

Schools Forum

4 July 2022

Implementing the Direct National Funding Formula – Government Consultation

This report is for decision

1. Recommendations:

That Schools Forum members:

- 1.1 Note the contents of the report.
- 1.2 Nominate representatives for a working group to respond to the consultation.

2. Purpose

- 2.1 To inform school forum members of the Government's proposal on the detail of the implementation of the direct National Funding Formula (NFF).

3. Report Details

- 3.1 In 2021 the government held their first-stage consultation on the direct NFF for schools. Fair school funding for all: completing our reforms to the National Funding Formula.
- 3.2 The Government have confirmed that they will begin moving towards the direct NFF from the 2023-24 funding year.
- 3.3 This consultation was issued on 7 June 2022 and closes on 9 September 2022. It sets out proposals for the continuation of two current elements of funding for special educational needs (SEN), and for alternative provision, but consider how these would need to change in operation as the government moves to the direct NFF: first, continuing to have some flexibility within the funding system to move funding to local authorities' high needs allocations and second, the determination of notional budgets for mainstream schools' SEN and disability support, within their direct NFF allocations.

- 3.4 The consultation also sets out proposals for how funding for schools experiencing significant growth in pupil numbers, or falling rolls, could operate under a direct NFF.
- 3.5 As the government moves to the direct NFF, they set out how the minimum funding guarantee (MFG) will operate. The MFG protects schools against excessive year-on-year changes in their per-pupil funding. In the current system, the "funding floor" in the NFF mirrors the operation of the minimum funding guarantee in the local formulae. When the direct NFF is introduced, the MFG and the NFF funding floor will merge into one single funding protection mechanism – which will continue to be referred to as the MFG.
- 3.6 Lastly; the government sets out proposals on how the funding cycle should operate in the direct NFF – that is, the regular timescales for gathering data to calculate funding allocations, and then confirming these allocations to schools. The government are considering how they can support schools' budget planning, by giving them early indication of future funding levels.
- 3.7 The government have stated that whilst this consultation sets out a detailed picture of how they propose that the direct NFF will work in practice. They "are not setting a definitive final end date at which the direct NFF will be implemented, as it will be important to continue to be guided by the impact of the initial transition towards the direct NFF, before deciding on the further pace of change."
- 3.8 The government have however, tried to give a sense of the likely timescales to inform schools' and local authorities' planning, and have set out that they expect to have moved to the direct NFF within the next five years; which is by the 2027-28 funding year. The government further go on to say, "We hope that we may be able to move to the direct NFF sooner than this – but not later".
- 3.9 Further consultations are also planned as follows:
- The additional reforms required to high needs funding arrangements which will be based on the outcomes and government response to the consultation on the SEND and alternative provision green paper
 - The funding for local authority services through the central school services block (CSSB), as government moves to the direct NFF, and in light of the future role for local authorities as set out in the Schools White Paper, Opportunity for all.

The interaction between the direct NFF and funding for high needs

- 3.10 The Government published the SEND and alternative provision green paper, “Right support, right place, right time” on 29 March 2022. The consultation deadline is 22nd July 2022.
- 3.11 The government have stated in future consultations they plan to cover the operation of funding bands and tariffs to support the development of a national framework for SEND provision. This will involve addressing a range of complex issues, and potentially making significant changes to the current system of place and top-up funding for specialist provision, as well as the current expectation that mainstream schools will provide for the first £6,000 of additional expenditure on pupils with SEND, before they become eligible for high needs top-up funding.

Flexibility to transfer funding to high needs

- 3.12 In the current funding system, local authorities have a degree of flexibility to transfer funding between the blocks of their Dedicated Schools Grant (DSG) allocations. Local authorities can transfer up to 0.5% of their schools block with the approval of the Schools Forum, but transfers above 0.5%, or where the schools forum does not agree, must be decided by the Secretary of State.
- 3.13 In the Government response to the first stage of the direct NFF consultation, they committed to retaining the flexibility to transfer funding from mainstream schools to local authorities’ high needs budgets in the direct NFF.
- 3.14 The government propose that local authorities should continue to have responsibility for preparing and submitting any applications to the Secretary of State for funding to be transferred to their high needs budgets, via an adjustment to the NFF allocations for mainstream schools in their area.

Indicative SEND budget

- 3.15 The SEND and alternative provision green paper sets out proposals for an inclusive system, starting with improved mainstream provision that is built on early and accurate identification of needs, high-quality teaching of a knowledge-rich curriculum, and prompt access to targeted support where it is needed. The government believe there should be a national

expectation on how much of the additional costs of supporting pupils with SEN mainstream schools should meet from their formula funding, so that schools and local authorities can plan their budgets appropriately.

- 3.16 The direct NFF will include a number of factors that act as a proxy for the incidence of SEN in mainstream schools. The government are keeping under review whether the current factors will remain appropriate in future (for example, considering the disruption to the flow of usable attainment data as a result of the pandemic, and in the context of future changes to assessment.
- 3.17 The government propose to continue the concept of identifying for each school a budget for the costs of additional support for its pupils with SEND. This would be calculated by the Department under the direct NFF, rather than by local authorities.

Growth and Falling Rolls funding

- 3.18 In this section of the consultation, the government set out their proposals on how revenue funding for schools experiencing significant growth, or significant decline, in pupil numbers would operate under the direct NFF.
- 3.19 Local authorities have a statutory responsibility to ensure there are enough school places available in their area for every child aged 5 to 16.
- 3.20 Local authorities currently have discretion as to whether or not to operate a growth and/or falling rolls fund. If they do, it must be used only in specific circumstances: These are outlined in the consultation document.
- 3.21 The ESFA also provides “popular growth” revenue funding where schools experience significant growth in pupil numbers due to increased popularity, to reflect their increased costs. At present, this funding is available for academies with significant forecast growth in pupil numbers – not maintained schools. Agreements are made on a case-by-case basis, on application by academy trusts.
- 3.22 The Education, Skills and funding Agency (ESFA) allocates a notional growth funding element to local authorities each year using a formulaic approach, as part of the DSG. Growth funding is currently based on the actual pupil growth that local authorities experience, at the level of Middle Layer Super Output Area

(MSOA) – these are smaller geographic areas within the local authority with an average population of 7,200.

- 3.23 Local authorities do not have to allocate all of the growth funding that they receive and can spend more or less on growth funding than they received through the DSG for that purpose. Sandwell has traditionally set pupil number growth funding more or less equivalent to the growth funding received. However, in the last 2 years they have set funding at less than the funding received because of the balances that had accumulated.

Analysis of falling rolls funding.

- 3.24 Only 24 authorities have set funding aside for a falling rolls fund in 2022-23, with half of these in London.
- 3.25 This consultation outlines two options for growth funding under the direct NFF.
- The first option would allow some continuing local flexibility in how growth funding is distributed to schools, but with “significantly greater consistency than in the current system”.
 - The second option is a national, standardised system without local flexibility, where ESFA allocate growth funding directly to schools as part of their allocations based on information provided by local authorities.
- 3.26 The government’s favoured approach is the first option, which retains local control.

Popular Growth

- 3.27 Not all growth in schools is to meet demographic need. Growth can also occur where a school becomes more popular with parents and children locally. The ESFA currently make funding available for academies with significant forecast growth to reflect their increased costs. Academies that are entitled to this funding provide the ESFA with an estimate for their number of pupils in the coming year, which they provide funding for subject to an adjustment process based on the actual, in-year autumn census. Agreements are made on a case-by-case application basis at academy trust level.
- 3.28 The government have confirmed their intention to retain a system of popular growth for academies which have seen an increase in

popularity, after being recently sponsored by a multi-academy trust which has improved the school's performance.

- 3.29 The government have stated that they recognise that a number of respondents raised concerns about “popular growth” being available only to academies, and not local authority-maintained schools. However, in order to address these concerns, they are consulting on whether maintained schools should also be able to access popular growth funding by basing their funding allocation on estimates. This would be through a case-by-case application process where local authorities can apply for this funding on behalf of particular maintained schools where there is clear evidence of expected significant popular growth, along with evidence of recent improvements in school performance through pupil assessment data.

Premises Funding

- 3.30 In the Government's first stage consultation, Fair school funding for all, they asked for views on reforming “premises” funding under a direct NFF. The premises factors in the NFF include additional revenue funding for PFI schools, schools with split sites, and schools which face costs relating to exceptional circumstances (such as rental costs for their premises).
- 3.31 In the Government's response to the consultation, they recognised respondents' concerns about the complexity of PFI contracts and plan to work closely with the sector to develop an appropriate approach to PFI schools under a direct NFF, to be consulted on at a later date.

Premises: Split sites

- 3.32 The split sites factor is intended to account for the extra costs associated with a school operating, and needing to duplicate services, across a number of separate sites. Extra costs may be incurred from requiring additional reception facilities, travel time for teachers, and travel costs for pupils.
- 3.33 The government propose to develop a split site factor which recognises costs through a basic eligibility criteria that attracts a lump-sum payment, and a distance eligibility criteria that attracts an additional lump-sum payment.

- 3.34 Basic eligibility – The proposal is that sites should be counted as ‘split’ where they are separated by a public road or railway as a clear marker of separateness. The site must have a building and would exclude “ancillary buildings” e.g. storage sheds and would exclude playing fields.
- 3.35 Distance eligibility - To meet the distance eligibility criterion, the site would have to meet the basic criterion and meet a distance threshold of 500 metres (0.3 miles) by road.
- 3.36 Further detail can be found in the consultation document.

Premises: Exceptional circumstances

- 3.37 The exceptional circumstances factor is intended to account for additional premises costs that the majority of schools do not face. Currently, local authorities can apply to the ESFA to use an exceptional circumstances factor in their local formulae.
- 3.38 The ESFA think that some costs currently being funded through exceptional circumstances arrangements are better funded through formula factors. Therefore they are proposing changes to the following categories:
- Building Schools for the Future (BSF) school: The BSF factors would be incorporated into a modified PFI factor.
 - Amalgamating school: Local authorities can currently support schools with 85% of the combined lump sums of their predecessors as temporary support while cost structures adapt to the new arrangements. In their proposals, this would be automatically allocated through the lump sum factor. These schools may also become eligible for split site funding.
 - Super-sparse school: Local authorities can also provide additional funding to very small, rural secondary schools, on top of existing sparsity funding to be viable. The government propose to automatically incorporate this into the sparsity factor.
- 3.39 There is a proposal to change the current criteria from that the cost is greater than 1% of the school’s budget and affects fewer than 5% of schools in the area. propose to raise the exceptional circumstances funding threshold to account for at least 2.5% of a school’s budget, up from the current 1%. The government want to

significantly reduce the number of schools receiving exceptional circumstances funding “so that we target funding only to schools where costs are exceptional and meaningful, and are not maintaining the significant differences in funding between local authorities which reflect historic decisions”.

- 3.40 The government have stated that to ensure that they are flexible to changing needs in future, they would accept new requests that meet their criteria where a school has clear, newly arising needs, which fall within the proposed criteria; however they would expect this to apply in very rare circumstances.

The minimum funding guarantee (MFG) under the direct NFF

- 3.41 Under the current funding arrangements, local authorities set a minimum funding guarantee (MFG) which protects schools from excessive year-on-year losses in per-pupil funding. The NFF funding floor mirrors the MFG in the local formulae, and is important for ensuring the affordability of the MFG in the local formulae.

- 3.42 As government moves to a direct NFF, the NFF floor and the MFG in the local formulae will merge into one single protection mechanism – which will continue to be referred to as the MFG. The MFG in the direct NFF will continue to play a crucial role for ensuring sufficient stability for schools funded above their “core” formula allocations, so that they do not see sudden drops in their per pupil funding levels.

Moving to a simplified pupil-led funding protection under the direct NFF

- 3.43 The NFF has school-led and pupil-led factors. The school-led factors; the lump sum and sparsity funding are determined by the school’s characteristics, with one amount calculated per school through each factor. Whereas, the pupil-led factors; basic per pupil funding additional needs factors such as FSM, FSM6 and low prior attainment, are allocated in respect of the number of pupils, and their characteristics, in a school.
- 3.44 The aim of the NFF’s funding floor, and the MFG, is to protect schools from sudden losses in their pupil-led funding, per pupil.

- It is a per pupil protection which allows funding to go up and down with pupil numbers;

- It protects pupil-led funding only (not total funding per pupil) as school-led funding should not increase or decrease with pupil numbers.

3.45 There are complications in the way the floor and the MFG currently work and so the government are proposing moving to a simple pupil-led protection to avoid “perverse results”. A worked example is included in the consultation document in Annex B.

The annual funding cycle

3.46 This section of the consultation asks questions on the proposed high level timeline for the annual funding cycle under the direct NFF; what early information would be most helpful for schools to aid them in their budget planning; and the timing and nature of information the ESFA will continue to collect from local authorities.

Data collected from local authorities

3.47 The ESFA propose to collect information related to:

- PFI
- Exceptional circumstances
- Split Sites
- Growth Funding
- Transfers to the High Needs Block.

Further detail on the proposals can be found in the consultation document.

De-delegations

3.48 The ESFA uses information on de-delegation to make an adjustment to the funding academies receive. The proposal seek preference on whether to undertake on single data collection in March or several smaller data collections for mid-year converters as well as any other comments on the timing and nature of data collections to be carried out under a direct NFF.

4. Recommendations

That Schools Forum:

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- 4.1 Note the contents of the report.
- 4.2 Nominate representatives for a working group to respond to the consultation.

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Date: 27/06/2022

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