**London Borough of Tower Hamlets**

**School Forum 10 October 2018**

**Executive Summary**

**AGENDA ITEM 5**

# **Title of report: School Funding Formula 2019-20**

**Author of the paper: Steve Worth**

**Officer to present the paper to School Forum: Steve Worth**

**Details on who has been consulted with on this paper to date:**

NFF working group , Neville Murton, Christine McInnes

**Exec Summary:**

This report:

1. Sets out the background to the school funding formula for the period 2018-19 to 2020-21.
2. Looks at the current Tower Hamlets funding formula.
3. Outlines the resources for 2019-20.
4. Looks at options for the funding formula for 2019-20.
5. Makes a recommendation on the formula to be used for 2019-20.
6. Sets out the proposed document for consultation with schools.

**Action Required:**

Schools Forum is invited to comment of the proposed funding formula for 2019-20 and the document for consulting with schools.

1. **BACKGROUND.**
   1. The National Funding Formula (NFF) applies a standard formula to allocate money to all schools in England. It contains a range of factors with fixed factor values that are applied to the characteristics of a school and its pupils. An Area Cost Adjustment (ACA) is applied to the factor values to reflect the higher costs found in some parts of the country. The NFF was introduced in 2018-19.
   2. The NFF is being phased in with the initial years using a ‘soft’ formula; that is each Local Authority (LA) receives the sum of the NFF allocations for the schools[[1]](#footnote-1) in its area (including transitional protection). The LA then decides how the money is allocated to schools, after consulting with its schools and schools forum.The ‘soft’ formula was originally planned for 2018-19 and 2019-20 only, with a ‘hard’ formula, without local input, to be implemented in 2020-21.
   3. The DfE’s planned phasing included transitional arrangements to protect individual school budgets from significant year-on-year changes. These arrangements were enhanced when the 2017 general election led the Government to find additional resources for schools. These allowed a 0.5% uplift per pupil in 2018-19 and a further 0.5% uplift in 2019-2020.
   4. Transitional protection for individual schools was generally through the Minimum Funding Guarantee (MFG). This had been set at -1.5% in recent years but the general increase in funding allowed the Education and Skills Funding Agency (ESFA) to give LAs discretion in setting a local MFG. To enable local funding formulae to approach the NFF as closely as possible, LAs were allowed to set a MFG of between +0.5% and -1.5%. A LA is required to consult its schools and schools forum about proposed changes to the MFG.
2. **RECENT CHANGES – JULY 2018.**
   1. The DfE announced that the ‘soft’ NFF arrangements would be extended to 2020-21.
   2. Indicative allocations were published for the 2019-20 Dedicated Schools Grant (DSG) together with indicative NFF allocations for individual schools. Because of the continuation of the local formula the latter will not be the actual allocations received by schools. The Primary and Secondary Units of Funding (PUF and SUF) were included in the publication. These were applied to the October 2017 pupil data to calculate the indicative grant. The PUF and SUF values will not change but will be applied to the October 2018 pupil characteristics to calculate the final allocations in December 2018.
   3. An Authority Proforma Tool (APT) for modelling the 2019-20 budget shares was released. This was enhanced to allow LAs to include a 1% funding floor to replicate the two 0.5% per-pupil uplifts mentioned in Paragraph 1.3.
   4. Also in July, the DfE published information on every LA’s local formula for 2018-19.
3. **TOWER HAMLETS FUNDING FORMULA 2018-19.**
   1. Tower Hamlet’s (TH) approach in 2018-19 was to maintain its 2017-18 formula as closely as possible with a MFG of -1%.
   2. A comparison of the TH factor values with the NFF values can be found in Appendix 1.
   3. The publication of formula data for all LAs allows inter-authority comparison and Appendix 2 compares TH’s formula with the average for London. Noteworthy differences are:
      1. A greater emphasis in the London average on the Income Deprivation Affecting Children (IDACI) factor for allocating deprivation.
      2. Greater emphasis in TH on the use of Free School Meals in allocating deprivation, but no use of current eligibility.
      3. A smaller proportion of TH’s resources (7.3%) are allocated through deprivation factors than on average (9.2%). This may reflect a decision based on a more uniform pattern of deprivation across all schools in TH compared to other London LAs
      4. A greater proportion of resources in TH (4.2% compared with an average of 2.3%) are distributed through English as an Additional Language (EAL).
      5. A smaller proportion of TH resources are distributed through Prior Attainment (3.2% compared with 5.2%).
4. **TOWER HAMLETS SCHOOL FUNDING FORMULA 2019-20.**
   1. A LA has a duty to keeps its funding formula under review. In discharging this duty TH will need to determine whether to continue with the approach set out in 3.1, to begin to move towards the NFF or adopt some other option.
   2. To help discharge this duty the Forum on 17th April 2018 agreed to set-up a Schools Funding Formula Review Group. Forum members were contacted by e-mail and volunteers requested.
   3. The Group met for the first time on 6th June. However, the Group recognised that it was not representative of the school community and that further members needed to be recruited. Volunteers obtained via the Secondary and Primary Headteacher Consultative Groups joined the Review Group.
   4. The Group met several times in the summer term and again in September to review the following options:
5. To move as closely as possible to the NFF.
6. To move part way towards the NFF. The impact of moving factor values 25% and 50% towards those in the NFF were looked at but the impact of the MFG meant that the results were very close to a. and these options were not considered further.
7. To retain the current factor values but vary the MFG and capping and scaling arrangements.
   1. The release in July of an updated modelling tool incorporating the 1% per-pupil uplift necessitated the remodelling of the options set out in 4.4 together with a further two models, applying the per-pupil uplift to a. and to the existing TH formula.
   2. In considering changes to the formula for 2019-20 members should be mindful of the need to plan for implementation. Decisions made in the autumn and spring terms will be implemented in budget shares from April 2019 (for maintained schools). Members of the Review Group were of the view that any significant changes should be delayed to 2020-21, with only minimal changes in 2019-20, but that planning for 2020-21 should happen as soon as possible to allow for the maximum planning time.
8. **TOWER HAMLETS SCHOOLS BLOCK 2019-20.**
   1. The options considered here use the indicative DSG Schools Block notified in July plus the latest estimates for National Non-Domestic Rates (NNDR). They also use October 2017 pupil data. Please note these figures will be updated towards the end of December and proposals finalised in January 2019.
   2. The increase in the indicative Schools Block is £1.017m, made up of:
      1. An increase in the pupil units of funding to incorporate the 0.5% uplift; this will generate an additional £1.331m of funding.
      2. Adjustments to the allocation for premises will see a reduction of £0.429m in respect of NNDR offset by an increase of £0.115m for PFI indexation. The actual call on the latter will be £0.086m.
   3. In allocating funding, a smaller proportion will be required for NNDR due to both a reduction in the annual allocation and adjustments in respect of over-allocation in 2018-19. This will release £0.920m after allowing for the reduction in DSG of £0.429m.
   4. The combined net increase of £0.931m (£1.017m - £0.086 PFI uplift) and the reallocation of £0.920m will give headroom of £1.851m in 2019-20.
   5. Members need be mindful that the release of NNDR is one-off and will feed through to a reduction in the Schools Block in 2020-21. To put this into the formula in 2019-20 will increase allocations in that year that will need to be reduced in 2020-21. The increase in 2019-20 would also incur MFG liabilities that would have to be met in subsequent years.
   6. Forum has been informed of pressures in the High Needs Block (HNB), estimated to overspend by £2.606m in 2018-19. The pressure on the HND will need to be contained and options may impact on top-up funding for pupils with special needs.
   7. Regulations allow for Forum to agree a one-off transfer of up to 0.5% of the Schools Block into the High Needs Block. This would allow a transfer of up to £1.3m (based on indicative allocations) that would help ease the pressure on the HNB in 2019-20. The options considered seek to avoid the use of the £0.920m as far as possible and it is recommended that the balance of this one-off funding is transferred to the HNB in 2019-20 only.
9. **OPTIONS.**
   1. The models used the indicative Schools Block for 2019-20 and the latest NNDR estimates. The models are:
10. Current funding formula without the funding floor;
11. Current funding formula with the funding floor;
12. NFF funding formula without the funding floor
13. NFF funding formula with the funding floor.
    1. The results are shown by school in Appendix 3.
    2. The allocations, including the original ones for 2018-19, are shown net of NNDR as the significant movements in this would distort the pure formula changes. PFI allocations have also been removed in order to show the impact of general formula changes.
    3. The influence imposed by the MFG and funding floor and the restrictions placed on allowable values, mean it was not always possible to balance the models without unacceptable changes in factor values. The following table sets out the resource available and those required for each model and the resulting sum that can be transferred to the HNB.
    4. The balancing of Model 1, the current funding formula, using the MFG near the maximum gave little scope for remodelling using variations on the capping and scaling factors (see 4.4 c.). Very little is generated through capping and scaling even when the former was set to 1%. This option was therefore not explored further.

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|  | **Model 1** | **Model 2** | **Model 3** | **Model 4** |
|  | £000 | £000 | £000 | £000 |
| a. Resource available (excluding NNDR, one-off adjustment and PFI). | 251,172 | 251,172 | 251,172 | 251,172 |
| b. Resource required to balance model (Appendix 3). | 251,172 | 251,660 | 251,172 | 252,313 |
| c. NNDR one-off adjustment. | 920 | 920 | 920 | 920 |
| d. Required for model (b-a). | 0 | 488 | 0 | 1,141 |
| e. Available to transfer to HNB (c-d). | 920 | 432 | 920 | (221) |

* 1. Under Model 1 all schools gain as it is the current model with additional resources. This model causes the least disruption but makes no progress towards the NFF. It does release the full amount of the one-off adjustment for transfer to the HNB. The model is balanced through the MFG, which has a positive value of 0.41%.
  2. Model 2 uses existing TH factor values together with the 1% funding floor and a MFG of -1.5%. Balancing the model will require £0.492m more than for Model 1, reducing the amount that can be transferred to the HNB. The impact on schools will depend on how they fared with the local changes in 2018-19. There are three main scenarios:
* If the changes took the 2019-20 budget above a 1% per pupil increase compared with 2017-18 baseline then the funding floor will not apply. Because the 19-20 increase in resources is needed for the funding floor, rather than allowing a positive MFG, these schools will be funded at the same level as in 2018-19; that is below the level in Model 1. Fifty five schools will be in this position.
* If the change in a school’s funding is less than 1% per pupil higher than the 2017-18 baseline then additional resources will be added through the funding floor. Twenty four schools will be in this position.
* If funding in 2019-20 is above the baseline and the school was in receipt of MFG in 2018-19 the less favourable MFG in 2019-20 may lead to a loss of funding. Ten schools will lose funding.
  1. Model 3 uses the NFF funding factor values coupled with a MFG of 0.42%, which allows all schools to gain compared with 2018-19. The gain includes £29.078m through the positive MFG as TH schools will lose through the NFF. How schools fare compared with Model 1 depends on the relative benefit of one funding formula over the other for that school, moderated by the MFG. The model balances to the resources available, allowing the transfer of the full amount of one-off funding.
  2. Model 4 uses the NFF in conjunction with the funding floor. The floor and a MFG of -1.5% locks a total of £30.218m into these mechanisms, requiring an injection of £0.221m; consideration could be given to taking this from the Growth Fund. This model would fully utilise the one-off resource, leaving no contribution to the HNB; it would also require a reduction in the formula funded allocation in 2020-21, coupled with additional commitments through the MFG in that year. It produces winners and losers to a much greater extent than the other models.

1. **Conclusions.** 
   1. Model 4 requires an input of resources as well as locking in the one off funding released by NNDR changes. It creates a greater number of winners and losers than the other models should have sufficient time for governing bodies to plan its implementation.
   2. Model 2 gives no advantage to the majority of schools and incurs loses for some. It requires the input of one-off resources to balance.
   3. Models 1 and 3 are the main contenders. Both give all schools an uplift and cause no significant year-on year changes. Model 1 does not move the Tower Hamlets formula towards the NFF whereas Model 3 does. Model 3 will allow schools to see what they will get through the NFF, making clear what they receive in transitional arrangements (MFG) that will reduce over time. This will aid long term planning in schools. There are no material differences between the models so there seems little reason for not moving to the NFF.
2. **Recommendation.**
   1. That Model 3 is adopted as the Tower Hamlets Schools Funding Formula for 2019-20.
3. **Consultation.**
   1. The LA is required to consult with all schools and academies on any proposed changes to the funding formula. The proposed consultation document is set out in the Annex. Please note that the Appendix 2 referred to in the Consultation Document is Appendix 3 of the main report. Members views on its clarify and comprehensiveness are sought.
   2. The consultation will take place between 12 October and 12 November. The outcome will be reported to Forum on 5 December where a recommendation to the Council will be requested.

**Caveats.**

***The figures here are indicative and will change when the October 2018 census data becomes available. There are also further local checks on the impact of the MFG on individual schools and on NNDR allocations.***

**ANNEX. Draft Consultation Document**

**Introduction.**

1. Local Authorities (LAs) are required to keep their local funding formula under review. Although the formula adopted is a decision for the LA it must consult its schools (including academies) and schools forum on its proposals. This paper sets out the national position and the current arrangements in Tower Hamlets before looking at the proposals for next year.

**National Position.**

1. The Government began the implementation of the National Funding Formula (NFF) for Schools in 2018-19.

1. The NFF applies a standard formula to allocate money to all schools in England on a consistent basis. It contains a range of factors with fixed factor values that are applied to the characteristics of a school and its pupils. An Area Cost Adjustment (ACA) is applied to the factor values to reflect the higher costs found in some parts of the country.
2. The NFF is being phased in with the initial years using a ‘soft’ formula; that is each LA receives the sum of the NFF allocations of the schools (including academies) in its area. The LA then decides how the money is allocated to schools after consulting with its schools and schools forum. The ‘soft’ formula was originally planned for 2018-19 and 2019-20 only but has now been extended to 2020-21. After that a ‘hard’ formula, without local input, would be implemented in 2021-22. This would mean that each school received its NFF allocation, plus transitional arrangements.

1. The DfE’s transitional arrangements are designed to protect individual school budgets from significant year-on-year changes. For most schools the most important element is the Minimum Funding Guarantee (MFG). In recent years this has been set at -1.5%, meaning that schools were guaranteed at least 98.5% of the previous year’s funding per pupil (excluding factors such as NNDR).
2. Transitional arrangements were enhanced when the 2017 general election led the Government to find additional resources for schools. The additional resources allowed a 0.5% uplift per pupil in 2018-19 and a further 0.5% uplift in 2019-2020.
3. The general increase in funding allowed the Education and Skills Funding Agency (ESFA) to give LAs discretion in setting a local MFG; in particular, to set a positive MFG of up to 0.5% to enable schools to benefit from the per-pupil uplift. The permissible range for MFG was 0.5% to -1.5%.
4. Changes to the funding formula for 2019-20 introduced a new transitional factor, the Funding Floor. This allowed LAs the ability to give all schools at least a 1% uplift based on its 2017-18 baseline.
5. A comparison between the local and NFF funding factors is set out in Appendix 1.

**Tower Hamlets 2018-19.**

1. The position agreed in Tower Hamlets was to maintain the status quo as far as possible. This meant all factor values remained the same as in 2017-18, with the following exceptions:
   1. The Age Weighted Pupil Unit (AWPU) was increased by 0.5% to reflect the uplift per pupil.
   2. The Income Deprivation Affecting Children Index (IDACI) was used for the first time as a measure of deprivation.
   3. To balance funding to the resources available the MFG was set at -1% rather than the -1.5% used the previous year.

**Preparing for 2019-20.**

1. The Schools Forum set up the Schools Formula Review Group to assist the LA in reviewing the formula. The Group met several times in the summer term and again in September looking at options. In July the ESFA released updated projections for 2019-20 and introduced the Funding Floor, see Paragraph 8. The main options looked at initially were:
   1. Maintaining the status quo.
   2. Moving to the NFF.
   3. A half-way house between a and b. Due to the action of the MFG there was little difference between this and b and this option was discounted.
   4. The implications of varying the value of the MFG and the capping and scaling factors (used to moderate the gains of schools benefitting from changes). Initially considered, this option was dropped when the additional resources for 2019-20 limited the range of values that could be used for these factors.

The remaining options, a and b, were then modelled with and without the funding floor.

1. The cash limit applied to the models was the 0.5% per-pupil uplift, less a reduction in National Non-Domestic Rates (NNDR) funding due to reduced charges in prior years. This gave an increase in resources of £0.931m. A further reduction in NNDR will give a one-off saving in 2019-20 of £0.92m but this has not been included in the cash-limit. To do so would require a reduction in budget allocations in 2020-21 whilst increasing MFG commitments in that year. It is the LA’s intention to seek the School Forum’s permission to use this one-off resource to relieve pressure on the High Needs Block in 2019-20 only.
2. The modelling excluded NNDR and PFI allocations so that the formula implications could be clearly seen. Appendix 2 shows the allocation by school for each of the following:
   1. Original 2018-19.
   2. Model 1- the existing formula without the funding floor. The model has been balanced by changing the MFG. In 2018-19 this was set at -1.00% but the additional resources in 2019-20 allow a positive value of 0.41%. Because it is the current position but with extra funding every school will gain.
   3. Model 2 – the existing formula with the funding floor. Even with a MFG of -1.5% this model exceeds the cash limit set out in 11. This is because funding changes in 2018-19 benefitted some schools by more than the 0.5% uplift and this is now locked in through the MFG. The majority of schools will be worse off under Model 2 compared with Model 1 because the resources required for the funding floor necessitate a MFG of -1.5%.
   4. Model 3 – the NFF without the funding floor. Although Tower Hamlet schools lose resources through the NFF the per-pupil uplifts and the MFG mean that that the funding available will see an increase for every school. The model was balanced by using a positive MFG of 0.42%.
   5. Model 4 – the NFF with the funding floor. The resources required to balance this model are even greater than in Model 2

1. It is the LA’s intention not to pursue Models 2 and 4 due to the need for a cash limit greater than set out in 11 and the reduced funding for the majority of schools compared to Models 1 and 3.
2. Model 1 does not move the Tower Hamlets formula towards the NFF whereas Model 3 does. Model 3 will allow schools to see what they will get through the NFF, making clear what they receive in transitional arrangements (MFG) that will reduce over time. This will aid long term planning in schools.

**Recommendation.**

1. ***That Model 3 is adopted as the Tower Hamlets Schools Funding Formula for 2019-20.***

**Consultation.**

1. The attached consultation document seeks your views on the proposals for 2019-20.

**Caveats.**

1. ***The figures here are indicative and will change when the October 2018 census data becomes available. There are also further local checks on the impact of the MFG on individual schools and on NNDR allocations.***

**Tower Hamlets Schools Funding Formula 2019-20.**

**Consultation**

**Please e-mail your responses to:**

[**Steve.worth@towerhamlets.gov.uk**](mailto:Steve.worth@towerhamlets.gov.uk)

**By: xx/xx/2018.**

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| **Question:** | **Response:**  **Yes/No** | **Comments:** |
| Question 1:  ***Do you support the proposal to implement the National Funding Formula (Model 3) in 2019-20?***  The factor values will be those set out in Appendix 1 with a Minimum Funding Guarantee of +0.42%. |  |  |
| Question 2:  If your response to Question 1 is No would you support another of the options modelled? If so please state which and your reasons. |  |  |
| Question 3.  If your answers to Questions 1 and 2 are No please give your alternative proposals. |  |  |
| Any other comments. |  |  |

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| --- | --- | --- |
| School Name: | Position: | Name: |
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1. In this context, the term school includes academies and free schools. [↑](#footnote-ref-1)