National Funding Formula DfE 1St Stage Consultation – General Briefing Note

*Version 2 (10 March)*

1. The consultation published on 7 March is only the 1st of 2 stages. The 2nd stage is expected in May. This 1st stage is a consultation on principles and ‘building blocks’. The DfE indicates that the 2nd stage will present figures. It is still not possible to calculate the impact of a National Funding Formula (NFF); to confirm any change in the totality of funding for the Bradford District or in the distribution of funding between phases or types of schools and academies.
2. The consultation document however, is very clear about the reduced role of local decision making and the Local Authority going forward, not just in managing school funding arrangements for primary and secondary schools, but more widely in a reduction of its statutory functions, with a further reduced level of funding (DSG and Education Services Grant funding) in response to this from April 2017. The consultation asks relatively open questions about what functions local authorities should cease (and therefore, what funding can be removed). The consultation suggests that Authority’s role will be reduced to 3 functions: places sufficiency, vulnerable children and acting as a champion for parents and families. Funding not allocated for these will be removed, over time. This direction of travel (expected at some speed) will have an impact on the budget of the Local Authority from April 2017, as will the expected significant number of schools converting to academy status over the same time period.
3. The role of the Schools Forum inevitably (at the very least) will be much reduced, although the Forum will continue its current role until the end of the 2018/19 financial year. The consultation does not commit on what the status of Schools Forums will be after April 2019, saying that this will be reviewed.
4. The DfE proposes to introduce **a school-level** National Funding Formula (NFF) for primary and secondary schools and academies **at April 2019** under transitional protection arrangements, which are to be more precisely determined (a Minimum Funding Guarantee for individual schools and academies funded by a cap; with a couple of possible capping options).
   1. A ‘hard’ formula meaning no local intervention in the calculation of funding allocations for primary and secondary schools and academies, with budgets being allocated ‘directly’ by the EFA. No local contingencies (e.g. exceptional or schools causing concern funding), little in the way of local centrally managed funds, no local determined growth fund for expanding schools, no de-delegation.
   2. A formula constructed of: (the devil will be in the detail of how these factors are used and how funding is weighted between them – to be outlined in the 2nd stage consultation):
      1. A flat amount per pupil weighted by age (Primary, Key Stage 3, Key Stage 4).
      2. AEN funding calculated on x4 proxy measures a) FSM, using both the Ever 6 and the current FSM % (FSM will be the primary deprivation measure), b) IDACI, c) EAL3 and d) Low prior attainment (EYFSP for now and Key Stage 2). The consultation asks open questions about the use of these factors / use of more than 1 deprivation measure.
      3. School costs: a lump sum (no commitment yet on value) with a sparsity factor; premises costs, including BSF, rates and split sites (there is no formula solution for premises costs yet; to be worked on over the next 2 years); growth funding (again no further formula solution yet developed).
      4. Area cost adjustment (a choice between the hybrid and the general labour market calculations).
   3. The proposed NFF does not include a mobility factor, nor a LAC factor.
   4. The proposed NFF removes the calculation of a ‘notional SEN’ budget, proposing to replace this with ‘tools and guidance’.
5. The NFF proposals **do not** introduce a provider-level national formula for HNB funded providers. Local authorities will continue to have responsibility for the management / formula funding of High Needs Block (HNB) provisions after April 2019. The distribution of HNB local authority level funding is to be formularised using proxy measures, with an expected extended timescale of transition to new funding levels**. In the first 5 years at least, it is proposed that current spending will more dictate levels of HNB funding for each local authority than the new formula**. There are some more technical proposals for HNB funding arrangements (which are still being worked through and much detail still to be announced). The DfE understands that local authorities may need to re-shape their HNB provisions (including developing more places) and proposes to **make monies available during the transition period 2017-2019, including capital monies, to enable authorities to do this**.
   1. The proposed HNB formula and proxy measures are: a) low attainment (at KS2 and KS4), b) health and disability (area based measure – the no. of children in poor health and children in receipt of Disability Living Allowance, c) disadvantage (FSM and IDACI), d) child population aged 2-18 and e) a basic unit of funding for pupils in special schools (recorded in the January Censuses). There would also then be an adjustment to reflect the balance of the ‘import’ and ‘export’ of pupils between local authorities. There would also be an area cost adjustment.
   2. The 4 building blocks behind the calculation of HNB funding during the transition phase will be
      1. A basic unit of funding for pupils / students in special schools and academies and specialist post 16 providers (actual prior academic year occupancy January / ILR reports).
      2. A proportion of funding based on each local authority’s 2016/17 level of HNB spending – both SEND and Alternative Provision.
      3. A “remaining amount” allocated via the formula outlined in 5.1.
      4. A final Minimum Funding Guarantee, to ensure local authority allocation do not reduce by more than a set %.
   3. The DfE expects much closer collaboration between local authorities in funding arrangements and in commissioning provision. The DfE also expects that local authorities will consider the organisation of their alternative provisions and how these are funded.
   4. The DfE sees the importance of local authorities (and high needs providers) finding significant efficiencies in their HNB provisions, including collaborative arrangements, but also using reserves within the DSG to support initial pressures and transition and accessing the capital support, which will be made available to reshape and increases places.
   5. The DfE is considering options for the review of alternative provision, to “make AP more rigorous” and will publish plans on this. This may affect how the different kinds of AP are funded.
   6. No formula solution has been put forward yet for the funding of Education in Hospital provision (still based on current levels of spending).
   7. Continuation of the Place-Plus system; “not much change is planned” in this apart from some technical adjustments. Therefore, we assume the continuation of the basics; place funding set on an annual basis via a formal process, top up monthly re-calculation etc. A minor technical simplification of the place funding of resourced provisions attached to mainstream settings is proposed (how the first £4,000 element is calculated). It is also proposed to give independent schools the opportunity to move onto the Place-Plus framework and to adopt more common arrangements between pre and post 16 mechanisms. The details of which are to be included in the 2nd stage consultation.
   8. Local authorities will continue to be able to spend HNB resource outside the Place-Plus framework (e.g. devolving monies for specialist services) and to support inclusion.
6. Nothing is said yet on Early Years. Expected ‘parallel’ consultation later in the year (‘parallel’ is taken to mean the same general ‘hard’ formula construct as proposed for primary and secondary).
7. **Pupil Premium Grant will continue** for the lifetime of this Parliament, with a proposal to increase the value of funding for Pupil Premium Plus (as an alternative to having a LAC factor in the NFF). Nothing is said about other significant additional grants e.g. UIFSM, Devolved Formula Capital.
8. The DfE sets out the proposed transition as follows:
   1. During 2016/17, local authorities are expected to restructure themselves to align with new expectations and functions. This is especially focused on the reduced role of local authorities in school improvement, but also around ceasing / reshaping their delivery of other functions as an expected response to the further reductions in ESG funding that are to be applied from April 2017. There is an overt statement in the consultation document that local authorities should have exited from their ‘delivery’ of school improvement by the end of the 2016/17 academic year.
   2. The DfE also sees that a clear focus of schools and academies during the transition period will be responding to the efficiency agenda. The consultation includes a proposal for the establishment during 2016/17 of an ‘invest to save’ fund and transition support monies to be available at school and academy level.
   3. At April 2017 and then for 2017/18 and 2018/19:
      1. The DSG’s current 3 Blocks (Schools Block, High Needs Block, Early Years Block) will remain, but a new 4th Block, the Central Schools Block, will be established. This Block will be made up of a) the centrally held elements of the DSG currently sitting within the Schools Block e.g. admissions, DSG matched funding to school improvement contribution and b) what is remaining of the Local Authority’s allocation from the Education Services Grant, merged into the DSG.
         1. A re-basing exercise will take place shortly, for local authorities to tell the DfE how they are currently spending their DSG allocations by the 4 Blocks. This will then set a spending baseline on which future year transition, protections and ceilings will be calculated.
         2. The DfE is concerned about the continued high level of DSG historic central budget commitments still being funded (for us, this is our matched contribution to school improvement, which our Schools Forum has determined to cease at September 2017) and does not expect to continue to fund these unchallenged. An evidence collection exercise will take place shortly and funding for historic commitments will be allocated by the DfE only on a case by case time limited basis. As these commitments drop out the released funding will be recycled through the NFF.
         3. The funding of other DSG central budgets e.g. admissions will be moved to a simple per pupil formula, which may not correspond with actual current levels of spending. There is the potential for our DSG actually to gain from this formula, due to our generally lower level of centrally managed DSG spending (higher level of delegation historically). To be watched. It is expected however, with the reduction of local authorities to 3 functions that the rates of funding will reduce over time. There is not much detail in the consultation at the moment on all this and it is difficult to clearly see what is being proposed.
         4. In terms of ESG, the consultation proposes:
            1. Continuing the general rate of ESG at a further reduced value for April to August 2017 and then ceasing this funding at September 2017 for both local authorities and academies. However, the protected arrangements for academies will continue until 2020, when these will be fully ‘unwound’. Local authorities will (new power) be permitted to de-delegate funding from maintained schools only to fund statutory duties that were previously funded by the ESG general rate, where this is agreed with the Schools Forum. This needs further detail and exploration.
            2. To continue to fund local authorities for the smaller ‘retained duties’ element but with the expectation that this funding will reduce / cease as the functions delivered by local authorities reduce / cease over the transition period (the removal of any funding not associated with the 3 key functions).
      2. At April 2017, and for 2 years, the DfE will calculate notional allocations for individual primary and secondary schools and academies using the new NFF. These will be aggregated to provide the total value of Schools Block funding allocated to each authority, replacing the current Guaranteed Unit of Funding. This will change the distribution of funding between local authorities. There will be protections / ceilings to smooth transition (precise details to be determined; possible 2 types of ceiling). Bradford is likely to be a loser in the Schools Block, simply because of the way we currently spend a proportion of our high needs funding in our Schools Block where other local authorities do not. If the NFF reduces the weightings for AEN measures, then we are likely to see a greater reduction in Schools Block funding. We currently cannot determine the risk here (we need the detail of the 2nd stage consultation). There are some aspects of the proposed NFF in the transition period that are to be watched, including the proposal to fund growth, BSF and business rates on the basis of historic spending. This is a ’fudge’ due to the lack of identified formula solution for these aspects. However, this approach may mean that we gain ‘relatively vs. other authorities though not in real terms’ because not all authorities have BSF or the size of growth funding that we have and we will be allocated NFF plus funding for our higher spend in these areas. However, if we need to spend at a higher level in growth funding in 2017/18 than we did in 2016/17 (as our growth begins in the secondary sector), this ‘fudged’ approach will not allocate to us sufficient funding and we will need to identify funds by either top slicing other factors of the Schools Block or potentially by reducing the level of our Minimum Funding Guarantee. To be further analysed.
      3. For 2017/18 and 2018/19, each local authority / Schools Forum will continue to be able to set its own funding formula as now and there will not be significant change in the allowable factors i.e. if we wish to continue to calculate school and academy budgets according to our existing formula then we can do so. However, if we wish to change our formulae e.g. to start transition to the NFF, then we can also do this. All options will need to be afforded within the new aggregated Schools Block budget and this may require adjustments to the values of formula variables. We will be able to identify the extent to which the NFF is different from our current funding formula allocation for individual schools and academies. The MFG will continue in 2017/18 and 2018/19. The DfE is aware that authorities that are losers in the Schools Block (Bradford is likely to be a loser simply because of the way we currently allocate HNB funding) may need more flexibility in the transition period and offers the possible option for such authorities to apply a reduced Minimum Funding Guarantee (e.g. a minus 2.5% protection rather than the current 1.5%) to provide budget flexibility e.g. to fund a higher cost of growth. Precise details of this are to be determined.
      4. **Critically, during 2017/18 and 2018/19, it is proposed that 100% of the new Schools Block must be spent on primary and secondary formulae funding and cannot be diverted to support pressures in other Blocks i.e. the High Needs Block.** This means our Schools Block is now either ‘locked in’ to mainstream allocations or will be lost to the District (where we are a loser). This will remove THE main source of financing of additional HNB provisions and will mean that HNB cost pressures must be contained within the HNB. It potentially directly affects how the recommendations from the current SEND and Behaviour reviews are taken forward. It is understood that there is proposed allowance for some overlap / movement between the EYB and the HNB, but this needs to be further analysed (and the EYB has not previously been a main source of financing HNB pressures). This is an area of immediate concern. It is unclear what would happen if we overspent our HNB / our DSG went into deficit as a result of not being able to transfer budget from other Blocks. The DfE does indicate that local authorities will retain previous underspends / reserves in the DSG (during transition period), so we possibly need to earmark the DSG reserves for HNB issues in the first instance whilst we deliver change and work this situation through.
      5. The formularisation of the High Needs Block will begin at April 2017. This will change the distribution of HNB resources between local authorities. The impact of this is proposed to be significantly ameliorated for at least 5 years i.e. possibly for longer than the transition in the Schools Block. This is an area of immediate concern. We would expect to gain from a new HNB formula. If the rate of material receipt of additional funds in the HNB is slower than the rate by which we lose Schools Block funding then our transition to new arrangements will be significantly harder than another authority that is currently spending more in the HNB. This is an area for comment in our consultation response and for further analysis.
      6. De-delegation from maintained schools within the Schools Block for maintained schools e.g. Trade Union Facilities Time and maternity reimbursement can continue until the end of 2018/19 when all de-delegation must cease. We will need to prepare exit from de-delegation (either ceasing to deliver services or moving to full trading). We have already highlighted that the number of school conversions to academy status may lead to de-delegation becoming inefficient / ceasing before April 2019. This will need to be reviewed on an annual basis.