



CABINET – 10 FEBRUARY 2017

REPORT OF THE DIRECTOR OF CHILDREN AND FAMILY SERVICES

2018/19 SCHOOL AND HIGH NEEDS FUNDING PROPOSALS

Purpose of the Report

1. The purpose of this report is to advise Cabinet of the second stage of consultation issued by the Department for Education (DfE) on the implementation of the National Funding Formula (NFF) for Schools and the introduction of a formulaic basis for the distribution of the High Needs Block of the Dedicated Schools Grant (DSG) in 2018/19.

Recommendation

2. The Cabinet is recommended to:
 - (a) Note the second stage consultations issued by the Department for Education on the implementation of a National Funding Formula for schools, and the formulaic distribution of the High Needs Block of Dedicated Schools Grant;
 - (b) Note that the implications of the two consultations will be considered by the Schools Forum and the Children and Families Overview and Scrutiny Committee;
 - (c) Agree that a further report be submitted to the Cabinet in March 2017 setting out in detail the implications of the proposals for both the County Council and Leicestershire schools and academies, and a proposed response to the two consultations in light of any comments made by the Schools Forum and the Overview and Scrutiny Committee.

Reason for Recommendations

3. To inform the Cabinet of the current proposals outlined within the two consultation documents.

Timetable for Decisions (including Scrutiny)

4. The Schools Forum will consider the implications at its meeting on 9 February 2017.

5. A report will be presented to the Children and Families Overview and Scrutiny Committee on 6 March 2017 following which a further report will be presented to the Cabinet on 10 March 2017.

Policy Framework and Previous Decisions

6. None.

Resources Implications

7. Whilst both consultations provide illustrative indications of the financial impact of the proposals at this stage it is too early to fully assess the financial implications for the County Council and Leicestershire schools and academies.
8. It was widely expected that as a low-funded authority Leicestershire would see a beneficial financial outcome from the NFF proposals. Initial assessment of the exemplifications issued by the DfE through the consultation suggests this will not be the case. The figures are illustrative as 2018/19 budgets will be based upon the October 2017 census. For the NFF these will be updated for 2017/18 data, but they do demonstrate a greater weighting towards deprivation and low prior attainment. This together with a reduction of £40,000 in the lump sum paid to all schools and the proposed introduction of a ratio of primary to secondary school funding will mean that primary schools will be particularly affected and experience a decrease in budget whilst secondary schools benefit from the proposals.
9. The NFF proposals do not provide data on the impact on per pupil funding between authorities. Comparison between the overall Local Authority percentage change when compared to 2017/18 funding levels suggests that Leicestershire would be the fourth lowest funded authority for schools block DSG compared to lowest third for 2017/18.
10. The financial implications for Leicestershire schools of the new formula is potentially serious given that these changes will take place at a time of real term reduction in funding. The National Audit Office has calculated that schools will need to save £3bn (8%) nationally to meet cost pressures such as the national minimum wage. Given Leicestershire's low funding position and the negative impact of the new formula on many schools this is likely to prove very challenging.
11. The exemplification of the impact of the proposed high needs proposals identify that Leicestershire receives protection funding of £2.9m. The consultation proposes that no local authority would lose funding for the first four years of the formula, i.e. until March 2022. However, this does mean that the County Council is in a vulnerable financial position should either the level or timescale of protection be reduced. For 2017/18 it is intended that £2.85m will be transferred from the schools block to high needs. The consultation sets out a process whereby the DfE will undertake an exercise to determine whether this should be included in the 2017/18 grant baseline, the omission of this funding from the baseline will result in a loss of funding in 2018/19.

12. Any decision by the DfE to exclude the proposed 2017/18 transfer (£2.85m) from the schools to high needs block would result in an increased funding gap for 2018/19. It is worth noting that the high needs block is forecast to overspend by £2m in 2016/17 and, even after taking account of the transfer of resources, savings of £1.695m 2017/18, rising to £3.45m in 2018/19, are required to balance the budget.
13. The Director of Corporate Resources has been consulted on the financial implications of this report.

Legal Implications

14. The Director of Law and Governance has been consulted on the legal implications of this report.

Circulation under the Local Issues Alert Procedure

15. None.

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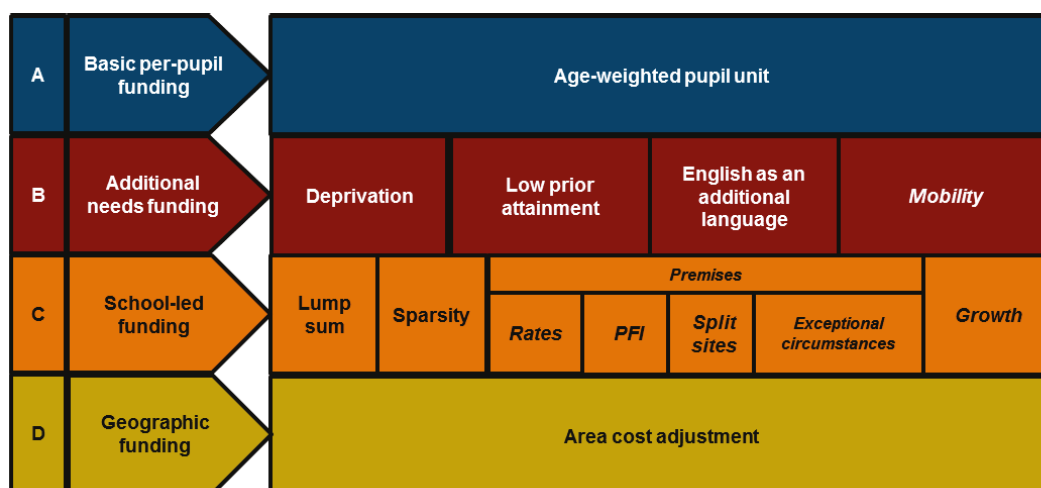
PART B

Background

16. Currently Local Authorities are responsible for setting a formula for funding all maintained schools and academies in their areas but this is subject to national constraints on the factors and values that can be used within it. In terms of school funding Leicestershire is the third lowest funded local authority.
17. High needs funding is largely based upon levels of expenditure from 2012/13, and the historic basis of the settlement has largely not reflected changes in pupil numbers and characteristics.

National Funding Formula Proposals

18. The NFF is based upon the principle that every pupil with the same characteristics will be funded the same irrespective of which local authority they are educated within.
19. For 2017/18 Leicestershire received schools block DSG at a rate of £4,156.59 per pupil. This compares to an average of £4,618.63. The highest funded authorities are in London where all authorities receive higher funding per pupil than Leicestershire. For example Tower Hamlets, Hackney and Kensington, and Chelsea receive £6,965.12, £6,847.43, and £6,098.99 respectively.
20. The impact of these differences is significant for Leicestershire schools. If an average sized primary school was funded at the national average per pupil it would receive an additional £0.112m, enough to fund 2.5 additional teachers. The equivalent figure for an average secondary school is £0.399m and 9 teachers.
21. The proposals set out a two-stage approach to the introduction of the NFF. This would result in 'soft' formula for 2018/19 where the funding for the Schools Block DSG will be an aggregate of pupil led individual school allocations plus school and geographic allocations based on 2017/18 funding levels. Local authorities will be responsible for setting a school funding formula but will be 'encouraged' to work towards the NFF. This will be followed by a 'hard' NFF in April 2019 with school funding being fully allocated by the DfE. A further consultation is expected to set this out in due course.
22. The NFF will allocate monetary values to specific pupil characteristics as shown in the following table;



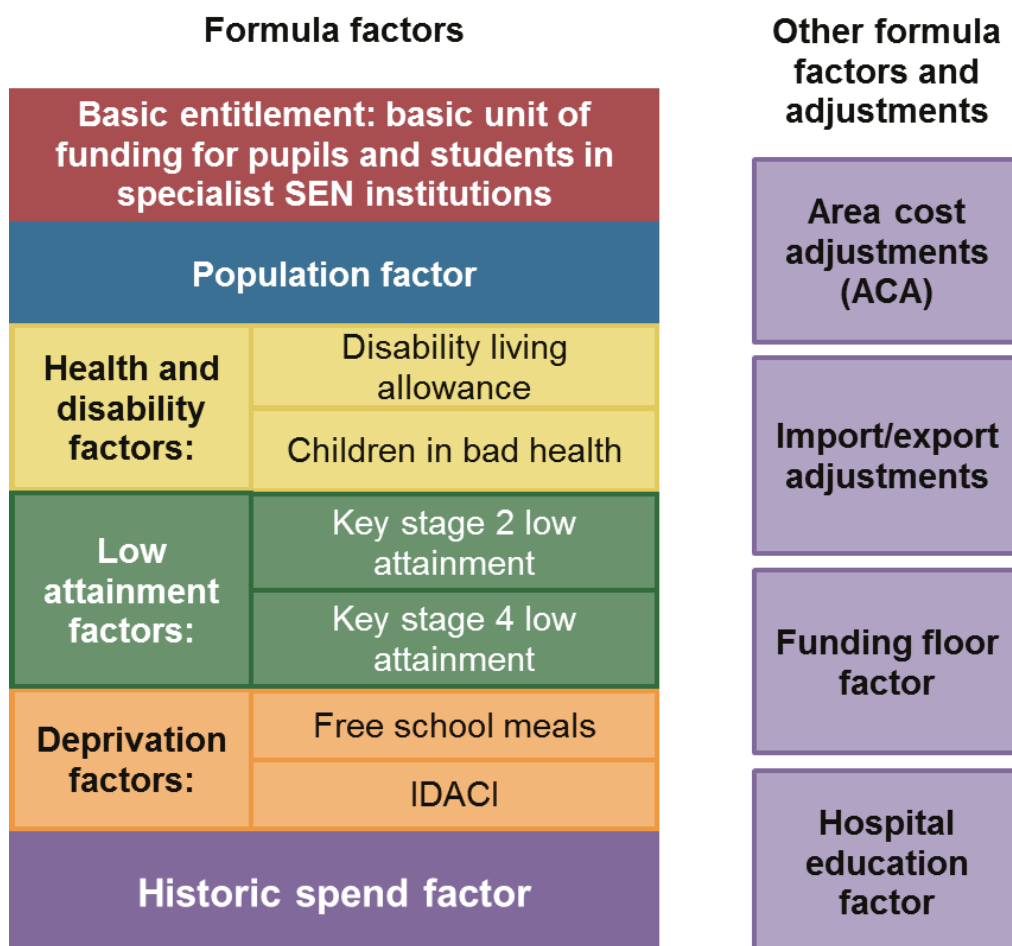
23. The elements of the NFF were confirmed through the first stage of consultation. Stage 2 adds the monetary values and sets and the weightings between them. The DfE proposes that 91% of total funding (the current Leicestershire proportion is 87.47%) be delivered through pupil-led factors and, to facilitate this, deprivation and low prior attainment factors are proposed to increase in weighting. To fund this position it is proposed to set the value of the lump sum every school receives at £110,000, a £40,000 reduction from the £150,000 allocated through the current Leicestershire formula per school. This reduction is protected within a 3% floor reduction.
24. The distribution of the Pupil Premium is outside the scope of the consultation and remains distributed on the basis of the number of pupils eligible for free school meals which is a proxy indication of the level of deprivation. An increased weighting towards deprivation within the NFF will result in schools with relatively low levels of deprivation being funded at lower levels.
25. The illustrations suggest the following position for Leicestershire schools and academies:-

Funding Following the Full Implementation of National Funding Formula – Date Uncertain							
	Number Gaining	Number No Change	Number Losing	Greatest Gain	Greatest Loss	Average Change %	Overall Change £
Primary	75	3	146	+8.1%	-2.8%	0.0%	+£85k
Secondary	48	-	5	+9.1%	-1.4%	+5.1%	+ £8.5m
							+£8.6m
Funding for First Year of Transition - 2018/19							
Primary	75	3	146	+2.6%	-1.4%	+0.2%	+£0.4m
Secondary	48	-	5	+2.9%	-1.4%	+2.6%	+£4.3m
							+£4.8m

26. As funding will be delivered through pupil characteristics the average funding per pupil for each school will be unique and continue to differ between schools and local authorities.
27. The manner in which the DfE has presented the data does not easily allow schools to be grouped to identify if any particular size or location is a factor in the change of funding position.

High Needs Block Proposals

28. The consultation confirms the intention to introduce a formulaic grant in 2018/19; the factors to be used within the methodology are confirmed through the outcome of stage 1 consultation. As with the NFF consultation stage 2 sets out the monetary values and weightings attached to both.
29. The settlement will use the following factors:-



30. The consultation states that this structure will be in place for four years following implementation in April 2018. The illustrative figures within the consultation identify £2.9m of funding through the historic funding element and is effectively funding protection. It is unlikely that there will be sufficient increases to the pupil led elements of the formula over the four-year period of

protection and as such the County Council is vulnerable to any changes in the level of or timescale of this protection.

Conclusions

31. There have been high expectations that Leicestershire as a low funded authority would see an improved financial position as a result of these changes. This is not the case, given the emphasis on funding targeted at deprivation and English as an additional language which, in the case of Leicestershire schools is low. Additionally, given that attainment is relatively high in Leicestershire little benefit will be derived from the low attainment factor. The reduction in the lump sum adversely affects Leicestershire's primary schools.
32. Whilst the structure of the NFF has been set through the stage 1 consultation in March 2016, stage 2 is seeking views on the values and weightings for the formula.
33. The key issues within the proposals affecting Leicestershire schools are initially identified as the proposed reduction in the lump sum which particularly affects primary schools and the significant focus on deprivation. The proposals have a differential impact on primary and secondary schools through the setting of the ratio of secondary to primary funding.

Background Papers

DfE Consultation - Schools National Funding Formula: stage 2

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

DfE - High Needs National Funding Formula: stage 2

<https://consult.education.gov.uk/funding-policy-unit/high-needs-funding-reform-2/>

Equality and Human Rights Implications

34. Both consultations are supported by comprehensive Equality Impact Assessments. Any proposals for change in school funding at a local level will consider any implications.

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