



## Schools Forum

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Training and Development  
Centre

Paper

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Public

## National Funding Formula Consultation

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### Summary

In December 2016 the Government launched the second stage of their consultation on the implementation of a new school national funding formula. The full detail of the proposals for consultation are available at:

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

The proposals aim to address the historic unfairness of the current funding system for schools and bring transparency to a funding system that is currently unfair, lacks transparency and is out of date.

In addition the Government is consulting on proposals to reform the High Needs national funding formula with the aim of delivering a high needs funding system that properly reflects the needs of every child. The High Needs Task and Finish Group of Schools Forum will consider and prepare a response to this high needs consultation.

### Recommendation

That Schools Forum consider and respond to stage two of the Government's Schools National Funding Formula consultation.

## REPORT

### Background

1. The Government has acknowledged for some time that the current system for funding schools across the country is unfair, lacks transparency and is out of date.
2. Since April 2013 the Government has implemented reforms to local authority local funding formulae to bring greater consistency across funding factors used by local authorities for funding their schools. However these reforms have not

addressed the unfairness of the allocations received by each local authority for distributing to schools in their area.

3. In March 2016 the Government consulted on the first stage of their proposals to introduce a national funding formula in 2019-20 and, following consideration of the responses received, has now launched stage two of its consultation.
4. This second stage consultation runs until 22 March 2017.

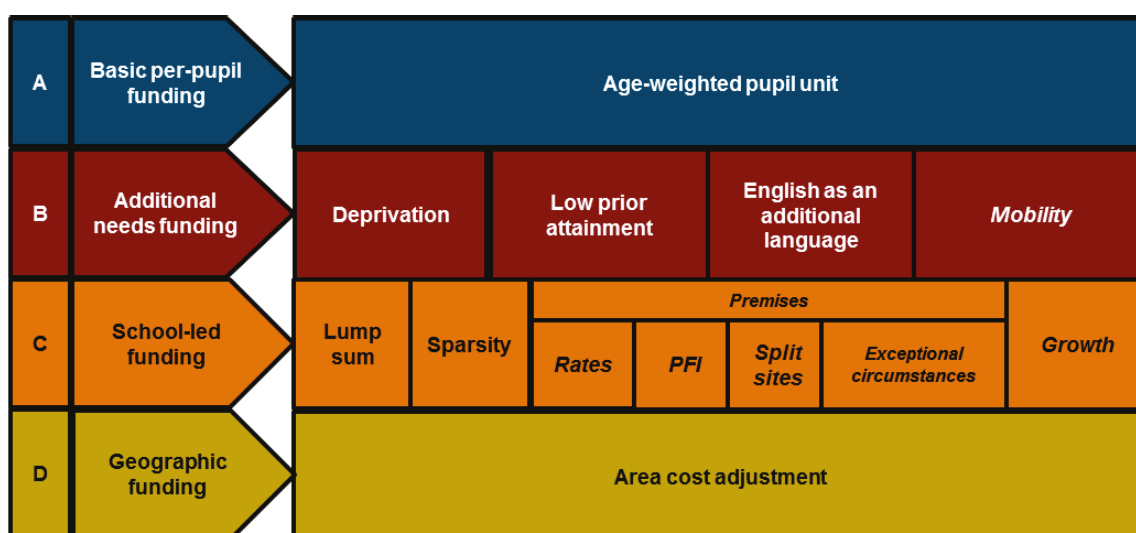
### Schools National Funding Formula – Government Consultation – Stage 2

5. The current proposals seek to address the unfairness of the national schools funding formula to ensure all schools, regardless of where they are in the country, receive a fair allocation of funding.
6. A transition year of 2018-19 will allow local authorities to continue to set local formulae, in preparation for 2019-20, when the national funding formula will set the vast majority of each school’s individual funding.
7. The Government’s consultation proposals are summarised in the report below along with their consultation questions. The chapters in the report refer to the chapters in the Government’s consultation document.

#### Chapter 1: Overall approach to constructing the national funding formula for schools

8. Following the first stage consultation of the new national funding formula the Government has confirmed the 13 factors that will be included in the national funding formula, as shown in Figure 1.

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



9. The Government’s consultation proposes relative weightings for each factor. Their starting point is the national averages of current weightings given to these factors in local formulae but includes a number of proposals to vary from that where they believe doing so would better support fairness and opportunity for

all. In particular, the Government proposes increasing total spend on the additional needs factors, and recognising disadvantage in a broader sense.

10. Chapter 2 of the consultation document explains each of the proposals in detail and asks a consultation question on each key decision.

## Chapter 2: Detailed formula design proposals

11. The consultation includes a proposal to set the balance of funding between primary and secondary phases based on the current national average of 1:1.29. This means that the formula would allocate 29% more funding overall to secondary compared to primary, to reflect the higher costs in the secondary phase. Shropshire's current balance of funding is 1:1.20 where secondary funding is 20% higher overall than primary funding.

Q2. 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 pupils in the secondary phase are funded overall 29% higher than pupils in the primary phase?

12. The Government's proposals are based on maximising the proportion of funding allocated through pupil-led factors (the basic per-pupil funding factor and the additional needs factors) and reducing spend through school-led factors (funding that contributes to the fixed costs or specific costs related to the school's circumstances). The current funding system requires local authorities to allocate at least 80% of their funding through pupil-led factors. The Government proposes allocating 91% of total funding through per-pupil factors in the national funding formula. Shropshire currently allocates 91.83% through pupil-led factors.
13. Under the national funding formula, the Government is proposing spending slightly less on the basic per pupil funding factor (AWPU) compared to current local authority spend, setting it at 73% of the total schools budget. Shropshire's current basic per pupil funding factor is 84% of the total schools budget. The Government plans to make a corresponding change to increase the amount spent through the additional needs factor.
14. In relation to the basic per pupil funding factor (AWPU), the Government is proposing stepped funding rates between primary, key stage 3 and key stage 4 to reflect the increase in complexity of the curriculum from primary to key stage 3 and then key stage 4; the need to employ more subject experts and have specialist teaching facilities; and the additional cost of examination fees at key stage 4. Whilst Shropshire's current formula provides a higher rate at secondary compared to primary it does not differentiate between key stage 3 and key stage 4.
15. The current funding system allows local authorities to include a reception uplift adjustment in their local funding formula as a way of capturing additional reception pupils who join after the October census. Shropshire's current formula includes this adjustment. The Government is proposing removing the reception uplift from schools' pupil counts once they move to a hard national funding formula in 2019-20.

16. The proposals seek to increase spend on additional needs factors through the formula. The four current additional needs factors allowed in local authority funding formulae are deprivation, low prior attainment, English as an additional language (EAL) and mobility. Shropshire's current formula includes just two of these factors; deprivation and low prior attainment.
17. Responses received from schools nationally in the first stage consultation agreed that these 4 allowable additional needs factors were the most suitable proxies for pupils who need extra support and resources. The Government's consultation proposes raising the profile and overall weighting of the additional needs factors and targeting a broader range of pupils who are likely to need additional support by introducing a broader definition of disadvantage than is typical in the current system.
18. The Government is proposing that the deprivation factor should be the biggest additional needs factor, accounting for half of all funding distributed through the additional needs factors. There is also a commitment to continue to provide the pupil premium to schools on top of their national funding formula allocation.
19. The proposed national funding formula includes pupil-level and area-level deprivation data drawn from current free school meals (FSM) eligibility, Ever6 FSM eligibility and the Income Affecting Children Index (IDACI). Pupils will attract funding for each separate indicator they qualify for. Funding will be weighted towards pupil-level deprivation data with the proposal for 5.4% of the total national schools block budget to be allocated on current FSM and Ever6 FSM data and 3.9% of the total national schools block budget to be allocated on IDACI data. Shropshire currently allocates 5.4% of the total schools budget on current FSM and 0.14% on IDACI data.
20. The Government recognises prior attainment data as an important tool for schools to identify pupils who are likely to need extra support. To reflect this the Government proposes allocating 7.5% of the total national schools block budget to low prior attainment, compared to local authority spend of 4.3% in the current system. Shropshire currently allocates 2.15% of the total schools budget through the local funding formula on the basis of low prior attainment.
21. The Government also proposes increasing the weighting for the English as an additional language factor compared to current local authority spend. The new national funding formula would include an EAL factor set at 1.2% of the total national schools block budget, compared to local authority spend of 0.9% in the current system. Shropshire's current local funding formula does not include an EAL factor.
22. Pupils will attract extra funding to their school if they meet the criteria of having English as an additional language and have entered the state education system during the last three years (known as EAL3). The proposal is to allocate three quarters of the total funding allocated nationally to the EAL factor to primary schools reflecting the much higher number of EAL pupils in the primary phase. However, the proposal is to set the unit value for secondary school pupils higher than for primary as the Government's evidence indicates that per-pupil

costs are much higher in secondary as additional language acquisition becomes increasingly complex and intensive as children get older.

Q3. 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?

Q4. 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)?

Q5. Do you agree with the proposed weightings for each of the additional needs factors?

23. The Government is proposing the inclusion of a mobility factor in the national funding formula to reflect the costs associated with pupils who join their school midway through the academic year. Currently national data is not robust enough to formalise. The Government is looking at ways in which this could be addressed for the longer term, but in the interim, the proposal is to allocate funding based on the amount of funding allocated through the mobility factor in the previous year. Shropshire's current local funding formula does not allocate any funding through the mobility factor.

Q6. Do you have any suggestions about potential indicators and data sources we could use to allocate mobility funding in 2019-20 and beyond?

24. Local authorities currently use a wide variety of lump sum values within local funding formulae, ranging from £59,500 to £175,000. The Government's proposal is to set the lump sum lower than the average lump sum level used by local authorities and to set a single lump sum for primary and secondary schools. The proposed lump sum is £110,000. Shropshire's current funding formula includes a primary lump sum of £59,500 and a secondary lump sum of £111,000.

Q7. Do you agree with the proposed lump sum amount of £110,000 for all schools?

25. The Government's proposals include a sparsity factor within the national funding formula on a tapered basis so the smaller the school the higher the amount of sparsity funding received. The proposal is to allocate sparsity funding based on the government's current criteria of crow flies distance but to limit the maximum sparsity funding achievable to £25,000 for primary schools and £65,000 for secondary schools.

Q8. 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?

26. The Government's intention is to allocate funding for rates, split sites, private finance initiatives and premises related exceptional circumstances on the basis of historic spend in 2018-19 and they will consider and consult further on how these factors should be funded when the hard national funding formula is

implemented in 2019-20. The Government will uprate funding for PFI in line with inflation.

27. The national funding formula will include a growth factor, so that it is responsive to significant changes to pupil numbers that are not recognised by lagged funding. For 2018-19 growth funding will be allocated to local authorities based on historic spend. The historic spend will be calculated as the amount historically top-sliced from DSG by a local authority specifically for growth and the amount local authorities have historically adjusted their funded pupil numbers to account for pupils they expect to arrive at individual schools. The consultation document does not make reference to the amount that maintained schools have historically agreed to de-delegate for pupil growth contingency purposes. Whilst Shropshire does not top-slice for growth or adjust pupil data for expected significant increases in pupil numbers, Shropshire maintained primary schools do de-delegate funding for a pupil growth contingency.
28. The Government recognises that historic spend on growth will not necessarily predict the amount of funding that will be needed for future growth accurately. An alternative approach is needed in the longer term and the Government is exploring different options such as using the School Capacity Survey data, Office for National Statistics projections and lagged pupil growth data (rather than historic spend on growth).
29. The lagged growth method would count all pupil number increases in every school at a year-group level between the two previous years and use this to calculate the total amount of pupil growth in each local authority area. This would mean local authorities receive broadly the right amount of funding for the growth they experience but with a one-year lag. The Government believes this could offer a better and more effective long-term solution.

Q9. Do you agree that lagged pupil growth data would provide an effective basis for the growth factor in the longer term?

30. To ensure stability the Government proposes building in protections and a gains cap. The Government confirmed in the first stage consultation that the minimum funding guarantee (MFG) will remain under the national funding formula. The Government are now confirming that this will continue to operate at minus 1.5% per pupil in the same way as it currently does.
31. In addition to the MFG year-on-year protection, the Government proposes including a 'floor' in the formula to limit the reduction to per-pupil funding that any school can incur as a result of this formula. The proposal is to set the floor at minus 3% per pupil, compared to the funding level currently received (2017-18).
32. The Government has also built a gains cap into the national funding formula, set at 3% in 2018-19; and 2.5% in 2019-20. The level at which any gains caps are set beyond 2019-20 will be subject to decisions taken at the next spending review.
33. For new schools that have opened within the last 7 years and are still filling up, the Government proposes calculating the baseline funding and eventual

national funding formula allocations the school would receive if they had pupils in all year groups, and then apply the 3% funding floor.

Q10. 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.

Q11. 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?

Q12. 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?

Q13. 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.

Q14. Are there further considerations we should be taking into account about the proposed schools national funding formula?

### Chapter 3: the impact of the proposed national funding formula for schools

34. The illustrative national funding formula allocations published as part of the consultation are not actual allocations for any specific year; they are illustrations based on 2016-17 data (and 2016/17 academic year data for academies) to help inform the consultation. Actual allocations for future years will reflect the final formulae following this consultation and will be updated for the latest pupil numbers and characteristics data.
35. The key impacts of the proposed national funding formula at pupil level, school level, local authority level and regional level are detailed within the consultation document.
36. Under the proposed formula 15% of pupils attend schools that would gain 5% or more per pupil; 36% of pupils attend schools that would gain 2% or more per pupil; 31% of pupils attend schools that would lose between 2% and 3% per pupil; and 33% of pupils attend schools whose funding would be within 2% of their current level.
37. As a result of the proposals 54% of all schools nationally would be funded at a higher level than in 2016-17.
38. Certain types of schools are more likely to see their funding increase as a result of the proposed formula. These include:
  - Schools with low prior attainment
  - Schools with pupils who live in areas with above average levels of deprivation

- Schools in areas where funding levels have historically been low
  - Small rural schools
39. Amongst the schools that would see the greatest increase to their per-pupil funding are some schools in Knowsley, Barnsley and Derby that have been heavily affected by PFI. Under the proposed national funding formula, local authorities will be funded for PFI on the basis of historic spend uprated for inflation.
40. Under the proposed national funding formula it will remain the case that the highest funded schools in the country are schools in Inner London, followed by schools in other urban areas with higher levels of socio-economic deprivation.

Q15. Are there further considerations we should be taking into account about the impact of the proposed schools national funding formula?

#### Chapter 4: Implementation of the national funding formula for schools

41. The Government will move to a 'soft' national funding formula in 2018-19. This means that although the national funding formula (once it has been finalised following the consultation) will be used to calculate local authorities' funding allocations, local authorities will still determine individual schools' funding allocations through their local formula.
42. In summer 2017 the Government will publish local authorities' indicative schools block funding levels for 2018-19 (indicative because they will be updated for October 2017 census data).
43. Local authorities are encouraged to move their local formulae towards the national funding formula so that their school' allocations in 2018-19 are on a sensible trajectory for the longer term.
44. In 2018-19 the schools block will be ringfenced, but local authorities will be able to transfer funding from their schools block into their high needs block with local agreement.
45. From 2019-20, the national funding formula will be used to calculate the vast majority of each individual school's budget. It is anticipated local authorities will continue 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 will be funded on historic spend in 20018-19), and considering the role of schools forums under the hard national funding formula, in due course.

#### Chapter 5: Proposals for the central school services block

46. The first stage consultation included a proposal to create a new central schools block, made up of 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. Following the responses to the first stage consultation the Government confirms it will go ahead with this proposal.

47. Funding for on-going responsibilities such as the ESG retained duties and centrally held asset management and admissions will be allocated 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.
48. The indicative per-pupil rate will be £28.64 (90% of the total funding for the central schools services block). The proposal is to use Ever6 FSM as the deprivation measure and to allocate £11.62 per deprived pupil (10% of the total funding for on-going responsibilities). An area cost adjustment based on the general labour market (GLM) is also proposed.

Q16. Do you agree that we should allocate 10% of funding through a deprivation factor in the central school services block?

49. To fund historic commitments currently funded from with the centrally held DSG, such as contribution to combined budgets and staff redundancy costs relating to decisions taken before April 2013, the Government is proposing using evidence of actual historic costs.
50. The transition to the formula for on-going responsibilities will be gradual. The proposal is to put in place a protection that minimises reductions to 2.5% per pupil in 2018-19 and 2019-20.

Q17. 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?

Q18. Are there further considerations we should be taking into account about the proposed central school services block formula?

## **The Impact on Shropshire Schools**

51. As previously stated, the illustrative national funding formula allocations published as part of the consultation are not actual allocations for any specific year; they are illustrations based on 2016-17 data (and 2016/17 academic year data for academies) to help inform the consultation. Actual allocations for future years will reflect the final formulae following this consultation and will be updated for the latest pupil numbers and characteristics data.
52. The illustrative allocations of the full impact of the national funding formula for individual Shropshire schools are attached at Appendix A, sorted on numbers on roll.

53. Table A below provides a summary of the total Shropshire gains and losses per sector as a result of the proposed national funding formula.

Table A – Summary of Shropshire gains and losses per sector

	Primary £	Primary Schools	Secondary and All-through £	Secondary Schools
Gains	+2,154,000	74	+705,000	12
Losses	-1,211,000	53	-203,000	9
Net	+943,000		+502,000	

54. Overall the net gain to Shropshire schools is £1,445,000. Compared to the 2016-17 baseline funding for Shropshire schools of £151,441,000, this equates to an overall gain of 0.95%
55. Appendix C provides a comparison of the proposed unit values to be used in the national funding formula and the unit values used in Shropshire's 2017-18 funding formula.
56. The main issue for Shropshire primary schools is the proposed reduction to the AWPU value. The sparsity funding maximum value has also reduced but for each Shropshire primary school attracting sparsity funding this is more than compensated for by the proposed significant increase to the lump sum. Whilst there are some exceptions, in general terms primary schools below 150 on roll are gainers under the proposed national funding formula and primary schools above 150 on roll are losers.
57. Overall variations to Shropshire secondary school funding levels from the introduction of the proposed national formula are less turbulent than at primary level. Whilst KS3 AWPU values are lower in the proposed national formula, KS4 AWPU values are higher. A major issue is the level of sparsity funding proposed in the national formula. One Shropshire secondary school currently receives a fixed sum of £100,000 sparsity funding. The national funding formula proposes using a tapered basis for funding secondary sparsity with a maximum value of £65,000.

Q1. 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?