

Report to: Cabinet

Date of meeting: 7 March 2017

By: Director of Children's Services

Title: National Funding Formula for schools consultation – Stage 2

Purpose: To identify the key issues arising from the National Funding Formula Stage 2 consultation

RECOMMENDATIONS

The Cabinet is recommended to:

- 1) note the launch of Stage 2 of the consultation on a National Funding Formula (NFF) for Schools, and that a response is planned by the deadline of 22 March 2017;**
- 2) note that it is still not possible to accurately quantify the impact of the government's proposals on East Sussex schools or on the Council; and**
- 3) note the background information and potential issues for East Sussex as set out in the report.**

1 Background

1.1 Dedicated Schools Grant (DSG) is the main grant the government gives to each local authority (LA) for education provision in their area. Education Service Grant (ESG) currently further provides towards this. DSG is currently distributed to LAs, and each LA, through agreement with its Schools Forum, manages a local funding formula for the onward distribution to schools.

1.2 In 2010 the coalition government first noted its intention to move towards a "national funding formula" (NFF) for schools. On 7 March 2016 the Department for Education (DfE) launched the first of 2 planned consultations on this ([Schools national funding formula - Consultations - GOV.UK](#)), laying out its proposals for achieving a national formula.

1.3 The Stage 2 Consultation was launched on 14 December 2016 and will close on 22 March 2017. An East Sussex response is being prepared for submission.

1.4 The Stage 2 Consultation document confirms the following:

- The introduction of a NFF for schools, high needs and local authority (LA) services for schools in 2018/19.
- There will be a 'soft' introduction of the NFF for 2018/19, leading to a 'hard' NFF for the schools block from 2019/20:
 - For 2018/19, the NFF will be used to calculate 'notional' budgets for schools which will be aggregated up, and which the local authority will then distribute using its own local formula to apportion funding between schools;
 - In 2019/20, the NFF will be fully ("hard") implemented with the DfE potentially distributing budgets direct to schools.
- There will continue to be arrangements that will limit gains and losses at school level.

- The schools funding block will be ring-fenced for spending on schools, but there will be some limited scope for movement between all funding blocks before 2019/20, and some continuing local flexibility from 2019/20, subject to consultation and approval of Schools Forum and the majority of schools.
- The factors that will be used for the Schools funding formula are as per the Stage 1 proposals, with the addition of a mobility factor, reflecting requests from the Stage 1 consultation responses.
- A new, fourth funding block – the Central Schools Services Block – will be allocated to LAs on a formulaic basis, to support some centrally provided local authority functions.

2 Supporting information

2.1 The DfE are seeking views on key points in their proposal for a NFF. Details of the current ESCC formula factors, and a comparison with the proposed NFF factors, are included in Appendix 1.

2.2 Alongside this consultation, the DfE are also seeking views on a Stage 2 consultation relating to the introduction of a High Needs NFF for children and young people with special educational needs. The DfE have also stated the Early Years Block will be reviewed later in the year.

2.3 Pupil premium, pupil premium plus and the service premium are further methods for the government to fund education provision. The DfE have advised these will continue and are unaffected by the proposals of the consultations.

3 Implications for East Sussex

Schools

3.1 In support of the main consultation documents, the DfE published data illustrating the potential implications of the proposals for schools and local authorities, in a hypothetical scenario which is illustrated in the table below. This illustrates the impact on total LA allocations if the NFF proposals had been implemented in full in 2016/17, using current school data to calculate illustrative funding before any capping or protection (Column B). This is then compared against the 2016/17 funding baseline (Column A). It also illustrates what the following year's allocation would be after capping or protection (Column D), again using the 2016/17 data (eg numbers on roll).

3.2 This indicates (Column B) that East Sussex would have seen a 2.7% overall increase in funding, if the 2016/17 DSG allocation had been calculated using the proposed NFF, and this is the second highest uplift amongst our geographical neighbours. West Sussex and Kent see the greatest potential overall increase at 2.9% against the restated 2016/17 DSG.

3.3 The indicative changes in funding of the Schools Block, shown locally as a 2.5% increase in column C in the table, are illustrated for all Local Authorities in the map in Appendix 2.

LA name	Illustrative NFF funding if the formula were fully implemented in 2016/17 with no protection or cap on any gains						Illustrative NFF funding if the formula were fully implemented in 2016/17 with protection and cap on gains (Column D)	
	All blocks (Column A)	Total (all blocks) (Column B)		Schools Block Only (included within Column A figures) (Column C)			Illustrative total NFF year 1 allocations for LAs (all blocks)	% change in NFF year 1 compared to current 2016/17 baseline
		LA total 2016/17 baseline (all blocks)	Illustrative total NFF allocations for LAs (all blocks)	% change compared to current 2016/17 baseline	Schools Block 2016/17 baseline	Illustrative NFF funding if formula was implemented		
Brighton and Hove	£154,336,398	£153,920,028	-0.3%	£129,265,267	£128,902,044	-0.3%	£154,407,376	0.0%
East Sussex	£308,240,653	£316,537,088	2.7%	£262,007,533	£268,529,136	2.5%	£313,496,255	1.7%
Kent	£1,012,322,033	£1,041,304,258	2.9%	£823,029,471	£852,575,679	3.6%	£1,025,086,472	1.3%
Medway	£199,157,469	£203,763,093	2.3%	£163,239,678	£167,656,349	2.7%	£201,697,257	1.3%
Surrey	£717,688,493	£735,118,460	2.4%	£576,051,838	£594,012,906	3.1%	£727,142,178	1.3%
West Sussex	£489,570,983	£503,826,552	2.9%	£413,737,904	£428,309,913	3.5%	£497,371,721	1.6%

3.4 It is important to note that **these illustrations do not represent actual allocations** for any specific year and so should not be taken as confirmation of future funding. Also, the illustrations do not reflect any local factors, such as inter block transfers, and do not reflect any changes in pupil numbers since October 2015. They are only intended to help inform the consultation, and when the NFF is implemented, the actual allocations will be based on pupil numbers/ characteristics at the time and will be subject to any changes to the formula that may arise from the Stage 2 consultation.

3.5 The table below shows that at a regional level, the greatest increases in per pupil funding (which also correspond to the restated 2016/17 DSG allocation (Column B above)) are likely to be in the East Midlands and the South East.

Region	% change in per pupil funding under formula only NFF	Number of schools for which funding would increase	Number of schools for which funding would reduce
East of England	1.5%	1,485	875
East Midlands	2.5%	1,208	705
Inner London	-2.4%	29	802
North East	1.0%	622	422
North West	0.1%	1,187	1,695
Outer London	1.0%	611	737
South East	2.3%	1,853	1,195
South West	2.2%	1,600	591
West Midlands	0.3%	1,010	1,163
Yorkshire and the Humber	1.5%	1,135	943

3.6 As the funding formula is implemented, there will also inevitably be individual 'winners' and 'losers' at a school level. The illustrations show that if the NFF was implemented with no transitional capping, whilst the overall gain for East Sussex schools would be 2.5% (as per paragraph 3.3 and Column C above), 43% of East Sussex schools (48% of primary and 20% of secondary) would appear to be 'losers'.

3.7 The picture on an individual school level shows a range of indicated increases/reductions. The highest increase in the primary phase would be 13.5%, whilst the greatest reduction would be 2.4%. For the secondary phase, the highest increase would be 5.1% and the greatest reduction would be 2.5%. However, it is important to note that these increases/reductions would not be realised in the first year of the NFF as there are proposals to manage the transition to the final formula using protected capping/ funding floors which would work towards achieving the indicative increases/ reductions over a period of time (length to be confirmed).

3.8 Small and rural schools feature widely across East Sussex. Members will be aware that the previous Secretary of State is on record as saying no small schools would close as a result of the NFF proposals. The new Secretary of state has been silent on this issue, but the Minister for Schools has cited the work around the Sparsity factor as a means of ensuring no closures. While we welcome the enhanced rates proposed for the Sparsity factor, it should be noted that the proposals will not widen the qualification criteria for the factor or tackle rurality, so it is not envisaged that any more schools in East Sussex will benefit from the factor or be able to offset reductions in the lump sum funding with it.

Local Authority

3.9 It is proposed that LA historic commitments, as part of the Central School Services block and which includes spend on Combined Services, will be recognised on the basis of actual costs and will be expected to 'unwind over time'. It is therefore likely to reduce from £6.9m budgeted for 2017/18 and add pressure over and above that assumed in the MTFP (reductions of £0.25m in both 2018/19 and 2019/20). It is, however, not possible at this stage to determine the likely reductions or their timing.

3.10 Currently, LAs can reallocate funding across the 3 funding blocks and this does not require Schools Forum approval. The consultation proposes the Schools Block will be ring-fenced from 2018/19. It is not clear how any future pressures on the High Needs or Early Years blocks will be funded if this is the case.

4 Other issues

4.1 The consultation paper introduces a £50m annual grant (with effect from September 2017 when the ESG General funding element is fully withdrawn) which will be allocated to LAs on the basis of the number of maintained schools. The indicative allocation for East Sussex for 2017/18 is £263k.

4.2 In addition, there will be an annual £140m 'Strategic School Improvement Fund' available to continue to monitor and broker school improvement support. We understand that details of how to access this fund will be available shortly.

4.3 The consultation also states the function of Schools Forums will be reviewed within the next two years, but adds that the DfE do not intend to make changes to the make-up or functions of the schools forum before then.

4.4 The East Sussex Schools Forum met on 13 January 2017 and expressed concern over the ongoing underfunding of schools against a backdrop of increasing costs, including the Apprenticeship Levy, in East Sussex. Headteachers and Governors are also coordinating responses to the NFF consultation and are likely to increase their lobbying of local MPs.

4.5 Alongside this, attached at Appendix 3 is a draft letter to be sent to lobby East Sussex MPs on schools funding, the apprenticeship levy and business rates. This also follows the letters from the Lead Member for Education and ISEND to East Sussex MPs in November 2016 and from the Chair of East Sussex Schools Forum to DfE in July 2016 and December 2016.

4.6 It is unclear at this stage how the revoking of the White Paper, which required all schools to have converted to academy status by 2020, may affect East Sussex, but if a significant number of schools do convert to academies, impacts will need to be considered, such as the key impact on LA responsibilities and staff numbers, on East Sussex traded services as well as the liability of school staff pensions. There is also a risk there will be a need for LA staff reductions following the introduction of the NFF – for example from the removal of the responsibility for setting local funding formulae. Further work will be required to quantify this.

5 Conclusion and reasons for recommendations

5.1 This report has identified the key issues for East Sussex from the Stage 2 NFF consultation.

5.2 The next steps will be:

- Present the draft response to Schools Forum (17 March) before submission to DfE by 22 March;
- Orbis Finance to review the assumptions in the MTFP relating to the NFF;
- Orbis Finance to support Schools Forum prepare for the “soft” NFF (a working group is being set up to this effect).

Stuart Gallimore
Director of Children’s Services

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LOCAL MEMBERS

All

BACKGROUND DOCUMENTS

Schools national funding formula - Consultations - GOV.UK, 14 December 2016

School funding in England. Current system and proposals for 'fairer school funding' House of Commons Library Briefing paper, 9 March 2016

“Educational excellence everywhere” White Paper, 17 March 2016

Appendix 1 – Proposed NFF Funding factors and comparison with the current ESCC funding rates

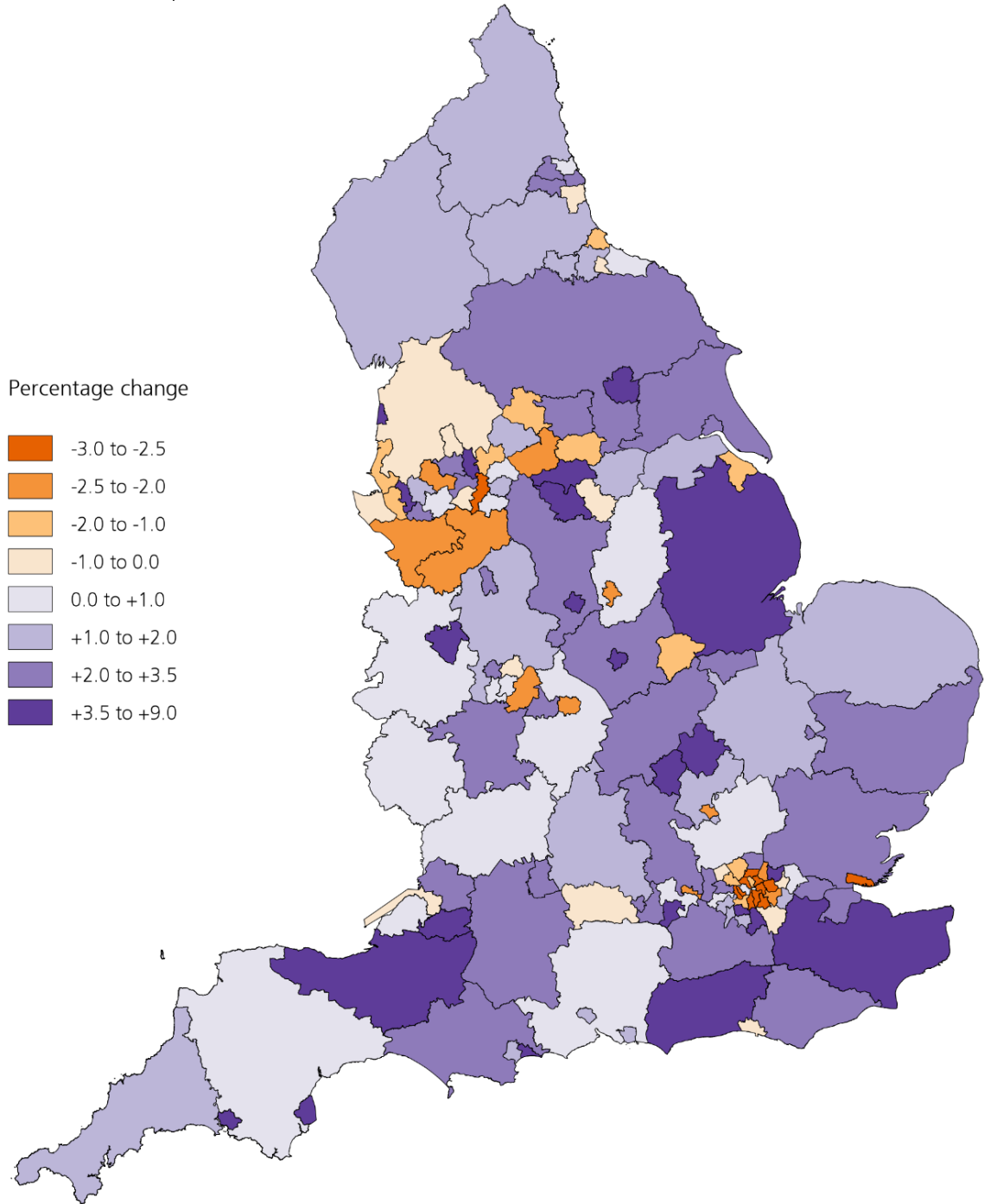
	19/20 Proposed data taken from NFF consultation	16/17 ESCC Actual Funding formula rates	17/18 ESCC Proposed Funding formula rates **
Ratio Primary to Secondary	1:1.29	1:1.32	1:1.31
Additional Needs Funding	18.00%	11.08%	10.66%
TOTAL per Pupil funding	90.50%	87.31%	86.90%

** INCLUDES assumed £750k additional funding

Funding Factor		19/20 Proposed data taken from NFF consultation				16/17 ESCC Actual Funding formula rates				17/18 ESCC Proposed Funding formula rates **						
		Proposed weighting for the NFF	Per pupil / school funding under the proposed NFF (NB these exclude area cost adjustment funding)				16/17 weighting	Per pupil / school funding				17/18 weighting	Per pupil / school funding			
			Primary		Secondary			Primary		Secondary			Primary		Secondary	
Basic per pupil funding (£ per pupil)		72.50%	KS1	£2,712	KS3	£3,797	76.24%	KS1	£2,687	KS3	£3,706	76.24%	KS1	£2,634	KS3	£3,632
			KS2		KS4	£4,312		KS2		KS4	£4,655		KS2		KS4	£4,562
Deprivation (£ per pupil)	Ever 6 FSM	9.30%	£540		£785		6.46%	£0		£0		6.02%	£0		£0	
	Current FSM		£980		£1,225			£1,532		£2,751			£1,501		£2,696	
	IDACI A		£575		£810			£0		£0			£0		£0	
	IDACI B		£420		£600			£0		£0			£0		£0	
	IDACI C		£360		£515			£0		£0			£0		£0	
	IDACI D		£360		£515			£0		£0			£0		£0	
	IDACI E		£240		£390			£0		£0			£0		£0	
IDACI F	£200		£290		£0		£0		£0		£0					
Low prior attainment (£ per pupil)		7.50%	£1,050		£1,550		4.53%	£658		£842		4.55%	£645		£825	
English as an additional Language (£ per Pupil)		1.20%	£515		£1,385		0.08%	£0		£771		0.08%	£0		£755	
TOTAL per Pupil funding		90.50%					87.31%					86.90%				
Mobility (allocated to Las on basis of historic spend)		0.10%	N/A				0.00%	N/A					N/A			
Lump Sum (£ per school)		7.10%	£110,000		£110,000		9.85%	£142,000		£145,000		10.00%	£142,000		£145,000	
Sparsity (£ per School)		0.08%	£0 - £25,000		£0 - £65,000		0.03%	£5,000		£5,000		0.02%	£5,000		£5,000	
Premises (allocated to LAs on basis of historic spend)	Rates	1.75%	N/A				2.71%	N/A				2.98%	N/A			
	PFI															
	Split Sites															
Exceptional circumstances																
Explicit spend on growth		0.47%	N/A				0.6%	Calculated outside Formula				0.5%	Calculated outside Formula			
TOTAL		100%					100%					100%				

Change in funding by local authority

Illustrative NFF funding compared to baseline if formula implemented in full in 2016-17, without transitional protections



Boundary data: Open Government Licence. Contains National Statistics data © Crown copyright. House of Commons Library (OS) 100040654 (2016).

Note: Map is for Schools Block only

Appendix 3 - Draft letter to East Sussex MPs

Dear

I am writing on behalf of East Sussex County Council, to express significant concern about schools funding from the national funding formula (NFF) proposals, as well as the potential impact on schools of the forthcoming Apprenticeship Levy and increases to business rates.

School funding

We appreciate the indicated increase in funding to East Sussex schools as a whole under Phase 2 of the consultation for the NFF. However, we have specific significant concerns with the NFF proposals to bring to your attention (and which we will also be including in our formal response to the consultation by the 22 March deadline):

- 43% of East Sussex schools are indicated to see a reduction in their funding;
- the planned reduction to the lump sum funding to £110,000, representing a 22% reduction to the primary phase and a 24% reduction to the secondary phase. This would therefore have a significant impact on East Sussex schools, and particularly small schools;
- while we welcome the enhanced rates proposed for the Sparsity factor, the proposals will not widen the qualification criteria for the factor or tackle rurality (which is a common feature of many East Sussex schools), so we do not envisage that any more schools in East Sussex will benefit from the factor or be able to offset reductions in the lump sum funding with it. We do not believe that this was the planned intention for the sparsity factor, and seek reassurances that the NFF will be suitably amended;
- with planned restrictions on inter block transfers, for example from Schools Block to High Needs Block, together with the ever-increasing demand on the High Needs budget, we are very concerned how special schools/ academies (and those schools/ academies with facilities) and Local Authorities will cope with the resultant financial pressures. We therefore seek clarity on the degree of flexibility between blocks that will remain from 2018/19 onwards.

Apprenticeship levy

At a time when schools are already facing significant budget pressures, it seems inappropriate that the levy should be paid by schools from its introduction in April 2017 without additional funding for it.

Furthermore, it seems unfair that schools will be treated differently simply because of how their payroll is managed.

Many standalone academies and Voluntary Aided schools will be exempt from the levy where their pay bill is less than £3m. However, those potentially required to pay the levy will be:

- i) maintained and Voluntary Controlled schools even where their pay bills are less than £3m, but where their payroll is managed for them by eg a Local Authority; and
- ii) individual academies with a pay bill less than £3m but which are part of a larger multi academy trust with a combined pay bill over £3m.

The requirement on the those in i) and ii) is simply because in these instances the payroll is managed by a larger body (the LA or MAT) – for the purposes of efficiency only – because the cumulative pay bill handled by that body is greater than £3m. If such schools and academies were considered for the levy as the independent entities that they are, they would not be required to pay it.

We therefore ask you seek to remove all types of schools from the implementation of the levy – both to recognise the significant financial pressures schools face and to ensure parity across the different types of school.

Business rates for schools

We have further concerns for East Sussex schools from the expected £0.6m increase for them in business rate costs for 2017/18. Additional funding is not being provided to meet this, and will therefore add further pressure onto already stretched budgets.

We urgently seek recognition of the above issues, as well as amendment to the NFF proposals and the provision of additional funding (or revised arrangements) for the apprenticeship levy and increased business rates.

Yours sincerely,

Keith Glazier
Leader, East Sussex County Council