

Document JC Appendix 1

National Funding Formula and DSG 2019/20 – Briefing Note

This briefing note is written following the DfE's announcements made on 24-25 July 2018 on National Funding Formula and 2019/20 DSG arrangements.

- 1) We are one of 41 local authorities that decided locally to replicate the National Funding Formula (NFF) for the calculation of primary and secondary school budget shares in 2018/19.
- 2) The move to a Schools Block 'hard' NFF (central government not local authorities calculating primary & secondary school budget shares) will not take place at April 2020 as previously expected. The DfE does not say that hard NFF transfer will take place at April 2021.
- 3) There continues to be uncertainty about the speed of progress to the NFF 'end product'. The DfE has stated that policy direction and NFF values cannot be set out until after the autumn 2019 spending review and that NFF will be influenced directly by the amount of money available going forward. This level of uncertainty is difficult. In particular we are unclear about:
 - a. When / whether the increase in the Authority's High Needs Block will be fully realised, and
 - b. What the value of minimum funding guarantee (MFG) protection for primary and secondary schools will continue to be. Clarity on MFG protection important for us especially as the majority of our schools and academies are currently funded on the MFG (144 out of 189 (76%) schools and academies in 2018/19; total allocation of £8.87m), and
 - c. The future policy direction of early years funding, including whether nursery schools will be protected after 2019/20.
- 4) As previously set out by the DfE, National Funding Formula has now replaced previous methodologies for the allocation of DSG to local authorities across all 4 Blocks. The key terms of this allocation in 2019/20 are relatively unchanged from what was announced for 2019/20 last year:
 - a. The Schools Block has been calculated (aggregated) to allocate the equivalent of a minimum 1% per pupil increase on 2017/18 school baselines. The new minimum levels of funding (£3,500 primary; £4,800 secondary) are now funded at DSG level. We have effectively received in 2019/20 the full NFF result for all primary and secondary schools i.e. there isn't any growth capping left to be released to the Schools Block in future years. The NFF variables remain unchanged other than for a small reduction to the value of the primary phase low prior attainment variable (reduced to £1,022 from £1,050). So the NFF retains the same dynamic, including its focus on AEN, low prior attainment within AEN, and the reduction in the value of the lump sum, which is the most significant factor in terms of impact on the primary phase formula.
 - b. For reference, our aggregated 2019/20 Schools Block Primary unit of funding (£PUF) is £4,176 (+0.2% on 2018/19). Our Secondary unit of funding (£SUF) is £5,414 (+0.4% on 2018/19). Our current modelling suggests that there isn't much spare headroom within the 2019/20 Schools Block settlement. Within the Schools Block in 2019/20, premises costs (BSF, business rates and split sites) and pupil mobility continue to be funded based on last year's spend.

- c. As in 2018/19, local authorities in 2019/20 have flexibility to set the Schools Block Minimum Funding Guarantee for primary and secondary schools at between minus 1.5% and positive 0.5% and to set their own ceilings to cap gains. Not previously announced, in 2019/20 authorities are permitted to use a new optional factor, which will allocate a 1% per pupil increase on 2017/18 baselines to primary and secondary schools. The relative merit of such a factor, and whether we propose to adopt this, will be further considered with the Schools Forum in early autumn prior to consultation with schools.
 - d. The increase in the High Needs Block allocation is capped, as expected, at 6.09% on 2017/18 baselines. Some of the specific data within the HNB allocation has been updated and there has also been a general update for population growth. We are funded on this 6.09% cap and this means that, in 2019/20, an estimated £4.2m of the growth we now estimate to receive under the damped NFF 'end product' is still to be allocated to us. The HNB damped NFF formula however, also still continues to allocate 50% of the national pot on historic spend rather than the new needs-led formula. As a result of this, a further estimated £8.2m of HNB funding in 2019/20 is also not yet allocated to us. So £12.4m in total is estimated to be 'owed' based on the latest 2019/20 High Needs Block calculations. Unless the caps / damping are released, as data evidencing increasing need is updated annually, the gap between the value of HNB funding we should receive under the final NFF 'end product' and what we actually receive will increase. This will place our High Needs Block greater financial pressure. The DfE however, has stated that the position of the 50% historic protection element of the High Needs Block will not be reviewed for another 3 financial years.
 - e. The Central Schools Block allocation has moved to an amount per pupil formula and we continue to gain from this due to low previous spending albeit our gain is damped. The DfE will continue to fully fund all historic commitments in 2019/20 (we will receive £0.44m). We had expected, based on previous DfE announcements, that historic commitments funding would cease after 2018/19. The DfE now indicates that historic commitments funding will begin to reduce in 2020/21.
 - f. The reduction in our 3&4 year old funding within the Early Years Block as a result of national reform is complete at April 2019. Our DSG funding rate has reduced to £4.57 per hour from £5.19 at April 2016. Maintained nursery school funding continues to be specifically protected but 2019/20 is the final year of this protection under the current policy. Restrictions remain in place for 3&4 year old funding on the use of supplementary factors (no more than 10% of budget) and on spending on centrally managed activities (no more than 5%).
- 5) The DSG settlement for 2019/20, as previously forecasted, will not fully compensate DSG funded provisions for the growth in costs (especially salaries costs) and therefore, there will be further erosion in the value of formula funding in real terms. For clarity, this is not a technical formula issue. It is an issue that is arising as a result of the quantum of education funding falling behind as costs (of salaries and services) increase. The DfE has announced a new separate non-DSG additional Teacher's Pay Grant, to be allocated in 2018/19 and 2019/20, to support the September 2018 pay award. This is expected to fund costs of the award above 1%. Further details of this Grant are to be announced. The longevity of this grant is unclear.
- 6) Tellingly, the DfE's operational guidance includes the statement, "an increasing number of local authorities are now incurring a deficit in their overall DSG account, largely because of overspends on the high needs block." The DfE states that it intends to require a report from any local authority that has a DSG deficit of more than 1% as at 31 March 2019 (1% for us is £5.3m).

- 7) As in 2018/19, the Schools Block in 2019/20 is ring-fenced but there is flexibility to transfer monies to the High Needs Block; up to 0.5% (which is c. £2.1m for us) subject to the School Forum's approval after consultation with all schools, without the need for Secretary of State approval (transfers greater than 0.5% require Secretary of State approval). We did not enact a transfer in 2018/19.
- 8) NFF Schools Block formula development work is currently taking place in some targeted areas with some changes implemented for the 2019/20 DSG round but some taking longer to progress. The DfE has referred to the following areas:
- a. Growth Funding at DSG Schools Block level for expanding schools (a change from historic spending to a lagged formula basis, which is to be implemented in 2019/20; further details to enable modelling are to be provided in September). This change adds risk to our Schools Block value, currently £3.2m, especially as we have implicit growth spending for 2 new free schools from September 2019. We estimate that we may only receive £2.5m in 2019/20. This would reduce Schools Block headroom.
 - b. Education in Hospital funding at DSG High Needs Block level (a possible formula change in 2019/20 replacing the historic spend method, but subject to completion of a consultation in autumn 2018; further details are to be announced; we currently receive £1.6m).
 - c. Pupil Mobility funding at individual schools budget share level (no change in 2019/20, expected adoption of a national formula in 2020/21; further details are to be announced).
 - d. BSF / PFI funding at DSG Schools Block level (no change in 2019/20 on the current previous year spend + RPIX method; uncertain when change may be implemented).
 - e. Refinement of the NFF for primary and secondary schools generally at individual schools budget share level, including looking at weightings within the secondary phase low prior attainment factor (there is no timescale for change announced yet).
- 9) We understand that there is no intention to change current Schools Block de-delegation arrangements in the medium term. There had been a suggestion that de-delegation as a way of financing certain services for maintained schools would not be permitted after 2019/20.
- 10) The DfE's work to better 'describe' SEND needs, responsibilities and costs, replacing the concept of a 'notional SEND budget', is continuing and this work will influence future policy on high needs funding. There is no timescale currently for the release of further information about policy development in this area. There is no response to this work within the 2019/20 arrangements. However, there may be some changes in 2019/20 to the way place-element funding can be managed for post 16 provisions, to provide greater flexibility. These changes will be announced in September.