

DARLINGTON SCHOOLS FORUM

SCHOOL FUNDING FORMULA 2018/19 - CONSULTATION

1. The purpose of this paper is to consult with all Darlington publically funded mainstream schools regarding the proposed Darlington school funding formula for 2018/19

Background

2. The Department for Education (DfE) issued a policy with regard to the National Funding Formula (NFF) in September; this was complemented by operational guidance issued by the Education & Skills Funding Agency (ESFA).
3. All schools were given a brief outline of the contents of the NFF policy (and guidance) through a paper presented to School Forum in October.
4. Within the policy for the NFF, it was confirmed that for 2018/19 & 2019/20 that the calculation of school budget shares would remain with local authorities, this period is known as the “soft” formula. From 2020, schools are expected to receive their school budget share calculation directly calculated by ESFA using the NFF criteria.
5. Although the calculation of school budget shares remains with the local authority during the soft period, the budget shares are calculated using a national template and data provided by ESFA. This is an arrangement that has been in place for a number of years.
6. The Local Authority has a duty to calculate the school funding formula within the required parameters, however if the Local Authority wishes to change the way the formula is constructed, it must consult with all the schools effected by the changes and School Forum.
7. In 2018/19, the Dedicated Schools Grant (DSG) is paid in four blocks. The schools block is ring fenced in 2018/19, but local authorities retain the flexibility to transfer up to 0.5% of the schools block to another block with the approval of their School Forum. If an authority decides to activate this transfer again all schools need to be consulted, before School Forum make their decision.
8. This paper consults on the following,
 - A proposal to move 0.5% from the schools block to the high needs block.
 - Proposal to change formula factors within the funding formula.
9. Although there is no requirement to consult on the unit values used within the funding formula, the nature of the proposed changes to the schools block and the factors have an impact on the final formula and hence proposed changes are noted within this paper. In addition this paper notifies on proposals regarding the minimum funding guarantee rate for 2018/19.

10. This paper concerns the school funding formula in 2018/19 and uses the indicative budget allocations for 2018/19 issued by ESFA in September in all illustrations of school budget shares.
11. ESFA have also issued indicative budget allocations for 2019/20 which suggests that approximately £900k of additional funding will be available in the schools block in that year. As this paper concerns 2018/19 this additional funding is not taken into account in any of illustrative models. However it is acknowledged that this additional funding does have a bearing on the proposals for 2018/19.

Financial Modelling

12. Throughout this paper proposed changes to the funding formula have been financially modelled to show the effect on each school included within Darlington's funding formula. These are attached in the appendices to this paper.
13. **It must be stressed that these models are for illustration purposes only** and are not the actual budget shares that schools will receive for 2018/19. The models have been constructed using the ESFA funding formula modelling tool for 2017/18 which uses the October 2016 school census. The actual school budget shares for 2018/19 will be calculated in December/January using the newly issued modelling tool (this is issued by ESFA in December) that incorporates the October 2017 census data.

Transfer of funding from the schools block

14. From 2018/19 the schools block is ring fenced, however within the ring fence the DfE are allowing local authorities to transfer up to 0.5% of the value of the block into one of the other funding blocks, on agreement of their School Forum. In addition to this local authorities can make an application to the Secretary of State for further transfers from the schools block. This relaxing in the ring fencing has followed recognition in the NFF consultation that flexibility is needed to ensure that local authorities can manage high needs budgets.
15. As all schools will be aware there has been massive pressures on high needs budgets across the country due to the increasing number of children in mainstream schools being assessed with SEN needs, that require additional support in a mainstream setting or in some instances placements at special schools.
16. This is mirrored in Darlington where the number of children requiring assessments has increased from 88 in 2015/16 to 163 in 2016/17. In 2016/17 3.3% of Darlington pupils had an EHCP, up by 3% on the previous year and 0.4% above the (relatively static) England average. The Darlington number is continuing to rise this year.
17. Compared with the national average in 2016/17 Darlington had less EHCP pupils in mainstream schools and more in special schools. (For every 1000 pupils aged 2-18 EHCP in mainstream schools; Darlington 6.6 pupils, national 9.7 pupils. Special schools; Darlington 11.5 pupils, national 9.1 pupils).

18. This increase in the number of children requiring SEN support has been mirrored in the expenditure. During this period the amount of funding coming through the high needs block of the DSG has remained largely static with only small increases year on year. In 2017/18 the high needs budget was overspent by over £500,000, it is projected that the current year will be overspent by over £900,000. Future years are expected to continue to be overspent at a similar level based on current activity/service provision.
19. From April 2018 the high needs block moves to a formula basis. In the indicative budgets received for 2018/19 the new method of calculation increases the funds available by approximately £114,000, however this increase is small compared to the pressures faced.
20. Appendix 1 shows the detail of high needs expenditure over the last three years. In the current year of the projected expenditure, 95% of the spend is made to schools provision (i.e. mainstream, special, colleges and alternative provision). Of the remaining 5% of expenditure the majority (75%) contributes towards SEN transport.
21. Of the 95% that is spent in schools £3.1 million is paid to mainstream Darlington schools, £5.1 million to Darlington special schools, £1.2 million for Darlington alternative provision, £1.8 million for out of area placements and £1.2 million for post 16 placements. All of these figures include “place” funding that is paid direct by ESFA.
22. In order to address the pressures in high needs the Local Authority has commenced a review of SEN(D) provision and high needs expenditure. This review will look at all current provision and will link in with the various stakeholders to design future service provision. A strategy will be produced that will inform on how high needs will be met in the future.
23. This strategy will aim to ensure that any current overspend is recovered and that future spend remains within budget. It is clear that to do this there will need to be changes in current provision both in terms of what is delivered and the unit values paid for places. This will have a significant change on current high needs provision.
24. It is proposed that the new strategy is phased in overtime to ensure that disruption to current placements is minimised and that providers of services are not faced with “cliff face” reductions in 2018/19. To facilitate this, it is proposed that in Darlington the flexibility within the transfer of schools block of 0.5% is taken up and transferred to the high needs block.
25. The illustrative budgets provided for 2018/19 allocates £64,181,752 to the schools block in Darlington. 0.5% of this totals approximately £321,000. It is therefore proposed to transfer £321,000 from the schools block into the high needs block in 2018/19 to assist with pressures in the high needs/SEN(D) budgets and to allow time for changes to be phased in. The actual funding that is transferred will be dependent on the actual schools block allocation which will be received in December. Schools will be noted of the actual amount at that time through the School Forum papers.

Question 1 - Do you agree that 0.5% of the schools block is transferred into the high needs block in 2018/19 to fund increased demand?

Additional Funding

26. Through the NFF Darlington will receive additional funding within the schools block in comparison to 2017/18. The indicative budgets allocate an additional £1.1 million (after an adjustment for resource bases) into the schools block in 2018/19, which after the transfer of funding to the high needs block (£321k) will leave approximately £780,000 of additional funds to be allocated through the school funding formula.
27. Attached at appendix 2 is the current Darlington formula replicated for 2018/19. As can be seen on the attached the overall increase in cost of the school budget share is £217,224 which is the adjustment for resources bases. (In 2018/19 place funding for resource bases has changed which requires an adjustment to the school formula). Within this budget seven schools have a change from 2017/18. Of the seven changes four relate to the resource base place funding change and hence have no effect on those schools. The remaining three schools budget changes due to capping or protection that was within their budget in 2017/18. These changes are expected under the current formula.
28. If there is no change to the current formula (appendix 2) then there will be approximately £780,000 of unallocated funds. It is therefore the case that the Darlington formula needs to change for 2018/19 either in terms of the factors used or the unit values applied to each factor.

Budget share options

29. EFSA have issued notional budgets for each school using the NFF for 2018/19, these budgets are issued without any transition adjustments using the 2017/18 data. The notional budgets have therefore not been used to calculate the schools block allocations provided by ESFA in September. Attached at appendix 3 are the notional budgets that ESFA has published. As can be seen the total value of these budgets is £63,965,664, however this excludes premises costs (rates) and the growth fund. Once these are added the total cost of the notional budgets is £64,627,900 the budget allocation received in the schools block is £64,181,752. It is therefore not possible to set the Darlington school budget share at the notional budget as the cost is £446,148 more than the allocation received, even before any transfer to the high needs block.
30. Attached at appendix 4 is the calculation of the schools block that has been used to give the indicative budget allocation for 2018/19. This breaks down the budget on a school by school basis and includes transitional protection and capping. School budget shares cannot be set at this level if a move of funds is made to the high needs block from the schools block, as there will be insufficient funds.
31. Historically in Darlington it has been agreed with schools to operate a funding formula that has the minimum level of turbulence to schools, i.e. that as far as possible budgets remain of a similar level for all schools. The advent of the NFF means that changes will occur to schools budgets in particular from April 2020 if the hard formula is implemented. Therefore in a few years this approach will not be possible.
32. In the past when any extra funding has been available to distribute to schools through the formula this has been done through the AWPU with every pupil attracting the same increase. Appendix 5 shows the budget shares if this option was taken in 2018/19. This

approach adds £52.64 per pupil to the budget share. As can be seen in this option all schools will see an increase except one school that is currently receiving protection through the minimum funding guarantee.

33. As the NFF is expected to come in fully from April 2020 it is the preferred option of the Local Authority to use the two year soft funding formula period to transition from the current Darlington formula to the NFF. The purpose for doing this is to start to implement the NFF changes and to ensure that there is a smoothing of the changes over a two year period.
34. The following paragraphs describe the proposed changes to the Darlington funding formula calculation for 2018/19. Models are included to show the effects of these changes, again these are for illustration only, as the final school budget shares will be dependent on the October 17 census data. The models have been calculated using the formula tool (APT) provided by ESFA in September. This APT does not fully reflect the NFF as the tool does not allow adjustments for the transitional floors and minimum guaranteed funding. A new APT is to be issued, but at the time of writing this is not available. The following models however do provide a good illustration of the budget shares for decision making purposes and the current tool has been adjusted to reflect how the allocations provided in the illustrative schools block have been calculated.

Minimum Funding Guarantee

35. The NFF regulations for 2018/19 allow a minimum funding guarantee (MFG) to be set between minus 1.5% and 0% (per pupil), if local authorities wish to set an MFG outside of this they can approach the Secretary of State. The current funding formula in Darlington uses a MFG of minus 1.5%.
36. The Government has allocated additional funding to the schools block and has made announcements that all schools will see an increase in their budgets in 2018/19. In the calculation of the schools block ESFA have calculated gains for each school using funding floors and minimum per pupil levels. The current APT does not allow modelling of individual schools budget shares taking account of the funding floors and minimum per pupil levels.
37. In Darlington it is proposed to follow the national picture in that Darlington want all schools to see an increase in their budget share in 2018/19 when compared to the existing formula. It is therefore proposed that for 2018/19 the MFG will be increased from the existing minus 1.5% (possibly as far as 0%) if the funding floors do not provide this protection. This increased protection will be funded by a increasing of the cap on those schools that gain through the formula.
38. In the event that the funding floors/minimum per pupil provide gains for all schools it is proposed that the MFG will be set at a value to increase the gains to those schools that gain the least through the new formula.
39. Appendix 6 shows the effect of a 0% MFG on the Darlington formula. For illustration this model allocates all addition funding through the APWU (as in appendix 5). As can be seen all schools now receive an increase in their budget share.

40. On receipt of the final APT modelling will be undertaken to confirm that all schools gain in the 2018/19 budget share calculation. Schools will be notified of the final MFG value prior to the finalising of the budget shares for 2018/19.

Question 2 – Do you agree that the MFG should be set to ensure that all schools gain through the formula changes?

Looked After Children

41. In the NFF the factor for looked after children (LAC) has been removed. The rationale for this is that the Pupil Premium Plus (PP+) grant is to be increased, so funding through the funding formula would be a duplication.
42. In Darlington's current formula there is a LAC factor that allocates £866 per qualifying pupil. The total cost invested here is £99,326, the current years allocations per school are shown at appendix 7.
43. It is proposed that in 2018/19 that the LAC factor is removed from the Darlington formula to mirror the national funding formula. The funding that is saved will be reinvested into other factors and distributed to schools. Those schools that will lose LAC funding will receive funding through another factor and the minimum funding guarantee will provide protection, so they will not lose the full value of the LAC factor in their budget share overall. In addition those schools will receive additional PP+ grant so will receive this funding through another route.

Question 3 – Do you agree with the removal of the LAC factor from the Darlington funding formula to avoid double funding?

Other Formula Factors

44. In line with previous years funding formula's in Darlington which received agreement through Schools Forum it is proposed that the funding formula for 2018/19 remains similar to previous years.
45. It is therefore proposed that no other factors will be amended in the 2018/19 formula and hence the factors used will remain as follows;
- a. Basic per Pupil (AWPU)
 - b. Deprivation
 - c. Low Prior Attainment
 - d. English as an additional language
 - e. Lump Sum
 - f. Sparsity
 - g. Premises (i.e. Rates)

Question 4 – Do you agree that the Darlington formula in 2018/19 should continue to use the factors listed in paragraph 45?

46. There has been a change to the deprivation factor nationally. Previously authorities could use both a free schools meals (FSM) measure and a IDACI measure to calculate the deprivation amounts. FSM was previously calculated by selecting either current FSM qualification or FSM qualification over the last 6 years (FSM ever 6). Under the NFF both FSM measures are used along with the IDACI measure. Darlington previously used the ever 6 measure, but will use both FSM measures from April 18 in line with the NFF.
47. Although it is not planned to change any of the formula factors (other than LAC) in 2018/19, as outlined in paragraph 45 there is additional funding to be allocated through the formula in 2018/19 which will require some of the current unit values to be adjusted. Appendix 8 shows the current unit values used in Darlington's formula and the NFF unit values.
48. A number of models have been undertaken to examine the effect of using differing unit values in Darlington's formula. These have been summarised into four options as follows,
- a. Option 1 - Continue with existing funding formula arrangements
 - b. Option 2 - Introduce the NFF, phased over three years
 - c. Option 3 - Introduce the NFF immediately
 - d. Option 4 - Introduce the NFF immediately but protect lump sums
49. The following paragraphs detail the effects of each of these options.
50. Again readers are reminded that the figures used in the following options are for illustration purposes only. The existing APT does not allow the modelling of all funding floor/minimum funding protection. Actual 2018/19 budget shares will be calculated using the revised ESFA APT which will include these adjustments and the pupil characteristic from the October 17 census.
51. The models do however provide a guide for schools when considering the options as they have all been calculated using the same basis.

Option 1 - Continue with the existing formula.

52. As outlined this option follows previous decisions and uses the current 2017/18 funding formula factors and unit values. The only change is the removal of the LAC factor. The additional unallocated funding and the saving from the LAC factor have been added into the AWPU. All AWPU values have been increased by the same amount, the amount has been calculated by taking the amount of unallocated funding divided by the total number of pupils in the formula. In this example £59.39 per pupil has been added to each school's budget share. This increase is subject to any capping to make the overall formula affordable. Appendix 9 shows indicative school budget shares for this option.

Option 2 - Introduce the NFF, phased over three years.

53. The national funding formula is expected to be introduced in April 2020 at which time school budget shares will be calculated direct by ESFA using the national criteria and unit values. This option acknowledges that the NFF is happening and that the current historic arrangements used in Darlington are now time limited. The soft funding formula

allows local discretion so this gives an opportunity to move towards the NFF over a phased period rather than to go straight in. This will allow schools time to adjust to budget changes and plan for the full introduction in April 2020.

54. Under this option it is proposed that the Darlington formula unit rates move to the NFF unit rates over a three year period (i.e. 2018/19 & 2019/20 transition years with adoption of national rates in 2020). In calculating the budget shares the differences between the Darlington rate and the NFF rate have been divided by three with each year increasing/decreasing by the resulting difference.
55. To illustrate, the lump sum figures will be as follows. Darlington currently has a lump sum of £175,000 the NFF rate is £110,000. The proposed transition is therefore
 - a. 2017/18 £175,000 (current)
 - b. 2018/19 £153,333
 - c. 2019/20 £131,667
 - d. 2020/21 £110,000 (NFF)
56. This is replicated through each unit value.
57. Under this approach the funding formula is unaffordable by £279,632. Therefore in order to balance the budget a further adjustment will be made to the AWPU in 2018/19. This is achieved by decreasing each AWPU values by £19.00. This decrease is subject to capping to make the overall formula affordable. This adjustment should not be needed in 2019/20 if the additional funding proposed for 2019/20 is received. Appendix 10 shows the effect of this proposal.

Option 3 - Introduce the NFF immediately

58. As with option 2 this option recognises that the existing formula is time limited. In this option rather than introduce the NFF over a phased period it is proposed to implement straight away from 2018/19.
59. Under this option all the unit values in the funding formula for 2018/19 will be set as per the NFF unit values as illustrated at appendix 8.
60. As with option 2 under this approach the funding formula is unaffordable by £679,377. Therefore to ensure a balanced budget an adjustment is made to AWPU decreasing all three NFF AWPU values by £46.15. This decrease is subject to capping to make the overall formula affordable. This adjustment should be lessened in 2019/20 if the additional funding proposed for 2019/20 is received. Appendix 11 shows the effect of this proposal.

Option 4 – Introduce the NFF immediately but protect lump sums

61. This option mirrors option 3, with the exception that the lump sum and sparsity lump sums are protected at the 2018/19 level. The rationale for making this change is that smaller schools are most affected by the NFF changes and therefore this gives those schools more protection in the transition to the full NFF.

62. Again under this option the funding formula is unaffordable by £3,125,136. To balance the budget each AWPU value has been adjusted downwards by £212.29 against the NFF unit values. This decrease is subject to capping to make the overall formula affordable. If this option is selected a significant adjustment will still be required to the AWPU values in 2019/20 even if the additional funding proposed for 2019/20 is received. Appendix 12 shows the effect of this proposal.
63. Although consultation is being made now upon the above four options, there is still time to change the Darlington formula before submission if required. Further modelling will be undertaken between now and the final submission of the funding formula which will be presented to schools in January 2018. If there are any significant changes, schools will be consulted during this timeframe.
64. **It is the Local Authorities proposal that option 2 is taken forward for 2018/19.** The rationale for doing so is that the current formula is now out of date so a move towards the NFF should be started straight away. It is appreciated however that the NFF raises significant challenges and therefore a phased approach is favoured to give time for schools to plan to address funding changes.

Question 5 – Which option do you feel is the best approach to take forward in 2018/19?

Summary

65. In summary the NFF is now happening and needs to be adopted into Darlington. The NFF for high needs does not address current pressures in high needs, therefore a transfer of funding from the schools block to the high needs block is proposed. This will allow the high needs strategy time to be finalised and introduced in a phased manner rather than large scale reductions from April 2018.
66. The Local Authority see the move to the NFF as something that should start to happen from April 2018 and therefore wishes to start to implement the NFF into the local formula from 2018/19. As a result it is proposed to remove the LAC factor from the formula from April 2018.
67. The Local Authority recognises that the NFF provides challenges to schools and therefore proposes to implement a phased approach to the introduction over the next two years, with a view to full introduction in 2020. The MFG will be used to ensure that all schools will see increases in their funding (where the system allows) in 2018/19.

Timeframe.

68. This consultation is issued to all schools today and will form the paper for the School Forum meeting on 21st November.
69. All schools are encouraged to comment on the proposals in this paper which will be passed to School Forum at their 21st November meeting. Comments are requested by 15th November in order to feed into the Forum meeting.
70. School Forum will be asked to agree the transfer of funding from the schools block to the high needs block at the 21st November meeting. School Forum will also be asked for their

views regarding the MFG and the options for the funding formula at that meeting in order that they can be considered in preparing the actual school funding formula for 2018/19. The final school budget share will be presented to School Forum (and hence schools) in January 2018.

71. Attached at appendix 13 is a summary of the questions for comments/return of views.

Brett Nielsen
Finance Manager,
Resources Department