are proposing to allocate slightly less through this factor nationally, setting the weighting at 73%, and to make a corresponding change to increase the amount allocated through the additional needs factors. Locally we allocated 74% through this factor in 2016-17.
- 6.12. The DfE are also continuing to differentiate the funding rates through this factor, with different funding rates for Primary, Key Stage 3 and Key Stage 4. The table below compares the DfE's proposed funding rates (before area cost adjustment) with Portsmouth's rates for 2016-17.

	Proposed National Funding Rates	PCC Funding Rates 2016-17	Variance NFFF v's PCC Funding Rates
Primary	£2,712	£2,917	£(205)
Secondary - KS3	£3,797	£3,727	£70
Secondary - KS4	£4,312	£4,336	£(24)

- 6.13. The current funding formula also enables local authorities to uplift their pupil numbers for the additional reception pupils that join schools after the October census. The DfE are proposing to remove the reception uplift adjustment from 2019-20, with local choice to use the up-lift in 2018-19.
- 6.14. In 2016-17 eleven schools received reception uplift for a total of 21 pupils. Six schools received an uplift adjustment for 1 pupil and remaining five schools received uplift for between 2 and 5 pupils. The removal of this adjustment is therefore not expected to have a significant impact.

Additional Needs Factors

- 6.15. The 4 additional needs factors currently available within the funding formula are: deprivation, low prior attainment, English as an additional language and mobility. The mobility factor is not currently used within Portsmouth and no funding is expected to be received through this factor in 2018-19 as it will be funded on an historic basis; pending development of a more sophisticated indicator.

6.16. The DfE want to support schools as they continue to break the link between these factors and attainment, and they believe that significant investment in the additional needs factors is an important part of this. The DfE are therefore proposing to raise the profile and overall weighting of the additional needs factors by increasing the funding through them at a national level to 18% (from 13%) of the total national schools block budget. In comparison in 2016-17, Portsmouth allocated 18% of its funding to schools through these factors.

6.17. The DfE are proposing the following weightings for the funding allocations within the additional needs factor; which as shown below compare favourably with the Portsmouth allocations in 2016-17:

- Deprivation: 9.3% (PCC 9.96%)
- Low Prior Attainment: 7.5% (PCC 7.09%)
- English as an additional language 1.2% (PCC 0.95%)

6.18. Whilst the overall allocations are at a similar level, the table below shows some variation in the funding rates attached to the underlying data-set indicators; which could create some fluctuations in funding at a school level.

		National Funding Rate		PCC Rate 2016-17		Variance	
		Primary	Secondary	Primary	Secondary	Primary	Secondary
Deprivation (£ per pupil)	Ever 6 FSM	540	785	237	300	303	485
	Current FSM	980	1,225	0	0	980	1,225
	IDACI A	575	810	1,892	1,270	(1,317)	(460)
	IDACI B	420	600	1,577	1,058	(1,157)	(458)
	IDACI C	360	515	1,261	847	(901)	(332)
	IDACI D	360	515	946	635	(586)	(120)
	IDACI E	240	390	0	0	240	390
	IDACI F	200	290	0	0	200	290
Low prior attainment		1,050	1,550	740	2,000	310	(450)
English as an additional language		515	1,385	359	1,822	156	(437)

6.19. In terms of deprivation, the DfE are proposing that pupil-level and area-level deprivation data play a significant role in the formula. The Free School Meal (FSM) - Ever6 FSM deprivation indicator is a history of FSM eligibility and uses the same data set as the pupil premium, capturing all children who have been eligible for FSM at any point in the previous 6 years. The primary to secondary ratio in the funding rate reflects the balance in the pupil premium rates.

- 6.20. The 'Current FSM' deprivation indicator is based on the number of pupils eligible for FSM at the previous year's census. Schools have to meet the costs of providing a FSM to eligible children from their core budget and therefore the DfE believe the funding formula should recognise that the FSM eligibility directly drives some costs. Therefore the Current FSM rate is £440 higher than the FSM Ever 6 rate to reflect the average annual cost of providing meal (£440 per pupil).
- 6.21. Low prior attainment will continue to be allocated to schools where pupils did not reach the expected standard at the previous stage. Whilst the proposed funding rates are lower than those currently applied locally, the DfE has decided to continue to target more funding towards the secondary low prior attainment factor in order to better match funding to need.
- 6.22. The DfE are considering further changes to the secondary low prior attainment factor, which may be implemented from 2019-20. With the new key stage 2 test, the DfE believe it would be possible to introduce a tier system in order to differentiate funding by the likely level of need.

Lump Sum

- 6.23. The DfE have highlighted that the responses to the stage 1 consultation gave strong support for a continued lump sum funding factor, however a number of responses cautioned that the lump sum should not be so large that it removes the incentive for schools to seek to grow, form partnerships and find efficiencies. Therefore the DfE have concluded that they need to set the funding rate at a level that balances the recognition of the fixed costs of running a school, alongside a broad objective to reduce reliance on funding that is not pupil-led.
- 6.24. The proposal is therefore to set the lump sum funding rate at £110,000, which is lower than the current average set by local authorities and significantly less for secondary schools. The primary lump sum funding rate has been reduced in previous years within Portsmouth, in order to remove the disincentive for primary phase schools to amalgamate for financial reasons. The primary and secondary lump sum rates in 2016-17 are £115,000 and £139,150 respectively.
- 6.25. The DfE has confirmed that the current protection arrangements for lump sum payments to amalgamating schools will remain in place in 2018-19.

Premises Factors

- 6.26. The DfE had previously confirmed their intention to retain the group of factors that relate specifically to premises costs: rates, split sites, private finance initiative (PFI) and exceptional circumstances. Within Portsmouth we only use the rates and PFI factors.

- 6.27. For 2018-19 the DfE is continuing to propose that the funding for these factors are allocated on a historic spend basis. They believe that this is appropriate in the short term as the distribution of these costs is unlikely to change significantly year-on-year. The DfE intend to use 2017-18 data for 2018-19 in determining the funding allocations to local authorities. However, in 2018-19 local authorities will continue to determine the funding that schools receive for premises factors.
- 6.28. The DfE have proposed an amendment to their original proposals in respect of the PFI factor. The DfE are now proposing to uprate the funding for PFI in line with inflation, following a number of comments in response to the first stage consultation that PFI contracts are often index linked. They are proposing to up-rate the allocations annually using RPI(X), which differs from the inflation methodology used within our local PFI contract to determine the annual indexation adjustments. It will be necessary to review the impact of this proposal in more detail as part of the implementation of these new arrangements.

Growth Fund

- 6.29. The DfE are proposing that the national funding formula will include a growth factor, so that it is responsive to significant changes. The DfE continue to acknowledge that historic spend on growth will not necessarily predict the amount of funding that will be needed for future growth, and they have set out alternative options and data sources that they have considered.
- 6.30. However, they have concluded that historic spend is still the best approach for allocating growth funding for 2018-19; whilst they determine a better longer term solution.
- 6.31. For 2018-19 the DfE have added an "implicit growth" to each authority's explicit spend to determine their total growth funding. For Portsmouth the value of the "implicit" growth funding, is a combination of the value of the 2016-17 growth fund and the adjustment applied to Mayfield for the variation in pupils numbers arising from the increasing age range of the school.

Area Cost Adjustment

- 6.32. Within the stage 1 consultation, the DfE sought responses to its proposal for an area cost adjustment, in order to reflect the variation in labour market costs. The majority of respondents agreed with the use of a "hybrid" area cost adjustment, which takes account both the General Labour Market and Teacher salary variations.
- 6.33. The area cost adjustment is applied separately to each schools qualifying allocation once the rest of the formula has been run.

Minimum Funding Guarantee & Gains Cap

- 6.34. The DfE wants under-funded schools to move towards their formula allocations as quickly as possible, but equally that there is sufficient stability for schools facing reductions in funding so that they are able to cope with the pace and scale of those reductions.
- 6.35. Within the consultation document, the DfE have confirmed that under the national funding formula, the Minimum Funding Guarantee (MFG) will continue to operate at minus 1.5% per pupil, in the same way that it does currently.
- 6.36. In addition, the DfE will be introducing a 'floor' to limit the reduction to per pupil funding that any school can incur as a result of this formula. The floor will be set at minus 3% per pupil, compared to the funding currently received and will be calculated slightly differently to the MFG calculation. However, schools funding will continue to fluctuate in responses to changes in pupil numbers, as is the case in the current funding system.
- 6.37. The DfE have also built a gains cap into the national funding formula, which will limit the amount a school can gain under the new arrangements. For 2018-19 the cap is set at 3%, whilst for 2019-20 the cap is set at 2.5%.
- 6.38. Local authorities will be responsible for determining the school funding arrangements locally in 2018-19, so schools allocations in that year will depend on decisions locally about the funding formula.

Potential Impact on funding for Portsmouth

- 6.39. To illustrate the impact of the proposed formulae arrangements, the DfE have published information alongside the consultation documents showing what would have happened to both the funding allocations by Local Authority area and also at a school level, with and without transitional protections. All of the examples are based on the funding and pupil-level data from 2016-17 and therefore are not an indication of actual funding levels for a specific year, as future funding allocations will depend on future pupil numbers and pupil characteristics.
- 6.40. The table below shows both the baseline Schools Block funding data for Portsmouth in 2016-17 and the illustrative funding allocations from the new national funding formula. Based on this illustration, Portsmouth would have received an additional funding allocation of £1,189,112, after transitional protection arrangements³; which equates to a 1.1% increase.

³ Gains capped at 3% per pupil and MFG protection at minus 1.5% per pupil in the 1st year.

	Adjusted Baseline funding⁴ 2016-17 £	New funding formula allocations (2016-17 illustrative only) £
Amount allocated through formula factors	105,318,602	106,505,546
Amount allocated for growth in pupil numbers	528,496	528,496
Amount allocated through premises factors	1,256,668	1,258,836
Total funding	107,103,766	108,292,878

Potential Impact on School level funding

6.41. The financial modelling undertaken by the DfE is based on October 2015 school census data together with information from the 2016-17 local funding formulas. The DfE have compared the output from the proposed national funding formula model to the adjusted baseline school level funding in 2016-17.

6.42. Using the school level data provided by the DfE alongside the consultation, it has been possible to summarise the potential financial impact for individual schools within Portsmouth of the proposals. It should be noted that the information provided by the DfE has been at a summary level and it has not been possible to analyse the specific changes within each of the school level funding allocations. Additionally, the illustrative allocations provided by the DfE are only indicative and any future allocations will depend on actual pupil numbers, pupil characteristics and the premises funding factors.

		Before transitional protection				After transitional protection			
		Infant	Junior	Primary	Secondary	Infant	Junior	Primary	Secondary
Increase	6% - 10%	1	1	-	-	-	-	-	-
	3.01% - 5.99%	1	1	3	7	-	-	-	-
	1.51% - 3%	5	2	4	2	7	4	7	9
	0 - 1.5%	2	7	-	-	2	7	-	-
Decrease	0 - 1.5%	3	1	-	-	7	1	13	1
	1.51% - 3%	4	-	13	1	-	-	-	-
	3.01% - 5.99%	-	-	-	-	-	-	-	-
	6% - 10%	-	-	-	-	-	-	-	-
Maximum increase	50,000	66,000	127,000	294,000	29,000	35,000	65,000	180,000	
Maximum Decrease	(30,000)	(11,000)	(73,000)	(128,000)	(15,000)	(11,000)	(37,000)	(64,000)	
Mean Increase	24,375	21,000	48,143	163,000	19,875	15,909	39,286	121,444	
Mean Decrease	(16,143)	(11,000)	(44,385)	(128,000)	(9,143)	(11,000)	(22,769)	(64,000)	

⁴ Adjustments include the removal of Looked After Children factor and the alternative treatment of resourced units, etc.

- 6.43. The table above shows that the majority (62%) of schools would have received additional funding had the proposed formula been applied in 2016-17. In the secondary sector the proportion of schools that would have seen an increase in funding, rises to 90%.
- 6.44. With regard to the primary sector 41 (85%) of the 48 schools would have seen a movement in funding between -3% and +3% per pupil, before the application of transitional protection. 7 schools would have seen increase between 3.01% and 10% per pupil, however under the proposed transitional arrangements these gains would be restricted to 3% per pupil.

7. Implementation of the National Funding Formula (2018-19 and 2019-20)

- 7.1. In the response to the first stage of the consultation, the government has confirmed that the DfE will move to a 'soft' national funding formula for 2018-19. This means that whilst the DfE will use the national funding formula to calculate local authorities funding allocations, local authorities will still determine individual schools funding allocations through the local formula.
- 7.2. The funding allocation timetable for 2018-19 is expected to be similar to that for 2017-18. However, in the summer of 2017, the DfE will publish indicative schools block funding levels for 2018-19, using the pupil data for 2017-18. The DfE propose to include the MFG and gains cap levels highlighted earlier.
- 7.3. The DfE also propose to use the 2017-18 baselines for 2018-19 allocations. They will carry out a further baseline exercise with local authorities in order to gather information about the split of the 2017-18 DSG between schools, high needs and the central school services block.
- 7.4. In December 2017, the DfE will confirm local authorities' final DSG allocations for 2018-19, by applying the national funding formula per-pupil funding levels to the latest pupil numbers from the October 2017 census. Local authorities will then confirm the final allocations to maintained schools in line with the usual timetable and the EFA will determine the academy allocations for 2018-19 based on the relevant local formula.
- 7.5. The schools block will be ring-fenced in 2018-19. However, the DfE are proposing some flexibility to enable the transfer of funds from the schools block to the high needs block if necessary in 2018-19, following local consultation and with the explicit agreement between the local authority, their Schools Forum and a majority of the primary and/or secondary schools and academies.

- 7.6. From 2019-20, the national funding formula will be used to calculate the vast majority of each individual schools budget. However, it is anticipated that local authorities will continue to have flexibility on some parts of the formula, such as in relation to funding for pupil growth. Further consultation on the precise arrangements for 2019-20 will be undertaken by the DfE.

8. Central School Services Block

- 8.1. The DfE have re-confirmed their intention to create a 'central school service block' which will combine the schools block funding that has been held centrally, (such as funding for the admissions services) with the retained duties element of the former Education Services Grant (ESG).
- 8.2. The total amount of funding that will be distributed through this block for ongoing responsibilities will be calculated by adding the funding available for ESG retained duties and the centrally held DSG spent on ongoing responsibilities.
- 8.3. The DfE propose to distribute funding to local authorities using a simple formulaic approach on a per-pupil basis, together with an element according to a deprivation factor. Both elements will be adjusted for area costs.
- 8.4. The indicative per-pupil rate will be £28.64 and will equate to 90% of the total funding for the central school services block after the area cost adjustment has been applied.
- 8.5. It is proposed that the deprivation factor will be based on the Ever6 FSM data set and equate to 10% of the total funding allocation. The allocation will equate to a per-pupil of £11.62.
- 8.6. The proposed area cost adjustment will be based on the General Labour Market methodology only, rather than the hybrid model which includes the impact of changes in Teachers pay, as the DfE do not consider expenditure to be funded by this block to be affected by changes in teachers' pay. The area cost adjustment factor that is applied to Portsmouth in the funding illustration is 1.040178.
- 8.7. In transitioning to the new arrangements for the 'central school services block', the DfE are proposing to put in place a protection that minimises reductions to 2.5% per pupil in 2018-19 and 2019-20. In order to afford the protection, they are also proposing to allow gains of only 2.4% per pupil in 2018-19. The level of gains will be set annually.
- 8.8. Had this proposed funding arrangement been applied in 2016-17, then Portsmouth would have seen an increase in the level of funding by 2.4% to £787,443 after transitional protection arrangements; although without

the transitional protection this increase would have amounted to 5.5% when compared to the baseline funding levels.

9. High Needs Funding Arrangements

- 9.1. Whereas it is proposed that the funding for mainstream schools will be allocated directly to schools from the Education Funding Agency in future, it is proposed that the other elements of the DSG including High Needs will continue to be managed by Local Authorities (other than the funding for high needs places in Academies). The proposed design of the overall DSG funding system is shown at Appendix 3.
- 9.2. The main changes to the high needs funding arrangements can be summarised as:
 - a. **Introduce a formulaic method for distributing funding** from central to local government from 2018-19 (including Special Education Needs (SEN) and Alternative Provision (AP)).
 - b. **An improvement to the current funding arrangements at local level**, including changes to the way funding is distributed to resourced units.

High Needs Funding Formula Model

- 9.3. The DfE have confirmed that they will be using the funding formula and the related factors proposed within the consultation at stage 1, although they have made some small adjustments in light of the feedback received during the consultation.
- 9.4. This formula will be used to allocate funding from central government to Local Authorities in the future, (instead of the current 'block allocation'). The proposed formula is shown in the diagram below. The DfE have based the model below on the research and analysis undertaken by Isos on their behalf.

Figure 5: The building blocks and factors in the high needs national funding formula

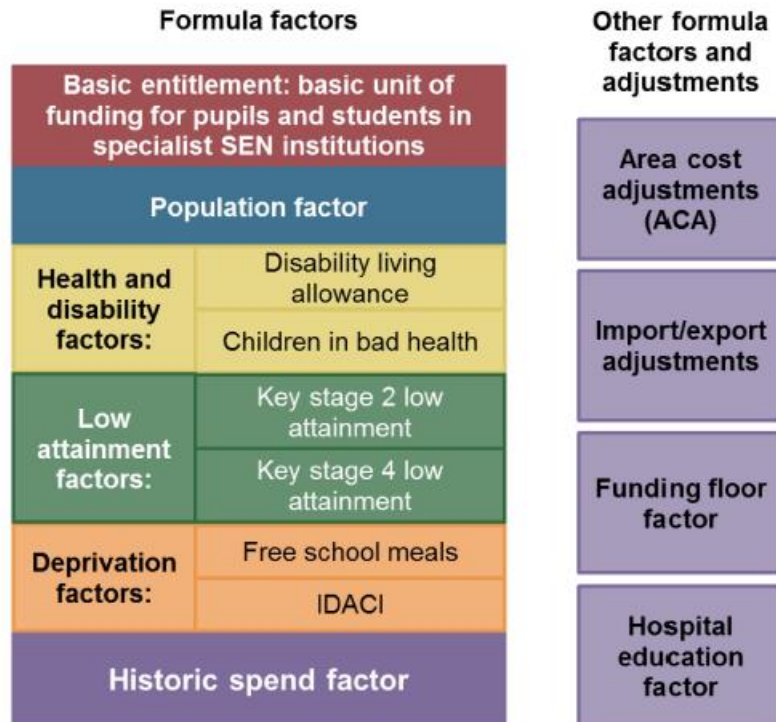


Figure 5: This diagram shows that the formula is comprised of the following: a basic entitlement; factors for population, health and disability, low attainment, deprivation, historic spend, a funding floor and hospital education; and adjustments for area costs and imports/exports.

The funding formula factor weightings

- 9.5. Within the second stage consultation, the DfE are consulting on the relative weightings of each factor. Once the consultation has concluded the final formula weightings, local authority high needs allocations for 2018-19 and beyond will be calculated by applying the formula and transitional arrangements.

Historic Spend Factor

- 9.6. The DfE's initial reference point for introducing a national funding formula is the current high needs funding system. In moving to a formulaic distribution of funding, they are seeking to minimise undue and unmanageable turbulence.
- 9.7. The incorporation of an historic spend factor in the formula is therefore the starting point of the calculation. This will be a cash sum, derived from the local authorities baseline information from 2017-18. The cash sum will equate to 50% of the baseline amount. This will be held as a cash flat

amount in the formula until the formula is reviewed, which will be in 4 years.

Basic Entitlement

- 9.8. Each Local Authority will also receive a basic entitlement allocation through the high needs formula. The funding will be allocated at a flat rate per pupil in a special school or special post-16 institution to mirror what mainstream schools receive through the mainstream funding formula.
- 9.9. It should be noted however that this is intended as a proxy measure, to contribute towards the place funding, and is not intended as an amount that is passed directly to institutions, or for identified pupils and students. The funding rate is proposed to be set at £4,000 per pupil/student as this is the equivalent to the basic entitlement rate in the 16-19 national formula. For 2018-19 the pupil data will be collected from the January 2017 school census and for post-16 institutions, the final Individualised Learner Record return for the 2016-17 academic year.
- 9.10. The DfE have confirmed that they expect the funding for the additional £6,000 required to meet the total £10,000 for each place to come through the historic spend factor and other formula factors and adjustments.

Population

- 9.11. The population factor seeks to distribute funding by reference to the population of children and young people resident in the local authority area, reflecting that in every given population of a certain size there will be a proportion of those with high needs.
- 9.12. In undertaking their analysis, the DfE have assumed that the national incidence of pupils with statements of SEN and education, health and care plans (EHCP's) is a reasonable approximation for the incidence of high needs across the country. Nationally, the DfE have stated that 2.8% of the overall pupil population has a statement of SEN or EHCP% (Portsmouth = 3.1%).
- 9.13. To reflect the association between population and incidence of high need, the DfE are proposing that the population factor weighting is set at 50%. Appendix 4 shows all of the proposed factor weightings.

Deprivation factors

- 9.14. The first deprivation factor that it is proposed to be used, is based on Free School Meal (FSM) eligibility. The DfE are intending to use the data from the school census and alternative provision census collected in the January of each year. For the financial year 2018-19, the DfE will use the January 2017 census and the 'Current FSM' data set.

- 9.15. The DfE will also be using a second deprivation indicator which uses the area-level deprivation data from the Income Deprivation Affecting Children Index (IDACI). In building the funding allocation model, the DfE have decided to use the 6 IDACI bands. The DfE have decided that the best approach for weighting these bands is to use the same weightings that are used in the schools national funding formula.
- 9.16. In determining the weighting for the deprivation factor, the DFE have taken account of the fact that 10% of high needs funding is spent on alternative provision and that, of all the factors other than population, deprivation is most closely correlated to the need for alternative provision as a result of schools exclusions.
- 9.17. Therefore, as shown at Appendix 4, the deprivation factor will account for 20% of the funding through the population and other factors.

Low Attainment, Health & Disability

- 9.18. Low attainment data from the Key Stage 2 and Key Stage 4 results will be used to allocate 15% of funding.
- 9.19. Additionally, 15% will be allocated through the health & disability factor, with half being allocated on the basis of the children in bad health data from the 2011 population census and half using the latest disability living allowance data.

Other adjustments

- 9.20. As shown in the diagram above, a number of other adjustments will be applied to the formula, including:
- Area cost adjustment - which will be applied to all the factors in the formula, except those based on historic spending levels
 - 'Import/export' adjustment - to reflect pupil movements between areas (there will be an adjustment of £6,000 for each pupil who is in an SEN place (not AP), outside of their area of residence
 - Funding Floor Adjustment - no local authority will see a reduction in funding compared to the baseline spending level.

Hospital Education Funding

- 9.21. The DfE have confirmed that no changes are proposed to the distribution of funding for hospital education.

Resourced Units (Inclusion Centres)

- 9.22. The DfE have confirmed that 55% of respondents agreed with proposal to change the way that schools with special units are funded, on the grounds that it would be simpler and more transparent.
- 9.23. The DfE are proposing that from 2018-19, the way that place funding is allocated will be changing. The school budget share will be determined on the basis of the full number of pupils on roll at the school, including those in the special unit or resourced provision. The balance of funding will come from the place funding (at £6,000 per place).
- 9.24. Places not filled by pupils on the school roll at the time of the school census return will continued to be funded at £10,000.
- 9.25. The DfE's diagram below, sets out how this change is proposed to work without impacting on the school budget.

Figure 4: Funding of special units in mainstream schools: example

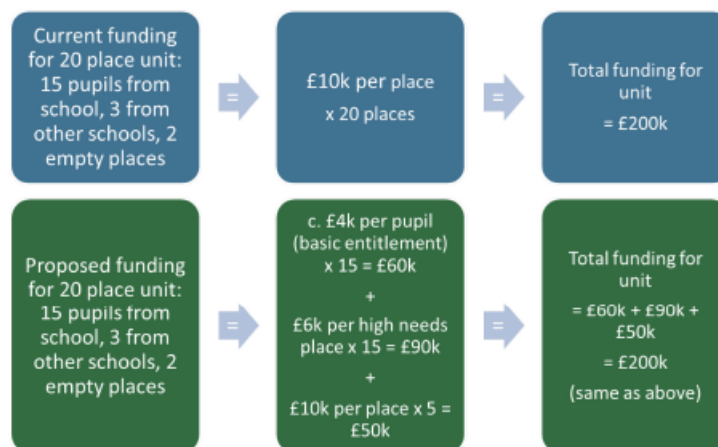


Figure 4: This diagram shows how funding would be calculated for an example unit under current arrangements, and under the new proposal.

Potential Impact on funding for Portsmouth

- 9.26. Alongside the consultation on the proposed changes to the high needs funding arrangements from central government, the DfE have provided an illustrative funding allocation based on the currently available data and compared this to the funding allocation for 2016-17.
- 9.27. The illustrative example shows that Portsmouth would have received an additional funding allocation of £451,000 (an increase of 2.5%) in 2016-17, had the new methodology been applied.

Local Budget Flexibility

- 9.28. The 'hard' schools funding formula will determine the funding for each school and effectively ring-fence the schools funding block, preventing the transfer of that funding into the Council's high needs budget.
- 9.29. A number of respondents to the stage 1 consultation, raised concerns about the proposal to ring-fence the schools block. The DfE highlighted that respondents have argued that the separation of the funding blocks would have an adverse impact on local authorities' and schools' willingness to work in partnership, to take collective responsibility for making special provision for making special provision for pupils, and to cooperate as required by the Children's and Families Act. Additionally, respondents stated that this change would affect local authorities ability to manage the high needs budget.
- 9.30. For 2018-19 the DfE are proposing to provide an opportunity for local authorities to transfer funds, from the funding schools are due to receive through the schools formula to their high needs budget. 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). The DfE are also considering placing a limit on the amount that could be transferred; and are indicating around 2% or 3% of the high need block allocation.

10. Schools Forum

- 10.1. In advance of the full introduction of the single national funding formula in 2019-20, the DfE propose to carry out a review of the role, functions and membership of Schools Forums.

11. Working Groups

- 11.1. We are not proposing to establish working groups at this time. However, as further information and guidance is made available in the summer; and in particular when the DfE publish the indicative schools block funding levels for 2018-19, (which will be based on the pupil data for 2017-18), we will look to establish an appropriate working group at a suitable time.

12. Reasons for recommendations

The purpose of this report is to provide Schools Forum with an initial summary and impact assessment, of the proposals contained within the 'school funding

formula' consultation documents issued by the Department for Education (DfE) on the 14th December 2016. It is recommended that report is noted.

13. Equality impact assessment (EIA)

This report does not require an Equality Impact Assessment as the recommendations are for noting and do not have any impact upon a particular equalities group.

14. Legal comments

There are no legal implications arising directly from the recommendations in this report.

15. Director of Finance's comments

Financial comments have been included within the body of this report.

Signed by: Alison Jeffery, Director of Children's Services

Appendices:

1. Consultation Response
2. The proposed national funding formula rates and the PCC 2016-17 funding rates
3. Proposed Design of the DSG Funding System
4. High Needs Funding Formula Factor Weightings

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
DfE Stage 2 consultation documents	https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula2/
'Future Schools Funding Formula Changes' report to Cabinet Member and Schools Forum (May 2016)	http://democracy.portsmouth.gov.uk/ieListDocuments.aspx?CId=335&Mid=3420&Ver=4

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

.....
Signed by:

Appendix 1 - Consultation Response

Mainstream Funding Consultation

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?**

Yes.

2. **Do 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?**

Yes.

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?**

Yes.

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)?**

Yes.

5. **Do you agree with the proposed weightings for each of the additional needs factors?**

Deprivation - pupil based at 5.5%: The proportion is about right

Deprivation - area based at 3.9%: Allocate a higher proportion

Low prior attainment at 7.5%: Allocate a lower proportion

The level of funding allocated through prior attainment will fluctuate to a greater extent by changes in pupil characteristics than deprivation year-on-year. Therefore in order to ensure sufficient funding is allocated for additional needs and that this does not fluctuate significantly year-on-year, we would support a reduction in the prior attainment weighting and an increase in the Deprivation - Area based weighting.

English as an additional language at 1.2%: The proportion is about right

6. **Do you have any suggestions about potential indicators and data sources we could use to allocate mobility funding in 2019-20 and beyond?**

No. This factor has not been used within Portsmouth.

7. **Do you agree with the proposed lump sum amount of £110,000 for all schools?**

Primary - This is about the right amount

Secondary - This is about the right amount

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?

The sparsity factor is not used within Portsmouth and therefore we are unable to comment.

9. Do you agree that lagged pupil growth data would provide an effective basis for the growth factor in the longer term?

No. Lagged funding will not adequately reflect local growth needs at the time the funding is required.

Allocating growth funding based on historic spend, is unlikely to be an adequate predictor of future growth funding requirements as highlighted within the consultation document. Currently, in setting our annual Dedicated Schools Grant budgets, we are able to factor our annual growth fund requirements in setting the overall schools budgets.

This proposed methodology also continues the potential unfairness for schools in different local authorities. For example:

- Authority A might provide a lump sum payment for a school opening up a new class
- Authority B might provide the equivalent of the AWPU or other formula funding, for each new child expected
- Authority C might not have a growth fund at all.

Alternative proposals would be:

- To allocate growth funding to local authorities based on submitted forecasts.
- To require local authorities to estimate pupil numbers for new basic needs classes on the Authority Proforma Tool and fund accordingly

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.

Yes

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?

Yes

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?

The impact of this proposal is still being reviewed and a response will be formulated before submission.

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.

Yes

14. Are there further considerations we should be taking into account about the proposed schools national funding formula?

No comment

15. Do you agree that we should allocate 10% of funding through a deprivation factor in the central school services block?

Yes.

16. 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?

No - limit reductions to less than 2.5% per pupil per year.

It would be more consistent for the transitional protections to this funding block to be aligned to the transitional arrangements applied to schools.

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

No comment

High Needs Funding Consultation

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?

Yes.

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

Yes

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%

Yes

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.**

Yes.

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?**

Yes.

6. **Do you agree with our proposals to allow limited flexibility between schools and high needs budgets in 2018-19?**

Yes.

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?**

We believe there should be a level of flexibility between these two funding blocks in particular regarding the growth of pupils with Education Health and Care plans attending mainstream settings. The flexibility would support the Inclusion agenda where pupils with high needs are educated amongst their peers at a location close to their home.

8. **Are there further considerations we should be taking into account about the proposed high needs national funding formula?**

No comment

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?**

No comment.

Appendix 2 - The proposed national funding formula rates and the PCC 2016-17 funding rates ⁵

Factors and weightings for proposed national funding formula

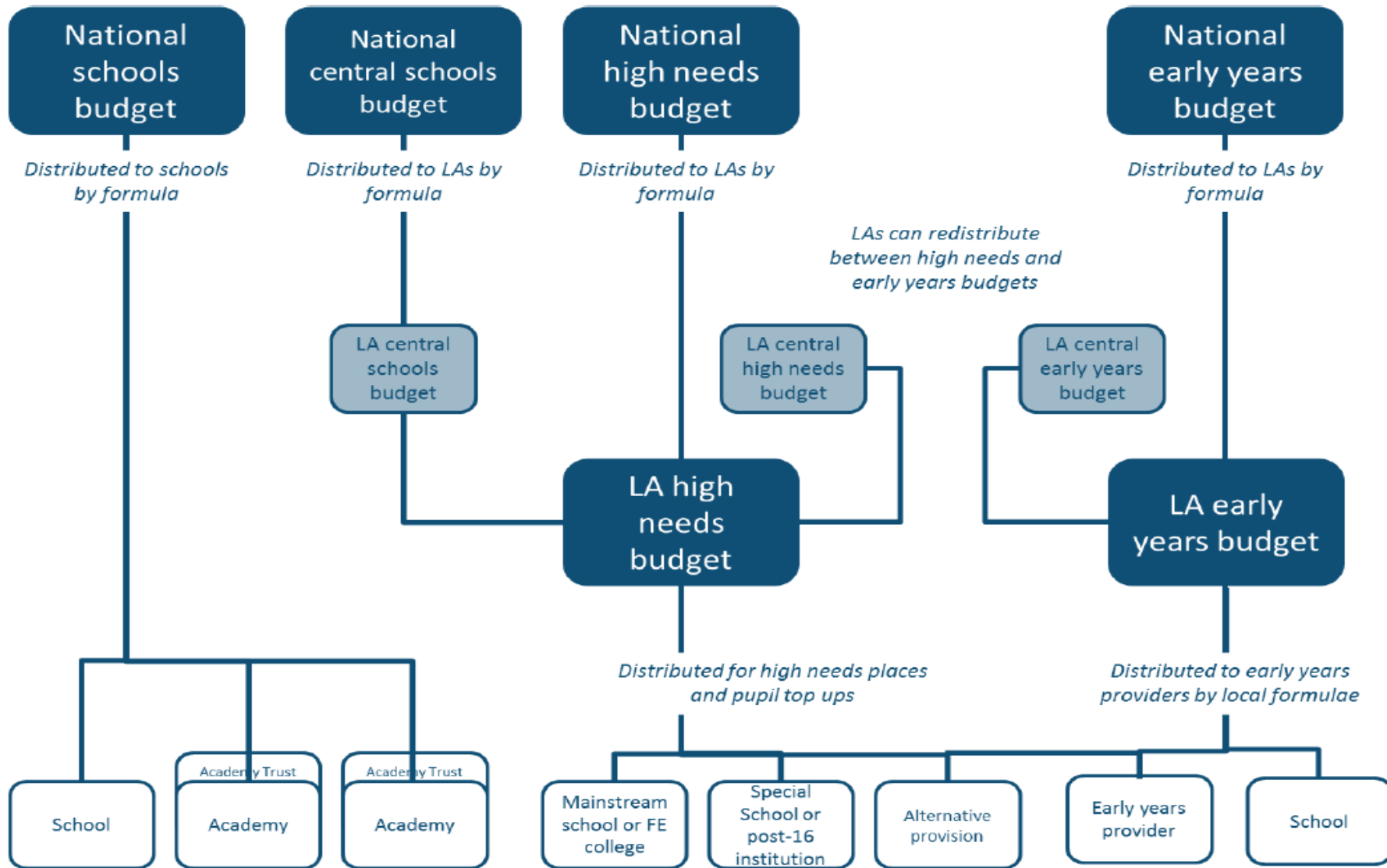
Factor		Proposed weighting	Per pupil funding under NFF			
			Primary		Secondary	
Basic per pupil funding (£ per pupil)		72.50%	KS1	2,712	KS3	3,797
			KS2		KS4	4,312
Deprivation (£ per pupil)	Ever 6 FSM	9.30%	540		785	
	Current FSM		980		1225	
	IDACI A		575		810	
	IDACI B		420		600	
	IDACI C		360		515	
	IDACI D		360		515	
	IDACI E		240		390	
IDACI F	200		290			
LAC		0	0		0	
Low prior attainment		7.50%	1,050		1,550	
English as an additional language		1.20%	515		1,385	
Mobility		0.10%	N/A		N/A	
Lump sum		7.10%	110,000		110,000	
Sparsity		0.08%	0 - 25,000		0 - 65,000	

Portsmouth 2016-17 local formula

Factor		Portsmouth Weighting	Per pupil funding under Portsmouth Local Formula			
			Primary		Secondary	
Basic per pupil funding (£ per pupil)		74.03%	KS1	2,917	KS3	3,727
			KS2		KS4	4,336
Deprivation (£ per pupil)	Ever 6 FSM	9.96%	237		300	
	Current FSM		0		0	
	IDACI A		1,892		1,270	
	IDACI B		1,577		1,058	
	IDACI C		1,261		847	
	IDACI D		946		635	
	IDACI E		0		0	
IDACI F	0		0			
LAC		0.27%	2,811		2,811	
Low prior attainment		7.09%	740		2,000	
English as an additional language		0.95%	359		1,822	
Mobility		0.00%	0		0	
Lump sum		6.52%	115,000		139,150	
Sparsity		0.00%	0		0	

⁵ Note: the above table excludes the premises factors which will be funded on a historic spend basis. The mobility factor is not currently used in Portsmouth and will not be used in 2018-19.

Appendix 3 - Proposed Design of the DSG Funding System



Appendix 4 - High Needs Funding Formula Factor Weightings

Figure 7: High needs national funding formula factor weightings

Formula factor	Proposed weightings			Data we have used for illustrative allocations
	SEN (90%)	AP (10%)	Com-bined	
1. Population	50%	50%	50%	Latest population aged 2-18 projection for 2018 from the Office for National Statistics (ONS)
2. Deprivation				
a. Free school meals (FSM) eligibility	8.3%	25%	10%	Number of children eligible for FSM
b. Income deprivation affecting children index (IDACI)	8.3%	25%	10%	Number of children in bands A-F from 2014 ONS population estimates
3. Low attainment				
a. Key stage 2 (KS2) results	8.3%	0%	7.5%	Number of children not achieving level 3 or above in KS2 tests in 2011-15
b. Key stage 4 results	8.3%	0%	7.5%	Number of children not achieving 5+ A* to G GCSEs in 2011-15
4. Health and disability				
a. Children in bad health	8.3%	0%	7.5%	Number of children and young people declared as in bad or very bad health in the 2011 census
b. Disability living allowance (DLA)	8.3%	0%	7.5%	Number of children aged 0-15 for whom parents receive DLA