

Subject:	School Funding		
Date of Meeting:	06 March 2017 Children Young People and Skills Committee		
Report of:	Pinaki Ghoshal, Executive Director of Families, Children & Learning		
Contact Officer:	Name:	Richard Barker, Head of School Organisation	Tel: 290732
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Ward(s) affected:	All		

FOR GENERAL RELEASE**1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 To inform the committee of the proposed changes in school funding in the move to a National Funding Formula from 2019/20.
- 1.2 To update the committee on the work with schools to support them in addressing the funding pressures it is expected they will encounter.

2. RECOMMENDATIONS:

- 2.1 To note the move to a complete National Funding Formula from 2019/20 and the anticipated impact this will have on the city's schools.
- 2.2 That the committee agree that the actions being taken to support schools in their preparation for changes to school funding are appropriate and proportionate.

3. CONTEXT/ BACKGROUND INFORMATION

- 3.1 In broad terms the funding of schools and the services provided by the Local Authority (LA) to support them are funded by three areas, the council's General Fund, the Education Services Grant (ESG) and the Dedicated Schools Grant (DSG).
- 3.2 The Schools Forum is made up of representatives from schools and academies. There is also some representation from non-school organisations, such as nursery and 16-19 education providers. The forum acts as a consultative body on some issues and a decision making body on others.
- 3.3 The forum acts in a consultative role for:
 - changes to the local funding formula (the LA makes the final decision)
 - proposed changes to the operation of the minimum funding guarantee
 - changes to or new contracts affecting schools (e.g. school meals)
 - arrangements for pupils with special educational needs, in pupil referral units and in early years provision

- 3.4 The forum decides:
- how much funding may be retained by the LA within the DSG (e.g. for providing an admissions service or providing additional funding for growing schools)
 - any proposed carry forward of deficits on central spend from one year to the next
 - proposals to de-delegate funding from maintained primary and secondary schools (e.g. for staff supply cover, insurance, behaviour support)
 - changes to the scheme of financial management

Education Services Grant

- 3.5 The ESG has been paid at one per pupil rate to cover the duties an LA has for all pupils within its schools, including academies and another per pupil rate to cover the duties of all pupils attending a maintained school. Academies receive a separate amount of ESG for the pupils attending its school.
- 3.6 The government recently announced the full phasing out of ESG, from September 2017 removing this £2.9m grant from the LA and creating another budget pressure.
- 3.7 The funding paid to cover the duties the LA has for all pupils (retained duties) in the financial year 2017/18 was transferred to the DSG and in October the Schools Forum agreed that this cost should be met by the DSG to alleviate the substantial pressure on the council's General Fund budget. The figure, updated for pupil numbers is £0.492m.
- 3.8 The council has received £1.007m for the other element of the ESG to cover the academic year 2016/17.
- 3.9 Subsequently the LA has been notified of a provisional allocation of £0.123m in school improvement monitoring and brokering grant to cover the period September 2017 to March 2018 of the academic year 2017/18.

Financial Year	ESG (or equivalent) Funding
2016/17	£2.9m
2017/18	£1.622m

- 3.10 It is proposed that under the new funding arrangements a Central School Services Block of funding will be created to fund the LA's retained duties for both maintained schools and academies and the schools block funding currently held centrally by LAs, such as school admissions.
- 3.11 The DfE have also announced a £140m Strategic School Improvement Fund that will be accessible to schools and Academies. No further details about how this funding can be accessed have been released yet.

Dedicated Schools Grant (DSG)

- 3.12 The DSG budget allocation received by the council is split into three notional blocks – schools, early years and high needs. The blocks are not ring-fenced but the DfE will continue to ring-fence the DSG as a whole. The Schools Block has

been calculated using pupil numbers from the October 2016 School Census. The Early Years Block (EYB) continues to be funded on January headcount data. The High Needs Block (HNB) covers funding for education provision for high needs pupils and students from birth to 25, in line with the new SEN and Disability legislation.

- 3.13 As decided by the Schools Forum, in total, £4.335m is not allocated to individual school budgets. A further £0.118m is taken from the Early Years and High Needs block to fund some central provision.

Schools Block

- 3.14 In calculating a formula by which the total amount of Schools Block funding is distributed to individual schools only certain factors are allowed. The Schools Forum is consulted upon those that the LA chooses to use and the relative amounts of each one. For example the amount paid for each primary aged pupil and each secondary aged pupil, the size of a lump sum payment to each school and the amount paid for each child in care.
- 3.15 For 2017/18, the overall allocation of funding to schools has increased by over £2m and this is due to an increase in pupil numbers and a reduction in funding returned to the Local Authority.

High Needs Block

- 3.16 The LA is responsible for the allocation of the High Needs Block (HNB) and the majority of funding in this block is delegated to/used to support maintained schools or paid directly to establishments for the provision of education.
- 3.17 The LA is now analysing the implications for the HNB in 2017/18 and will be finalising budget commitments and allocations in this block prior to the start of the financial year.
- 3.18 As in 2016/17, all special schools will receive a base funding level of funding of £10,000 per commissioned place. In addition to this and according to national funding policy, the LA will pay a locally agreed 'top-up' to special schools if and where necessary, which will vary between provisions depending on the complexity of pupils' needs in the particular establishment.
- 3.19 In the financial year 2013/2014 top-up funding was allocated for 266 pupils, however, in the current year this is expected to increase to almost 400 pupils.
- 3.20 Despite the large increase in the number of pupils for who top-up funding is being allocated, the total number of pupils with Statements/EHC plans over the same time period is largely unchanged creating a financial pressure in the HNB.

Early Years Block

- 3.21 Funding for early years free entitlement (EYFE) places for two, three and four year olds comes from the Early Years Block of the Dedicated Schools Grant (DSG). The government has allocated all local authorities early years funding based upon a national formula. Brighton and Hove's allocation for three and four

year olds equates to an increase of 4p per hour on the amount for 2016/17 and at £4.45 is significantly below the published national average amount of £4.78.

- 3.22 There has been a drop in the number of children attending nursery classes in the city over a number of years which has led to empty places and funding pressures. Some schools have reduced to part time opening or are proposing to close their classes. The increase in the entitlement to 30 hours of free childcare for 3 and 4 year olds with working parents may increase demand from September 2017. New funding rates will come in from April 2017 and will apply to all EYFE hours, including the additional 15 hours to which three and four year olds of working parents will be entitled from September 2017 (30 hours free childcare).

Proposals for a National Funding Formula

- 3.23 The DfE has launched a consultation on its detailed proposals for a National Funding Formula (NFF) for schools, High Needs and LAs, to take effect from April 2018. As part of the consultation exercise an indication of the likely impact of the NFF has been published.
- 3.24 In 2018/19 the DfE will calculate notional individual budgets for schools according to the national formula. These will then be aggregated and allocated to local authorities for distribution to schools according to the locally agreed formula in consultation with the Schools Forum.
- 3.25 In 2019/20 the DfE will calculate individual budgets for schools according to the national formula and there will be no local influence on the allocation to the city's schools. LAs will continue to make decisions about how to spend their High Needs, Early Years and Central School Services Blocks.
- 3.26 The schools NFF will comprise 12 factors and the High Needs formula will comprise 9 factors. Appendix 1 illustrates the proposed formulas and how the factors compare to what is used at present.
- 3.27 The high level information on a first year of any NFF transition would indicate a 0.1% increase in school and academy funding in Brighton and Hove, with individual schools gaining or losing depending upon individual circumstances.
- 3.28 In the proposals it is expected that a lump sum amount of £110k will be allocated for all schools. Currently in Brighton and Hove the lump sum is £150k. Many smaller schools are likely to be affected by this proposal because they are unlikely to recoup the £40k amount through funding being allocated via pupil led factors.
- 3.29 The amount of the lump sum is one of the specific questions asked in the consultation document alongside questions about the primary to secondary funding ratio and the proportion and weightings allocated to the various factors.
- 3.30 In overall terms, under the new formula, the HNB for Brighton and Hove is indicated to be at the same amount as it is currently.

- 3.31 The Central School Services Block will be funded according to a per pupil rate and will be adjusted by area costs, with the addition of a deprivation factor to recognise the challenges of providing some central services in areas of high socio-economic deprivation.
- 3.32 Initial indications are that this funding will be 5.3% lower for the council from 2018-19 compared to the 2016-17 baseline figure.
- 3.33 The council doesn't support the use of the general labour market (GLM) methodology to calculate the Area Cost Adjustment. The GLM geography means a single factor is calculated for Brighton and Hove and East Sussex. However previous work undertaken by the Department for Communities and Local Government as part of a review demonstrated that wages in Brighton and Hove were statistically significantly higher than East Sussex.
- 3.34 As both formulas use GLM the council responded in the first consultation that a separate factor should be calculated for Brighton and Hove using wage data for the city alone.

Impact of NFF on Brighton and Hove Schools

- 3.35 It is clear that schools in Brighton and Hove will face increasing financial pressures along with other schools in the country.
- 3.36 It is anticipated that in Brighton and Hove 19 primary schools and 5 secondary schools will gain from the National Funding Formula. The illustrative data in Appendix 2 indicates that 33 primary schools and 4 secondary schools will lose.
- 3.37 Since 2013/14 the level of school balances have been falling. Whilst it would be concerning for schools to have built up a significant balance of uncommitted reserves, a prudent level of contingency and saving for specific projects is appropriate.
- 3.38 In 2015/16 the level of balances was £4.367m it is forecast to be £1m in 2016/17. Overall schools in Brighton and Hove will have fewer reserves to support them in meeting the income pressures that are anticipated.
- 3.39 If required, school balances are used to 'license' deficit budgets in specific schools. There are 11 schools with licensed deficit in 2016/17 totalling £1.4m. In 2017/18, it is expected that the amount of licensed deficit available to the city's schools is less than amount predicted to be needed in 2017/18.
- 3.40 Work is on-going to ensure that the amount of deficit a school is seeking to have licensed is as minimal as possible. This includes supporting and challenging schools to secure further in year savings in the remaining months of 2016/17 as well as seeking to minimise expected spend in 2017/18.
- 3.41 An 'early warning' system based on monthly monitoring of school budgets is in place and ensures that an updated picture is available from which an assessment of risk can be made. This informs discussions between colleagues in Schools Finance and Education and Skills and what appropriate course of action to follow.

- 3.42 A recent National Audit Office report stated that the DfE estimates that mainstream schools will have to find savings of £3.0 billion (8.0%) by 2019-20 to counteract cumulative cost pressures, such as pay rises and higher employer contributions to national insurance and the teachers' pension scheme.
- 3.43 It expects that schools will need to make efficiency savings through better procurement (estimated savings of £1.3 billion) and by using their staff more efficiently (the balance of £1.7 billion).
- 3.44 The report also mentions that there is a risk that schools may already be making poor decisions about how to cope with the financial pressures.
- 3.45 A session for all Headteachers and Business Managers entitled School Funding: Understanding the changes and planning for the future was held on 24 January 2017. The session outlined the proposals being put forward and asked school leaders to consider how this should be approached in partnership, as an education family.
- 3.46 Three themes were explored:
- Workforce: Spend the right amount of money on the right things
 - Working in partnership: Being well placed to access opportunities and know where expertise lies
 - Effective organisation: Ensuring viability in the long term
- 3.47 Four Headteachers shared their experiences. Feedback from the session is being collated and, following on from this event, a specific session is planned with school governors on 8 February.
- 3.48 The Schools Forum will be meeting to consider the response to the NFF consultation on 13 March prior to the consultation closing on 22 March.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 Under delegated powers from the LA, Governing Bodies and Headteachers are expected to achieve good outcomes for their pupils, put effective governance in place and manage their financial affairs efficiently and sustainably.
- 4.2 The DfE acknowledges this freedom and expects schools to have capacity to cope with new policies.
- 4.3 Schools could be left to manage the implications of the changes in school funding on their own however concerns have been expressed in the National Audit Office report about whether schools are making the correct decisions in the face of financial pressures.
- 4.4 The partnership approach developed in the city with a "family of schools" approach ensures there is support from colleagues in schools as well as from the LA to ensure no school is left behind.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 As previously stated, an information session with Headteachers and Business Managers was held on the 24 January 2017. A session with governors is due to be held on 8 February 2017.
- 5.2 The Schools Forum will respond to the consultation taking place and considers the impact of the proposed changes on the city's schools as part of its agenda items at its regular meetings.

6. CONCLUSION

- 6.1 In line with the national picture, the amount of balances held by schools in Brighton and Hove has been reducing in the last few years. The number of schools indicating that they are having difficulty in balancing their budgets is increasing.
- 6.2 The likely impact of the NFF is that there will be a slight increase in school funding in Brighton and Hove but more primary schools will lose from the change than gain.
- 6.3 The LA has started a dialogue with schools about addressing the pressure of school funding and has led a session with school leaders on three themes associated with this, workforce, partnership working and school organisation.
- 6.4 It is expected that the scale of budget deficits in 2017/18 will be greater than the proportion of balances held by schools, under Brighton and Hove's Scheme for Financing Schools.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 There will be financial implications for all schools and academies in Brighton and Hove with the introduction of the National Formula Funding (NFF) in 2019/20, and at this stage high level information says that in total, schools will gain by around 0.4% of the overall school budgets. Given that things will change between now and 2019/20 it is almost impossible to say what this will mean for individual schools. The key element for smaller schools will be the reduction in the lump sum amount from the existing £150k to £110k in the NFF, as they are likely not to be able to make this up via other elements of the formula.

Finance Officer Consulted: Andy Moore

Date: 25/01/17

Legal Implications:

- 7.2 National government is currently consulting on proposals to deliver school funding by a national local funding formula from April 2018. This report notes the anticipated impact on the city's schools and the support being offered by the Local Authority. There are no specific legal implications arising.

Lawyer Consulted: Serena Kynaston

Date: 27/01/17

Equalities Implications:

- 7.3 This report is for information. There are no equality implications linked to the purpose of this report.

Sustainability Implications:

- 7.4 This report is for information. There are no equality implications linked to the purpose of this report.

SUPPORTING DOCUMENTATION

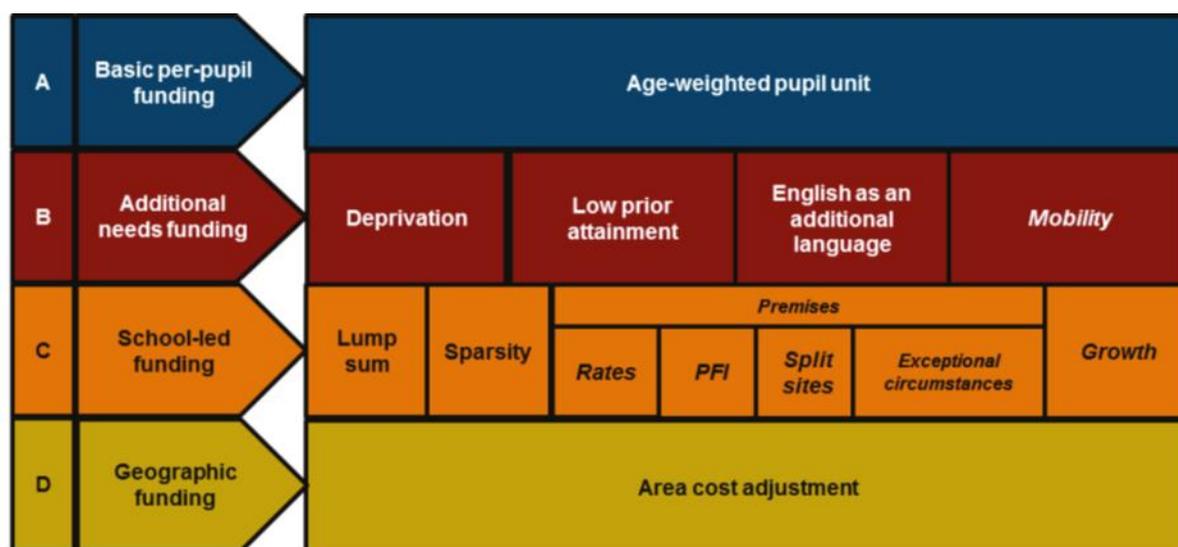
Appendices:

1. Illustration of the National Funding Formula and High Needs Formula

Background Documents

1. Financial Sustainability of Schools, National Audit Office
<https://www.nao.org.uk/report/financial-sustainability-in-schools/>
2. National Funding Formula consultation, DfE:
<https://consult.education.gov.uk/funding-policy-unit/schools-national-funding-formula2/>
3. The High Needs Block consultation, DfE:
<https://consult.education.gov.uk/funding-policy-unit/high-needs-funding-reform-2/>

Illustration of the National Funding Formula



The details of the individual factors of the NFF are listed below with a comparison to the current funding model in Brighton and Hove.

Factor	B&H 2016/17	NFF proposal	Difference
AWPU	73.97%	72.5%	-1.47%
Deprivation	9.08%	9.3%	0.22%
Low Prior Attainment	6.11%	7.5%	1.39%
Lump Sum	7.24%	7.1%	-0.14%
English as an additional language	1.04%	1.2%	0.16%
Sparsity	N/A	0.08%	0.08%
Mobility	0.08%	0.1%	0.02%
Premises	2.07%	1.8%	-0.27%
LAC	0.26%	Into Pupil Premium	-0.26%
Growth Fund	0.45%	0.5%	0.05%

Illustration of the High Needs Formula

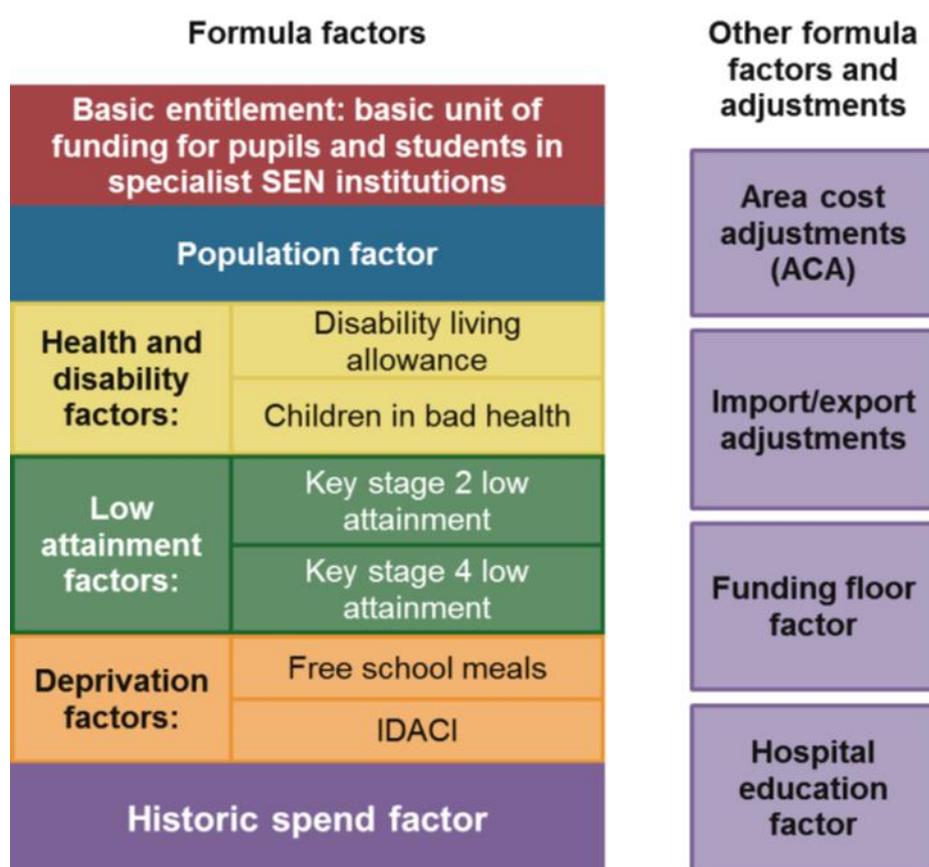


Figure 7: High needs national funding formula factor weightings

Formula factor	Proposed weightings			Data we have used for illustrative allocations
	SEN (90%)	AP (10%)	Com-bined	
1. Population	50%	50%	50%	Latest population aged 2-18 projection for 2018 from the Office for National Statistics (ONS)
2. Deprivation				
a. Free school meals (FSM) eligibility	8.3%	25%	10%	Number of children eligible for FSM
b. Income deprivation affecting children index (IDACI)	8.3%	25%	10%	Number of children in bands A-F from 2014 ONS population estimates
3. Low attainment				
a. Key stage 2 (KS2) results	8.3%	0%	7.5%	Number of children not achieving level 3 or above in KS2 tests in 2011-15
b. Key stage 4 results	8.3%	0%	7.5%	Number of children not achieving 5+ A* to G GCSEs in 2011-15
4. Health and disability				
a. Children in bad health	8.3%	0%	7.5%	Number of children and young people declared as in bad or very bad health in the 2011 census
b. Disability living allowance (DLA)	8.3%	0%	7.5%	Number of children aged 0-15 for whom parents receive DLA

Appendix 2

Brighton & Hove Primary and Secondary Schools
Range of Potential Gains / Losses through National Funding Formula Using Illustrative Data Provided by DfE

	Range	Primary	Secondary
GAIN	Above £50,000	5	0
	+ £40,000 to £50,000	0	2
	+ £30,000 to £40,000	1	3
	+ £20,000 to £30,000	2	1
	+ £10,000 to £20,000	6	0
	£0 to + £10,000	5	0
LOSE	£0 to -£10,000	11	0
	-£10,000 to -£20,000	12	0
	-£20,000 to -£30,000	10	1
	-£30,000 to -£40,000	0	0
	-£40,000 to -£50,000	0	2
	Above -£50,000	0	1
	Total Gaining	19	6
	Total Losing	33	4
		52	10

