



**CABINET – 9 JANUARY 2018**

**REPORT OF THE DIRECTOR OF CHILDREN AND FAMILY SERVICES**

**2018/19 AND 2019/20 SCHOOL FUNDING FORMULA**

**Purpose of the Report**

1. The purpose of this report is to seek the Cabinet's approval of the Leicestershire Schools Funding Formula for 2018/19 and 2019/20 following the Department for Education's (DfE) announcement that a National Funding Formula (NFF) for funding maintained schools and academies would be introduced from 2018/19.
2. The introduction of a NFF is a further step in the Government's policy on school funding reform and the implementation of fair funding for all schools. When fully implemented, all pupils with the same characteristics (e.g. those from deprived backgrounds, those with low attainment before starting primary or secondary school) will be funded the same, irrespective of the local authority area in which they attend school.

**Recommendation**

3. It is recommended that:
  - a) The outcomes of the consultation be noted;
  - b) The 2018/19 and 2019/20 Leicestershire schools funding formula as detailed in paragraph 34 and the Appendix to this report be approved;
  - c) The proposed balancing 2018/19 adjustments for pupil led characteristics and school led factors as detailed in paragraphs 36-38 of this report be approved;
  - d) The Director of Children and Family Services, following consultation with the Lead Member, be authorised to develop and consult on the methodology to be used to balance the cost of the 2019/20 School Funding Formula with the 2019/20 Schools Block Dedicated Schools Grant.

### **Reason for Recommendations**

4. To enable the County Council to respond to the requirement to submit the 2018/19 school funding formula to the Education and Skills Funding Agency.

### **Timetable for Decisions (including Scrutiny)**

5. Local Authorities are required by the Department for Education (DfE) to submit their proposals for the 2018/19 school funding formula to the Education Funding and Skills Agency by 19 January 2018.
6. In view of the extremely short timescale (the necessary data was only received from the DfE in mid-October), this report will be circulated to all members of the Children and Families Overview and Scrutiny Committee (which is not due to meet until 15 January), and any comments will be reported to the Cabinet.

### **Policy Framework and Previous Decisions**

7. In October 2013 the Cabinet approved the Council's submission to the Secretary of State for Education regarding funding for schools undertaking or affected by age range changes.
8. In October 2014, the Cabinet approved the 2015/16 school funding formula.
9. The Schools Forum considered the County Council's approach to the implementation of the NFF at meetings on 25 September 2017, 6 November 2017 and 4 December 2017 (more detail is given in Part B of this report below).

### **Resources Implications**

10. The 2017/18 notional NFF allocations published by the DfE show an estimated cash increase of £10.7m in 2018/19, rising to £19.1m in 2019/20 for Leicestershire schools

	<b>2018/19</b>		<b>2019/20</b>	
	<b>£</b>	<b>%</b>	<b>£</b>	<b>%</b>
Primary	+£3.2m	2%	£5.8m	3%
Secondary	+£7.5m	5%	£13.3m	8%
<b>Total</b>	<b>+£10.7m</b>	<b>3%</b>	<b>+£19.1m</b>	<b>5%</b>

*Note: These notional allocations do not represent the 2018/19 and 2019/20 budgets for individual schools, but are the estimated level of Dedicated Schools Grant (DSG) to be received by the Authority on which the local funding formula will be applied.*

11. The 2018/19 Schools Block DSG settlement to local authorities will be a value per primary and secondary pupil based upon pupil characteristics recorded within the October 2016 school census plus a fixed sum for school led factors. The figures confirmed for Leicestershire are:

<b>2018/19 DSG</b>	
No of October 2017 primary pupils x	£3,811
+	
No of October 2017 secondary pupils x	£4,930
+	
Funding for school led factors – Rent / Rates / New School Growth	Per 2017/18 expenditure
=	
<b>Total DSG</b>	<b>£</b>

12. School funding for individual schools will be driven by the pupil characteristics recorded on the October 2017 school census which will be combined with school led factors i.e. rent, rates, pupil growth and age range changes. Any cost increase to the school led factors will not be funded by the DfE - as a result there will be either an annual Schools Block funding gap or surplus from the implementation of the NFF. This cannot be quantified until the revised 2017 data is converted into budgets for individual schools and academies. The funding formula will therefore need to include a methodology for ensuring individual school budgets do not exceed the total grant.
13. The Director of Corporate Resources and the Director of Law and Governance have been consulted on the content of this report.

#### **Circulation under the Local Issues Alert Procedure**

14. None.

#### **Officers to Contact**

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## PART B

### Background

15. The Department for Education (DfE) announced in July that it would be implementing a National Funding Formula (NFF) as a 'soft' formula from April 2018 and be in place for both 2018/19 and 2019/20. The term 'soft' formula refers to the situation where notional school level allocations are calculated by the DfE with reference to pupil characteristics, with local authorities then applying a local school funding formula to derive individual budgets for schools and academies.
16. It is expected that responsibility for setting a school funding formula will be removed from local authorities at some point in the future with all school budgets being calculated nationally by the Education and Skills Funding Agency (ESFA). It was anticipated that this change would be implemented in 2020/21 although there is growing uncertainty on whether this can be achieved.
17. No school sees a cash decrease within its budget as a result of the Government's NFF being implemented as a result of a hierarchy of gains and protections which are detailed below and which have been adopted within the proposed Leicestershire formula options:
  - A minimum per pupil increase of 0.5% in 2018/19 rising to a minimum of 1.0% per pupil in 2019/20.
  - A funding cap limiting gains to 3% per pupil in 2018/19 and a further 3% per pupil in 2019/20.
  - Minimum per pupil values of £3,300 for primary schools, £4,000 for secondary schools with Key Stage 3 Pupils only, and £4,600 for secondary schools in 2018/19 rising to £3,500, £4,200 and £4,800 respectively in 2019/20. The minimum increase per pupil is outside the funding cap.
18. It should be noted that all gains are expressed on a per pupil basis and therefore schools with falling pupil numbers will see an overall reduction in their budgets. These schools may also be affected by the methodology implemented to ensure aggregate school budgets do not exceed the DSG allocation.
19. The NFF proposals result in 120 (54%) of primary schools and 4 (8%) of secondary schools in Leicestershire being funded at the floor, i.e. receiving the minimum increase of 0.5% per pupil in 2018/19. In 2019/20 129 (58%) primary schools will be funded at the floor, with secondary schools remaining at 4 (8%).

### Development of the Leicestershire Formula

20. Proposals for the 2018/19 Leicestershire formula have been co-produced with schools through an officer led working group consisting of headteachers, business managers, and Schools Forum members representing primary and secondary schools. The timescale for change has been exceptionally short as

local authorities only received the necessary data from the DfE in mid-October 2017, allowing little time to enable the modelling of options.

21. Three potential approaches were identified through discussions within the school formula working group and Schools Forum:
  - 1) Retain the current funding formula – this approach was not modelled based on early views received from schools.
  - 2) Write a new formula – it was not possible to pursue this approach within the time available.
  - 3) Replicate the NFF as closely as possible unless there is a clear benefit for deviating from it – all modelling was completed on this basis.
  
22. There were four areas where consideration was given to a deviation from the NFF for the 2017/18 Leicestershire funding formula in respect of primary schools:
  - 1) Lump sum – the Leicestershire allocation is £150,000 per school but the NFF reduces this to £110,000. The reduction in the lump sum, whilst protected within the proposals, leaves small schools financially reliant upon national levels of protection during the NFF transition period.
  - 2) Deprivation – the 2017/18 formula focuses funding on the Income Deprivation Affecting Children Index (IDACI). This focuses upon area deprivation rather than Free School Meals (FSM) which instead centres on parental income used within the NFF. The use of FSM results in a wider distribution of deprivation funding, and thus some schools with higher numbers of pupils from economically deprived areas are financially disadvantaged.
  - 3) Prior Attainment – additional national funding was targeted into this factor, doubling that distributed within the 2017/18 Leicestershire formula. This increase allowed alternative models to be explored with no financial detriment to 2017/18 funding levels. Alternative distributions to the NFF did restrict gains for those schools gaining the most through the NFF proposals.
  - 4) Sparsity – the NFF included this additional factor which is not present within the 2017/18 Leicestershire formula. This will generate funding for 18 schools (17 primary and 1 secondary). The data used for the NFF allocation is complex and uses average year groups combined with the ‘crow flies’ distance that pupils would be required to travel to their second nearest school. Following consideration of the financial benefit against the complexity of the calculation, particularly given that it offered no protection for a reduction in lump sum, this factor was excluded from the options offered for consultation.
  
23. Modelling on these proposed deviations for primary schools sought to ascertain whether there would be a significant impact on the number of primary schools

that could be lifted from the funding floor, i.e. receive more than the minimum increase of 0.5% per pupil which, in real terms, will represent a decrease in funding in 2018/19 and 2019/20.

24. The School and Early Years Finance Regulations make provision for differential funding rates between school phases, meaning that it is possible to differentiate funding rates between primary and secondary but not within phases - i.e. once a rate is established it must be applied to all schools in that school phase. This means that different options could be considered for primary and secondary schools. Whilst similar modelling was completed for secondary schools, there was a firm view that the NFF should be adopted as soon as possible.

In light of this and the modelling undertaken, three options were identified for consultation. Two options were presented for primary schools and one for secondary schools as set out below:

Primary Option 1 - Move as close as possible to the National Funding Formula with the exclusion of the sparsity factor.

Primary Option 2 - Adopt the National Funding formula principles but adjust the Leicestershire Formula to maintain the lump sum at £150,000, retain prior attainment funding at 2017/18 levels, and allocate the increased free school meal funding to retain IDACI at 2017/18 funding levels.

Secondary Option - The views expressed by secondary schools was that they would wish to align the formula as closely as possible to the NFF at the earliest opportunity with the exception of the use of the sparsity factor.

25. Two areas were identified where it would be necessary to rebalance the Leicestershire formula to ensure that it did not exceed the funding available. Schools were asked for their view on intended approach based on the need for adjustments;

- 1) Changes to pupil characteristics – This occurs because of the differential pupil census information (referred to in paragraphs 11 and 12 above) used within the funding allocation to local authorities and that on which school budgets should be based. Should, for example, the level of deprived pupils increase between these two points the additional cost is unfunded. Any such adjustment would be made in the NFF, i.e. the increased primary school cost would be adjusted against the primary NFF allocations and secondary cost increase in secondary funding by adjusting the basic pupil funding.
- 2) School led factors – Funding for rent, rates, pupil growth and age range changes is based on the level of expenditure for 2017/18, and increase in cost is unfunded. The approach proposed was that any additional costs would be met across the quantum of Schools Block DSG. A complicating factor however is that modelling identified a potential surplus in 2018/19 rising to a deficit in 2019/20. Funding any deficit would require a reduction in the NFF allocations.

## Consultation

26. Schools have been engaged throughout the process of determining the school funding formula. Two meetings of the school funding formula working group provided support and challenge in the development of the formula.
27. The Schools Forum (which consists of Headteachers and Governors across all school phases) considered the options for and the approach to developing the formula at three recent meetings;

25 September 2017	Discussed and supported the local authorities approach to developing a new formula.
6 November 2017	Discussed and supported the options for the formula and the consultation approach.
4 November 2017	Discussed and gave its views on the consultation outcome.

28. Consultation on the two primary and one secondary formula option opened to all maintained schools, academies and studio schools on 20 November 2017 and closed on 30 November 2017. Responses were received from 95 schools representing 44% of Leicestershire pupils.
29. Feedback on the local formula options is given in the table below.

	No of School Responses	% of Total Pupils	% of pupils represented within the responses
<b>Primary Option 1 – Align with NFF with the exclusion of sparsity</b>			
Primary	15	12%	49%
Secondary	22	43%	75%
<b>Primary Option 2 – Adopt NFF principles but adjust for lump sum, prior attainment and deprivation</b>			
Primary	35	12%	51%
Secondary	7	24%	25%
<b>Secondary Option – Align with NFF with the exclusion of sparsity</b>			
Primary	32	16%	25%
Secondary	34	70%	72%

This showed:

- 1) More primary schools expressed a preference for an adjusted Leicestershire formula, the pupils those schools represent totalled 12% of the pupil population in both options.
- 2) There was a firm view from secondary schools (70% of the pupil population) that the formula should align with the NFF with the exclusion of sparsity.

30. Feedback on the proposed methodology to rebalance the formula showed:
- 1) There were 81 responses to the proposal to rebalance the school level NFF allocations to the DSG received. Of these, 74 (representing 39% of Leicestershire pupils and 94% of those represented within the responses) agreed with the local authority proposal to balance within the funding generated within each school phase.
  - 2) There were 82 responses to the proposal to meet any increased costs arising from rent, rates, existing age range changes and new school growth by adjusting the Age Weighted Pupil Unit (AWPU) and the minimum per pupil funding as a universal adjustment for all schools. Of these, 43 (representing 17% of Leicestershire pupils and 40% of pupils represented by the responses) agreed but 39 (25% of total pupils, 60% of pupils represented by the responses) disagreed. Views were also sought on the treatment of any surplus or deficit within the school led factors where it became almost impossible to separate the two issues.
  - 3) It is expected that there will be a surplus on the school led factors in 2018/19 which would be available to distribute to schools in 2018/19, but a deficit in 2019/20 particularly should there be further age range changes implemented within academies. There were 83 responses to the proposal to retain the surplus in 2018/19 to offset against a necessary reduction in school budgets in 2019/20. Of those 40 (11% of total pupils and 26% of the pupils represented by the responses) agreed and 43 (31% of total pupils, 74% of the pupils represented) disagreed.

#### Schools Forum

31. At its meeting on 4 December the Schools Forum was asked whether there were any comments it would wish to make to the Cabinet in respect of the consultation and the proposal for 2018/19 and 2019/20 school funding.
- 1) It unanimously agreed that the Authority should implement the NFF from 2018/19 for both primary and secondary school budgets. A strong view was expressed that the modelling on the alternative option for primary schools did not identify sufficient reasoning for deviation from the NFF which is the first step towards fair funding for all schools. There were concerns about any potential gap in funding at the point school funding responsibilities would be removed from local authorities and concerns about future levels of protection.
  - 2) In respect of the balancing adjustment for the school led factors, the Forum expressed concern that it could not make a decision without an indication of the level of funding required in 2019/20 and strongly believed that the estimated surplus in 2018/19 should be distributed to schools.
  - 3) Many of the comments made during the consultation in respect of the distribution of the surplus on the school led factors element suggested



that this should be distributed to schools with only Key Stage 3 (KS3) pupils, on the basis that the NFF applies a lower minimum per pupil funding rate to those schools when compared with KS3 pupils attending 11-16 years secondary schools. This differential funding rate is set within the NFF and is a national anomaly which has been and will continue to be drawn to the attention of the DfE.

### **Proposals for 2018/19 and 2019/20**

#### **The School Funding Formula**

32. Achieving the best outcome for pupils is a key determinant in setting out the proposals for the school funding formula. Responses to the consultation on the two primary school options were evenly split between adopting the NFF with the exclusion of sparsity (Primary Option 1) and adopting the Leicestershire alternative (Primary Option 2) in respect of pupil numbers within the schools that responded, although a higher number of schools wished to adopt Option 2.
33. The effect of applying the NFF generally means that smaller schools with fewer than 220 pupils will receive the minimum per pupil increase of 0.5%. The alternative would create a more even spread of the additional funding generated by the primary NFF schools and those set to gain the most would have those gains reduced. However, neither option can moderate any loss for schools arising from the reduction in the lump sum or any other factor within the NFF, which is protected for two years following the implementation of the NFF.
34. As a clear benefit for deviation from the NFF has not been identified, it is proposed that Primary Option 1 and the Secondary Option as detailed in paragraph 24 above be adopted and implemented for 2018/19 and 2019/20 (i.e. for both primary and secondary schools the formula would be aligned with the NFF with the exclusion of the sparsity factor). If approved by the Cabinet, the implications for adopting these two Options on the funding rates proposed for 2018/19 and 2019/20 will be as set out in the Appendix to this report.
35. Within the NFF the additional 2019/20 funding will be delivered nationally through adjustments to the minimum per pupil rates and increasing the percentages applied to the floors and ceilings methodology as set out in paragraph 17.

#### **Balancing the NFF and the DSG**

36. In respect of the balancing adjustments required to match the notional NFF allocations to the DSG, the proposal is as set out in the consultation and will be contained within each school phase.
37. It is proposed that the expected 2018/19 DSG surplus from the school led factors in element of DSG is retained. This is not an approach supported by schools, however given that distribution to address the Key Stage 3 issue is not possible (given the nationally set floors and ceilings mechanism within the formula) 83 schools would benefit from the allocation which could become an

on-going annual commitment. Retaining this element of funding so that it can be called on to help address the forecast deficit in 2019/20 would not affect the distribution of the pupil led funding in 2018/19.

38. It is proposed that any decision on funding increased school led costs, including any further age range changes for 2019/20, is deferred until there is more certainty over costs. Discussions with schools, including via the Schools Forum will commence in the autumn term of 2018 to determine the most suitable approach.

## **Appendix**

2018/19 and 2019/20 Proposed Funding Rates

### **Background Papers**

Report to the Schools Forum on 6 November 2017 – 2018/19 School Funding  
<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=1018&MId=5254&Ver=4>

Report to the Schools Forum on 25 September 2017 – 2018/19 School Funding  
<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=1018&MId=5088&Ver=4>

### **Equality and Human Rights Implications**

39. The proposal does not affect any protected characteristics; it is concerned with the allocation of funding to individual schools.