

**CABINET – 10 MARCH 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 the Cabinet of the responses to 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. It is recommended that:
 - (a) The responses to the consultation on the implementation of the National Funding Formula and the introduction of a formulaic basis for the distribution of the High Needs Block of the Dedicated Schools Grant, as appended to the report, be submitted to the Department for Education;
 - (b) That in addition, the Department for Education be advised of the County Council's concerns, as set out in this report, that Leicestershire, a low-funded authority, will see no improvement to its own or its schools' financial position as a result of the proposals and in particular, that;
 - (i) the reduced lump sum will adversely affect primary schools;
 - (ii) there is no evidence to support the proposed values and weightings within the schools National Funding Formula, nor are they informed by the cost of education;
 - (iii) there is disproportionate emphasis on funding targeted at deprivation and where English is spoken as an additional language and, as that attainment is relatively high in Leicestershire and deprivation relatively low, it will derive little benefit from these factors;

- (iv) whilst there is an assumption by the DfE that schools and local authorities will deliver efficiency savings, this may not be possible as schools funding has not increased in line with costs resulting in any efficiency gains being already realised;
- (v) the delivery of a more efficient school estate is likely to require remodelling and rationalisation of provision, which will require significant capital investment.

Reason for Recommendations

- 3. To ensure that the views of the County Council are communicated to the Department for Education.

Timetable for Decisions (including Scrutiny)

- 4. The Schools Forum noted the high level implications of the proposals at its meeting of 9 February 2017.
- 5. The Children and Families Overview and Scrutiny Committee will consider this report on 6 March 2017 and its views will be reported to the Cabinet.

Policy Framework and Previous Decisions

- 6. The Cabinet received a report on 10 February 2017 setting out the purpose and high level implications arising from the consultations.

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 anticipated 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 implementation of 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 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 local 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 DfE's exemplification of the impact of the 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 being reduced. For 2017/18 £2.85m has been 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 would result in a loss of funding in 2018/19.
12. Whilst the DfE states that no local authority will lose funding in the first 4 years of the new High Needs formula, that protection is at best vulnerable from any future Comprehensive Spending Review. Any decision by the DfE to exclude the 2017/18 transfer (£2.85m) from the schools to high needs block could result in an increased funding gap for 2018/19. It is worth noting that the high needs block is still 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 and Director of Law and Governance have been consulted this report.

Circulation under the Local Issues Alert Procedure

14. None.

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PART B

Background

15. Currently Local Authorities are responsible for setting a formula for funding all maintained schools and academies in its area, but this 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 in England.
16. High needs funding is largely based upon levels of expenditure from 2012/13, and changes in pupil numbers and characteristics since that date has not been taken into account.

National Funding Formula Proposals

17. 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. School funding is currently largely based upon decisions taken in local authorities over many years; these will have been informed by local priorities and funding levels. The move to a formulaic approach will establish a situation where funding can be deemed to be fair when considering this principle in isolation.
18. 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.
19. 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.
20. The Council's proposed response is shown at Appendix A. Concerns are raised around the deliberate focus of the formula to deprivation. It is considered that at individual school level the impact of the formula is exceptionally random; there appears to no common factor in why a school gains or why another lose from the proposals.

21. The proposed response sets out a number of concerns which are grouped around the following key themes and issues:
- a) The proposals redistribute the current quantum of funding, despite growing national evidence of a funding crisis in many schools. No consideration has been given to the real costs of educating pupils and there is a lack of evidence to support the values and weightings attached to the formula factors.
 - b) The weightings towards the additional factors, especially when also considering the pupil premium, focus too much funding on deprivation and low attainment resulting in low levels of basic funding.
 - c) The inter-relationship between sparsity funding and the lump sum. It is stated that the sparsity factor provides protection for rural schools. However although overall losses as a result of the formula proposal are protected for the next two years, every school in Leicestershire will see a reduction in funding of £40,000 (£11m in total) whereas only 18 will receive sparsity funding totalling £0.3m. Small schools in particular are financially vulnerable from future decisions on the protection of school budgets.
 - d) The period over which the changes will be implemented is unclear. The proposals cover just two years. The maximum gain for schools is 5.5%. Two primary and 25 secondary schools are identified as having gains in excess of this amount, and achieving the NFF for these schools is dependent on decisions made in future Comprehensive Spending Reviews. 151 schools will lose funding as a result of the proposals; any future decision to reduce the level of funding may have a significant impact. It is not possible to model the impact of changes in the floors and ceilings as the methodology for their calculations cannot be ascertained from the DfE's illustrative figures.
 - e) The role of the local authority in school funding once a hard formula is introduced is unclear. Currently, under a scheme approved by the Secretary of State for Education, pupil number adjustments are made to schools undertaking or affected by age range changes. There is also some suggestion that local authorities will remain responsible for funding the pre-opening costs for new schools but funded by historic costs. There could be financial implications for both schools and the County Council if these issues are not addressed.

High Needs Block Proposals

22. The consultation confirms the intention to introduce a formulaic grant in 2018/19, and that 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.

23. The high needs funding proposals deliver no real change for the Leicestershire funding position as the proposals set out that no local authority will see a loss in funding for four years. Over this period the DfE will consult on a new funding system, effectively locking historic levels of expenditure into the grant.
24. 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.
25. The proposed response is shown in Appendix B. The response is structured around the following key themes and issues:
 - a) As with the NFF proposals there is no evidence base for the values and weightings within the formula.
 - b) The percentages within the consultation proposals are misleading, for example the consultation states that the historic cost factor represents 50% of the allocation yet the illustrations identify the Leicestershire figure to be 45% and the national average as 44%. For the weightings attached to the additional factors the consultation does not make it explicit that these are a percentage of only part of the formula.
 - c) The proposal suggests that there will only be minimal flexibility to move funding between blocks, which is a significant concern. Schools have significant influence over the cost of meeting the needs of pupils with special educational needs and disabilities (SEND) and without this flexibility the cost to local authorities could increase.
 - d) The funding system requires local authorities to pay £10,000 per place for places in maintained schools and academies, and the cost of independent schools is significantly greater. The proposals set out a basic unit of funding of £4,000, much less than the financial commitment.
 - e) The data sources for the formula factors give some concern. Local authorities are responsible for meeting the needs of pupils and young people with SEND aged 0 – 25 yet the population data within the formula only includes aged 2 -19. A further example relates to Children in Bad Health, data on which is collected only every 10 years within the National Census and is self-declared by parents. These concerns were expressed in the Council's stage 1 response and are set out again in the stage 2 response.
 - f) The levels of protection are subject to decisions in future Comprehensive Spending Reviews and, if confirmed, will span two Governments. Protection is therefore vulnerable to both future spending and policy decisions.

Conclusions

26. It was expected 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 where English is spoken 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.
27. Whilst the consultation on high needs funding reform sets out a range of changes and heralds the implementation of a needs led funding formula, the protections set out within result in no real change with the exception of the 20 out of 151 authorities that are expected to see an increase in funding. Under the proposals historic spend will be locked within the high needs settlement for at least a further 4 years.
28. There is an expectation by the DfE within both consultations that schools and local authorities will be able to deliver efficiencies over the period of change. In relation to schools, funding has not increased in line with costs and future efficiencies may not be possible. In respect of high needs a revenue grant has been made available to review provision for children and young people with SEND and a minimal amount of capital has been made available nationally to deliver more efficient provision. The delivery of a more efficient school estate is likely to require remodelling and rationalisation of provision, which will require significant capital investment.

Background Papers

Cabinet Report – 10 February 2017, 2018/19 Schools and High Needs Funding proposals

<http://politics.leics.gov.uk/documents/s126320/FINAL%202018-19%20School%20and%20High%20Needs%20Funding.pdf>

Department for Education Consultation - Schools National Funding Formula: stage 2

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

Department for Education Consultation – 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

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

Appendices

Appendix A - Schools National Funding Formula – Stage 2 Consultation Response

Appendix B - High Needs Funding Reform – Stage 2 Consultation Response

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