

## School Funding Reform – A brief guide for school leaders (England) (May 2016)

The Department for Education (DfE) issued the first part of a consultation on the reform of school funding on 7th March 2016. The aim of the reform is to 'deliver a fair, transparent funding system where the amount of funding children attract for their schools is based on need and is consistent across the country'. It follows on from the simplification of local authority funding formulae in 2013-14 and the introduction of minimum funding levels (MFL) in 2015-16.

The purpose of this paper is principally to give NASUWT leadership members the essentials of what is proposed, summarised from over 150 pages of consultation documents.

<b>Timing</b>	Stage 1 consultation on the reform of schools and high-needs funding issued on 7th March with a closing date for comments of 17th April. Stage 2 date not announced yet, but likely to be after the European Referendum and before the end of the summer term. Consultation on early years 'later this year'. No change in post-16 funding.
<b>Rationale</b>	To move to an objective and fair system of funding away from current mainly historically based distribution.
<b>Impact on schools</b>	New system introduced in 2017-18 with transition period to 2019-20. Detailed impact not clear until Stage 2 consultation.
<b>Other information</b>	Annex 1 gives an illustration of how the National Funding Formula (NFF) calculation for a school might look. Annex 2 is a glossary of terms.

### The substance of the reform

The parallel proposed reforms of schools and high-needs funding are based on a common set of principles – openness, simplicity, transparency, pupil focus and fairness.

The final product of the school reform will be individual formula-based allocations to all schools and academies from 2019-20, described as a 'hard' formula, with local authorities continuing to run a local distribution in 2017-18 and 2018-19. By contrast, the high-needs system will be a formula-based distribution to local authorities.

No change is proposed to the pupil premium, which will remain a separate grant at least for the rest of the Parliament (which in practice must mean to the end of 2020-21) and held at the current cash rates.

### Educational Excellence Everywhere

The DfE published a White Paper, *Educational Excellence Everywhere*, on 17th March which repeated the commitment to funding reform. The White Paper summarises the reform message in the following terms:

*'No pupil should suffer because their school arbitrarily receives less funding than a school with similar costs and pupils. The funding system should not be based on historical allocations, but matched to pupils' educational needs.'*

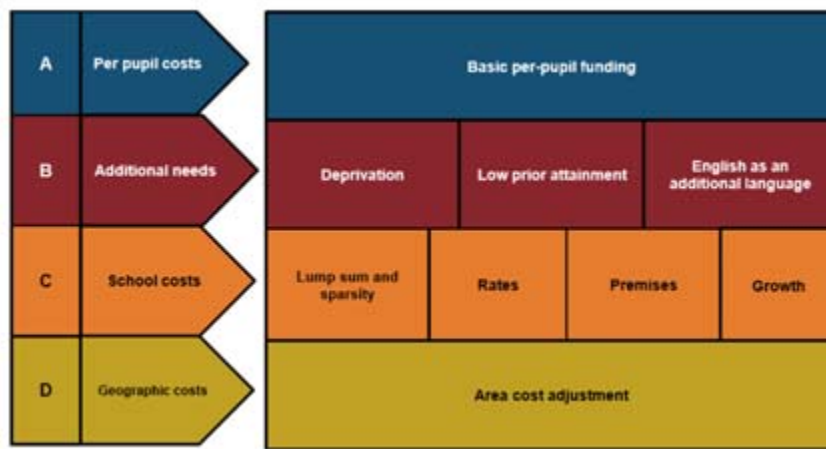
The White Paper makes a link between funding and standards:

*'Fair allocation of funding supports every other part of our education system. Schools will only be able to achieve high standards for every pupil, everywhere, when the resources they receive are matched to the challenges they face.'*

The White Paper repeats messages from the funding consultation about the efficient use of funding, highlighting the tools the Government is making available to support greater efficiency. It also calls for a more evidence-based approach to using the pupil premium and gives examples of good practice.

### The National Funding Formula proposals for schools

The Stage 1 consultation proposes a formula with factors very similar to those allowed in the current local authority formulae, but with three of the less-used factors removed: looked-after children, mobility and post-16. The DfE diagram below sets out the proposed structure, but not the values that might be attached to them:



Source: Schools consultation document, figure 2, p18.

The proposal for the per pupil factor, which will make up the large majority of the formula, is that it should have different values for primary pupils and for Key Stages 3 and 4. The proposed rates will not be known until Stage 2, but some indication of the sort of differentials that may be used can be seen from the rates used in the MFL in 2015-16. They are:

Primary	£2,880
Key Stage 3	£3,950
Key Stage 4	£4,502

In the deprivation element of additional needs, there is a discussion on which of the free school meals (FSM), Ever6 FSM and income deprivation affecting children index (IDACI) rates should be used, separately or in combination. In the area of school costs, the initial proposition is that the distribution for rates and premises factors, including PFI, should be based on historic spend in 2017-18 and 2018-19.

For area costs, the minimum funding levels calculated first in 2015-16 used a 'hybrid' area cost adjustment in which relative teaching costs were assessed by reference to actual teaching salaries and non-teaching employment costs by reference to a general labour market measure. Although this is one of the consultation questions, it seems likely that the formula will use the hybrid measure which would tend to move funding out of London.

Other features of the schools proposals include:

- the continuation of the pupil premium with a proposal to increase the pupil premium plus rates to support looked-after children and children formerly looked after;
- the possibility of giving local authorities the flexibility in 2017-18 and 2018-19 to establish a local minimum funding guarantee (MFG) in consultation with their schools and schools forums;

- the incorporation of funding for growth in the formula;
- the abandonment of the concept of a notional special educational needs (SEN) budget for every school;
- requiring local authorities to pass on all their schools block funding to schools from 2017-18;
- from 2019-20, withdrawing the current de-delegation arrangements, although schools would still be free to buy services from local authorities;
- the creation of a new central schools block distributed to local authorities by a simple per pupil formula to cover authorities' responsibilities currently funded by retained DSG and ESG, the details to be set out in Stage 2; and
- the withdrawal of local authorities from their school improvement role from the end of the 2016/17 academic year.

**Transitional issues**

In the first two years – 2017-18 and 2018-19 – local authorities will continue to determine the allocations to schools and academies using a local formula. But the DfE will calculate the schools block for each authority to use in their allocation by using the new formula. They will do this by calculating the results for every school in a local authority and adding them together. As part of the calculation of each authority's allocation in the first two years, a system of capping gains in order to manage the rate of loss will be built in. This stage in the first two years is what is known as the 'soft formula'. From 2019-20 it is proposed that every school will get its formula results, modified by any further transitional arrangements in place.

The Stage 1 consultation was issued before the Budget and therefore made no reference to additional funding pledged by the Chancellor in his Budget speech:

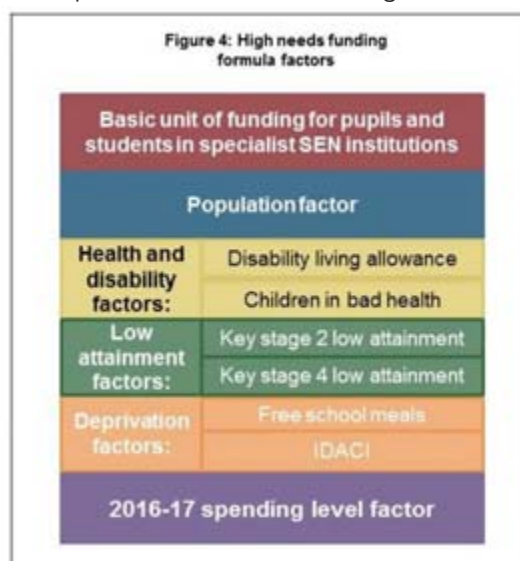
“...we are going to introduce a fair National Funding Formula – and I’m today committing half a billion pounds to speed up its introduction.

“We will consult, and our objective is to get over 90% of the schools that will benefit onto the new formula by the end of this parliament.”

Nothing further has been said about this. It should become clear in Stage 2 how and where this funding will be deployed.

**High-needs funding reform**

The reform of high-needs funding aims to replace the current system by moving to a national formula. The proposed make-up of the formula is represented in this DfE diagram:



Source: DfE consultation paper on high needs funding reform – p24

The factors in the diagram need a little explanation: the population referred to is the population 2-18; the disability living allowance (DLA) relates to children attracting the allowance; 'Children not in good health' is a measure taken from the census; and the 2016-17 spending level will include planned expenditure on alternative provision. The spending level factor is proposed to continue for at least five years. Final allocations to local authorities would be adjusted by an area cost adjustment and would also reflect the import or export of pupils.

The creation of a local authority formula, in contrast to the school-level formula for other school funding, reflects the continuing responsibility of local authorities to provide for high-needs pupils and to commission the places needed for them.

With the exception of the abandonment of the notional SEN budget, the DfE does not expect much direct impact on schools. However, the substantial change in funding that will be experienced by local authorities may well lead to a change in the pattern of provision, including an increase in pressure on mainstream provision. But the funding system for schools remains the same, with mainstream schools receiving top-up from commissioning local authorities and special schools receiving place funding of £10,000 per place plus appropriate top-up.

One technical change is that pupils in designated units and resourced provision will now be counted as pupils in the host school and attract funding accordingly, with additional place funding of £6,000 being provided. This is regarded as a simplification of the current arrangements and should be cost neutral.

In high needs the management of change is going to lie with local authorities rather than schools, although there will be knock-on consequences for schools from changing patterns of provision.

### **How school funding works now**

The school funding distribution to local authorities is based on the amount each was spending per pupil in 2005-06. To this amount a number of separate grants were merged with the dedicated schools grant (DSG) and each authority was credited with the level of each of the grants at the time – for example, the grant supporting the Excellence in Cities programme.

In the early years of the DSG there was also additional funding committed to current government priorities and this was distributed between authorities using criteria deemed appropriate for the initiative concerned. As a result, each authority's allocation was an aggregation of its particular position in these three different areas. In many authorities the demography of their pupil population has changed significantly between 2005-06 and most of these changes are not reflected in the authority's allocation.

Some of the anomalies in this system were addressed by the introduction of MFL in 2015-16 and the injection of an additional £390m, with the outcome that some authorities now have an objective formula-based allocation (the 68 that gained from MFL) while others do not.

At school level, a formula-based distribution has operated since the introduction of local management of schools (LMS) and since 2013-14 it has been conducted on a simpler basis. So the current system has an objective local distribution, but most authorities' starting allocation remains on a historic basis.

### **How the NFF will work**

If the NFF is adopted as planned the distribution to schools, and initially authorities, will be on a basis that is clear and transparent. In the long run, beyond 2018-19, every school, maintained or academy, will see from its funding statement exactly how its funding is built up from the national formula.

Schools and academies currently get a funding statement that shows how the local formula works. The NFF will produce a similar result. An illustrative mock-up is set out in Annex 1.

## National Funding Formula – Frequent Questions

For school leaders wanting to assess the impact of funding changes on their schools, the DfE's Stage 1 consultation is not particularly helpful. Although the direction of travel is clear and the intention to reform appears strong, the detail needed for an assessment of impact is absent. Stage 2 will spell out the proposals for the factors and their values and will set out the implications at local and school level.

### **Is it possible that the Government will back away from this?**

Anything is possible! But it seems unlikely to give up on reform when there is a lot of political pressure for it, and also pressure from the Treasury on value-for-money grounds. The Treasury used to be uninterested in the issue but has recently become a strong advocate for it.

### **Can I make an informed guess about the impact on my school?**

Probably not: one of the issues the consultation does not give much attention to is the ratio in funding between primary and secondary schools. Clearly, assigning a per pupil value to the primary phase and Key Stages 3 and 4 will, in aggregate, establish a national primary/secondary ratio. Local authorities all fund secondary schools at a higher rate per pupil than primary schools. The average primary/secondary ratio is 1:1.27, giving secondary pupils 27% more than primary. But practice has varied, and although many authorities are close to the mean ratio of 1:1.27, there are others who are not, and in these areas the changes will not only be on overall funding levels but also on the balance between primary and secondary schools.

### **Will the type of changes proposed lead to a fairer funding system for all schools?**

The Government says that the adoption of the NFF will undoubtedly lead to a distribution to schools that is much fairer than now. But it is important to recognise that fairness cannot be objectively assessed. Where schools have very similar circumstances, it will be clear that the NFF will fund them equally. But the gradations in funding between schools with different circumstances will arise from judgements made about the importance and cost of factors such as deprivation. These judgements will be used to set the values of the formula factors. Even when the NFF is fully in place, there will continue to be discussions about whether the formula factors are indeed fair.

### **Will there be losers as well as winners? What support will there be for schools that could lose money as a result of these changes?**

Yes – there will definitely be losers. The funding that would be required to ensure that no school lost from the NFF is far beyond what is available. The transitional arrangements will aim to make the decline in funding for losing schools manageable, but the nature of this protection has not yet been set out. The consultation document says there will continue to be a minimum funding guarantee (MFG) in 2017-18 and 2018-19, but the proposed rate is not set out. The current MFG is –1.5% per pupil.

### **Will the introduction of a national funding formula mean that surplus funds held by schools in reserves will be affected?**

There is nothing in the consultation documents to suggest that schools with surplus funds in reserve will be affected differently from others.

### **Will changes to funding allocations to schools recognise and take account of schools currently operating with a deficit budget?**

The NFF proposals do not recognise the position of schools with a current deficit. NFF allocations will be focused on the needs of pupils, and to a lesser extent, school premises, but not on the school's current financial position. There is, however, a proposal in the consultation document to establish an 'invest to save' fund in 2016-17 to help schools in the transition to the NFF. There are no details of this yet.

**If my school is in one of the authorities that gained from the minimum funding level changes, is it safe to assume we will at least not drop?**

No – that is not a safe assumption. As the minimum funding levels (MFLs) were calculated on the basis of the current schools blocks of local authorities, they did not take account of the degree to which authorities had moved schools block funding into high needs. So an authority which had been generous to its high needs block at the expense of its schools block may well have benefited from MFLs, and might lose under the new formula.

**When can we expect to see the firmer proposals in Stage 2?**

The DfE has not said when Stage 2 will be issued, but it has said it will be in time to allow local authorities to prepare their local formulae and submit them to the Education Funding Agency (EFA). This suggests a target date of July because it would make this task very difficult for authorities if the consultation was delayed until September.

**Is there any difference between the impact on maintained schools and academies?**

Not in the main proposals. But there is a section on the future of ESG, setting out how the general funding rate of ESG – £77 per pupil in 2016-17 – will cease from September 2017. A tapered ESG protection for academies will continue to operate for 2017/18 on a similar basis to 2016/17, with the maximum loss to any academy's funding from ESG being contained at 3%. It is proposed that the protection arrangements will be closed by 2020, the assumption presumably being that academies will by then no longer have residual ESG needing protection.

**So with all this uncertainty, how on earth can we plan our future budgets?**

The uncertainty makes planning more difficult. Funding changes are only one factor affecting school budgets in future years. Pupil numbers, changes in the pupil profile and cost pressures from pension and NI changes all have a bearing too. In the short term, before the issue of further detail in Stage 2 of the consultation, the use of scenario modelling on a range of assumptions could help to illustrate the impact of potential funding changes.

**What should schools consider doing now?**

The use of scenario modelling would give managers an idea of the range of outcomes that are possible and allow them to be prepared for them even if they do not take immediate action to mitigate them. In other words, size-up the range of possibilities and think about how you would handle different outcomes. However, making significant changes should be avoided until the Government's plans are clearer.

**What engagement can schools expect from local authorities?**

Local authorities have in the past taken very different approaches to how they supported schools with financial advice. But, given the provisions in the funding consultation to restrict further the role and scope of local authority services, it is likely that most authorities will be considering reducing their services to schools from their current level, unless they can run them on a full-cost recovery basis. Schools should not therefore assume that their local authority will be in a good position to help them in managing through the effects of funding reform.

**Will the issue be discussed with the local schools forum?**

Schools forums will inevitably be involved in discussing the funding reforms because for the first two years (2017-18 and 2018-19) local authorities will still be responsible for setting a local formula. As in previous years discussion of the formula will be one of the main items of schools forums' business. In the longer term the role of schools forums will be under review because the full NFF will take away a major part of the forums' business.

This guidance note has been prepared with the assistance of Dugald Sandeman, formerly head of school funding at the Department for Education.

**How the NFF calculation might look to an imaginary primary school  
– the table shows how the factors might add up for the school.**

(Please note – this illustration is not part of the consultation. None of the values have been proposed in the consultation paper. The values are notional and are for the purpose of illustration only.)

Formula element	Number of pupils eligible for factor <i>see note 1</i>	Rate per pupil for each factor £ <i>see note 2</i>	Total funding attributable for each factor – pupils x rate in £
Per pupil funding – primary	400	2,900	1,160,000
Additional needs			
Ever FSM	160	600	96,000
FSM	95	900	85,500
IDACI ( <i>notional bandings only</i> )			
IDACI 1	40	300	12,000
IDACI 1	60	400	24,000
IDACI 1	80	500	40,000
IDACI 1	10	600	6,000
Low prior attainment	75	1,000	75,000
EAL3	96	500	48,000
Schools costs			
Lump sum	1	100,000	100,000
Rates	1	37,000	37,000
Premises	0	0	
Growth – long-term approach not yet proposed	xx	xx	
Total all factors other than area cost (a)			1,683,500
Area cost adjustment (b) – <i>see note 3</i>		1.08	
Total NFF allocation (a) x (b)			1,818,180

**Notes:**

1. For all pupil-led factors the driver is the number of eligible pupils and the assumed pupil numbers are in this column.
2. Each factor will have a value which when multiplied by pupil numbers gives the funding it contributes.
3. In this example the assumption is that there is an area cost adjustment needed – hence the 8% uplift. In many cases the value will be 1.0.

Other sections of the funding statement might include funding for early years, the pupil premium and adjustments for the MFG where applicable. A comprehensive statement would also show funding for any post-16 provision.

## Glossary of Terms

**Area Cost Adjustment** – a formula adjustment to reflect the higher costs of employment in affected areas of the country. The biggest differentials are in London and surrounding areas but there are variations in other parts of England too.

**DSG** – dedicated schools grant, the main source of school funding from which the funding for the NFF will be drawn.

**EAL3** – pupils with English as an additional language registered within the previous three years.

**EFA** – Education Funding Agency, an executive agency of the DfE responsible for the allocation and payment of school funding.

**ESG** – education services grant with two elements, the general funding rate (£77 per pupil in 2016-17) paid to local authorities and academies, and the retained service rate of £15 per pupil paid to local authorities only.

**Ever6** – the count of pupils who have been eligible for free school meals at any time in the last six years.

**FSM** – pupils eligible for free school meals.

**IDACI** – an area measure of deprivation meaning 'income deprivation affecting children index' showing the proportion of children in low-income households.

**MFG** – minimum funding guarantee is a protection for schools with falling funding to limit the loss of funding per pupil in any one year – currently set at -1.5% per pupil for pupil-related costs.

**MFL** – minimum funding levels – formula based minimum funding applied to local authorities school funding from 2015-16 following the injection of an additional £390m to the dedicated schools grant.

**PFI** – private finance initiative. A common way of funding school capital projects in the last 20 years which in many cases results in an additional unavoidable revenue cost for PFI schools compared with their peers.

**Pupil premium** – the supplementary grant paid in support of disadvantaged pupils in all schools. Based on the number of Ever6 pupils, current rates are £1,320 for eligible primary pupils and £935 for secondary pupils. Pupils who have left care attract a premium of £1,900 each.

**Schools forum** – the body established in every local authority with education responsibilities to discuss the local funding formula and related issues.

**Sparsity** – a formula factor to reflect the additional costs of providing education in sparsely populated areas of the country.