

Manchester City Council Report for Resolution

Report to: Schools Forum

Subject: National Funding Formula (NFF) Consultation: Implementing the Direct NFF

Report of: Directorate Finance Lead – Children’s and Education

Summary

The Department for Education (DfE) have recently launched a consultation on *Implementing the direct National Funding Formula (NFF)*, to develop a single national funding formula (NFF) system to direct funds to schools. The direct NFF is moving away from local funding formulas (LFF) for primary and secondary schools to a direct formula from DfE.

The consultation closes 9 September 2022 and looks at some of the more technical aspects of how the direct NFF can be implemented. This report looks at the proposed changes, how they may impact Manchester from 2023/24 and Manchester’s draft response to the consultation. The response included in this report is Manchester’s initial view, once fully worked through the final response will be shared with schools.

Recommendations

School Forum members are asked to note and comment on:

- DfE proposals under the NFF consultation: *Implementing the direct National Funding Formula (NFF)*
 - Manchester’s draft response to the consultation, final response to be shared with schools.
 - School Forum submitting a response to the NFF consultation.
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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy, please contact one of the contact officers above.

Supporting Reports:

20 September 2021	Schools Forum - National Funding Formula (NFF) Consultation
15 November 2021	Schools Forum - Schools Consultation Outcome for NFF Transition
20 June 2022	Schools Forum - Outcome of the National Funding Formula Consultation (part1)

1. Introduction

- 1.1 Currently DSG (Dedicated School Grant) is allocated to Local Authorities on a national formula basis. Once the grant is received, local authorities can calculate funding for schools based on different factors in their local funding formulae (LFF) to reflect additional needs in schools' allocations.
- 1.2 The DfE have published the outcome from the first NFF consultation, which focused on the principles of moving to a direct formula: NFF consultation response. This was reported to school Forum June 2022, confirming government's commitment to start the gradual transition towards the direct funding formula from 2023/24.

The second NFF consultation, launched on the 7th June 2022, with a submission deadline 9th September 2022: Implementing the direct National Funding Formula (NFF), focuses on some of the technical elements for the proposed implementation of the direct NFF.

2. Consultation Proposals

The NFF consultation, Implementing the direct NFF, includes proposals covering the following five areas:

- Interaction between the direct NFF and funding for high needs (para 2.1 - 2.1.2)
- Funding for schools experiencing significant growth in pupil numbers or falling rolls (para 2.2 - 2.2.4).
- Premises funding (para 2.3 - 2.3.2).
- Operation of the minimum funding guarantee (MFG), which is the mechanism that protects schools against excessive year-on-year changes in their per-pupil funding (para 2.4)
- Funding cycle process, covering the DfE timescales for gathering data to calculate funding allocations, and then confirming these allocations to schools (para 2.5)

2.1 Interaction between the direct NFF and funding for high needs

This part of the consultation seeks views on two elements:

- Transfer of funding to high needs budgets.
- Indicative Special Education Needs and Disabilities (SEND) budgets

- 2.1.1 **Transfer of funding to High Needs Block** – currently 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 school's forum, and any transfers above 0.5%, or where the schools forum does not agree, must be decided by the Secretary of State. Most transfers by local authorities are from school's block (funding for mainstream schools) to high needs block.

The DfE recognises that this flexibility is important in helping local authorities face pressures within the high needs. The proposal is to still allow this flexibility, but any transfer of school's block funding to the high needs budget must be approved by the Secretary of State.

Although Manchester has never requested any transfer of funding from school

funding to high needs budget, it agrees that this flexibility remains possible for local authorities.

2.1.2 Indicative SEND (Special Education Needs and Disabilities) - initial portion of SEND funding in primary or secondary schools is met from the school's initial budget. Mainstream school's budget includes a notional SEND budget calculation, as an indicative figure within the school budget that has been allocated to meet the cost of SEND. Where a school's notional SEND budget is too low when compared to eligible pupils then a top-up is added. In Manchester's 2022/23 LFF, the notional SEND budget is calculated at £60.61m, with only two schools requiring the notional SEN top-up, totalling £84k.

Local authorities use various factors within their LFF to identify the notional SEND, so there is no national consistency in the formula. The consultation seeks views that the indicative SEND budget is set nationally via the direct NFF, while maintaining this is a notional SEND budget rather than ring-fenced. Whilst Manchester agrees a standard formula set nationally would give greater transparency and consistency, the consultation does not give details on the actual formulaic approach, so at this stage we cannot assess the financial impact for Manchester.

2.2 Funding for schools experiencing significant growth in pupil numbers or falling rolls.

The consultation proposes that this is to be implemented from the second year of the NFF transition 2024/25, the consultation seeks views on two approaches for growth funding: -

- Approach one: allow some continuing local flexibility in how growth funding is distributed to schools, but with significantly greater consistency than in the current system; **or**
- Approach two: a national, standardised system without local flexibility, where the ESFA would allocate growth funding directly to schools based on information provided by LAs.

2.2.1 Approach one (ESFA's "favoured approach"), local authorities would retain some flexibility in the administration of their growth fund, but there would be subject to a set of restrictions on the use of this funding. These restrictions include: -

Local authorities to increase the consistency and predictability in the operation of growth funding, by:

- the using a transparent and standard formulation for their growth criteria.
- minimum requirements on growth criteria to ensure schools are guaranteed a basic level of funding, which could be achieved by setting a minimum unit rate of funding (the unit rates provisionally cited are £2,000 and £3,000 per primary and secondary pupils respectively)
- minimum expectations on the circumstances in which local authorities would be required to provide growth funding.
- centrally retaining some growth and falling rolls funding, with any unspent centrally retained either reverting to form part of the DSG balance (as currently) or reverting back to the DfE.

Manchester already operates under a published growth fund criteria and retains an element of the growth fund allocation to fund additional in-year expansions. However Manchester's current growth funding unit rates (£1,004 and £1,721 for maintained and academy primary pupils, and £1,311 and £2,247 for maintained and academy secondary pupils) are notably lower than the minimums cited above in the consultation.

Additional requirements on how local authorities operate falling rolls funding: Standardising the eligibility criteria by introducing minimum thresholds for schools' decline in pupils; and introducing a standard calculation for the funding methodology for falling rolls funds. This would also include a requirement for local authorities to use their Schools Capacity Survey (SCAP) to assess need for future school places, replacing the current requirement to use local planning assessments. The ESFA are further considering whether to retain the current restriction that only schools rated by Ofsted as 'Good' or 'Outstanding' can be eligible for falling rolls funding.

Manchester's growth fund criteria currently does not include a provision for falling rolls funding.

Reform the allocation methodology of growth and falling rolls funding to local authorities, this would include:

- re-baselining the amount of growth funding nationally based on 2023/24 spend (currently based on 2018/19 spend)
- allocating funding on the basis of both growth **and** falling rolls, i.e., on the basis of areas that have seen growth or a (significant) decline in pupil numbers. This is a departure from the current approach whereby pupil data on growth only, and not declines, is used to determine LA growth fund allocations.

Manchester's growth fund allocation has shrunk significantly over the past few years, and a smaller allocation often limits us to a smaller spend as we are unable to supplement our growth fund allocation from an already pressured DSG. If current trends were to continue, using 2023/24 as the baseline will not prove welcome for Manchester. Additionally, a couple of Manchester schools have recently experienced significant declines in pupil numbers, and a growth allocation that takes account of declining pupil numbers is expected to have an adverse impact on Manchester's growth allocation under this new methodology

Allow local authorities to spend growth funding on repurposing and removing surplus places. This would allow local authorities to spend growth funding on repurposing school estates and removing surplus places to redirect capacity at alternative services. Although this provision would provide greater flexibility for local authorities, given Manchester's shrinking growth fund allocation, it is questionable whether funding could be redirected for this purpose.

2.2.2 **Approach two** is a fully nationalised growth funding system would be implemented, with no local flexibility, where the ESFA would allocate growth funding directly to schools based on information provided by local authorities. This is not the ESFA's favoured approach (see approach one), and it would require various stipulations to address concerns raised in stage one of the NFF consultation. This approach

reduces underfunding risk to the local authority and seems more consistent with the direct funding formula approach.

2.2.3 Manchester's preference at this stage is towards approach two, given Manchester's reducing growth fund and approach two reduces the risk of underfunding. Approach two also aligns with direct NFF principles of funding formula being standardised.

2.2.4 **Popular growth** this is currently provided by the DfE to academy schools only, where an academy school becomes more popular locally, as opposed to growth resulting from demographic need. ESFA maintain that the provision of popular growth funding to academies only reflects the role that MATs play in the school system, however, following concerns raised in the first stage of the consultation, ESFA are now consulting on whether this should be widened to maintained schools, Manchester would support this proposal.

2.3 Premises funding

This section of the consultation request views on split sites and exceptional funding for schools under the proposed direct NFF.

2.3.1 **Split Sites** – this school-led funding is intended to account for additional cost incurred where a school is split over more than one site. Currently this factor is optional for local authorities and the methodology applied varies. Manchester's LFF includes split site funding at a flat rate of £45k.

The DfE propose to develop a formulaic approach to split sites within the direct NFF, which will include two elements: basic and distance eligibility, with a cap set at 60% of the NFF premises lump sum factor. Basic eligibility criteria will attract a lump-sum payment where the sites are separated by a public road, as a clear marker of separateness. Whereas the distance eligibility criteria lump sum will be applied where the sites meet a distance threshold of 500m (0.3miles), to represent a greater number of duplicate services and need for teachers and pupils to travel between sites.

Manchester has three primary schools that are on split sites, who receive £45k under Manchester LFF. Out of these three primary schools, all three would meet the basic criteria, and two would also be eligible for the distance element. Based on the above forecasting only one schools would see a decrease in their split site funding.

Manchester agrees with a consistent standard formula approach to split sites but needs to review if the distance criteria should be reduced before responding to the consultation.

2.3.2 **Exceptional Circumstances** – the current criteria for exceptional funding, is that the cost of the exceptional spend (additional premises cost the majority of schools do not face) is greater than 1% of the school's budget. Manchester has two high schools that receive exceptional funding (£316k and £148k).

The proposal is to reduce the categories that can apply for exceptional funding and increase the minimum threshold to at least 2.5% of the school budget. This would reduce the number of schools receiving this funding nationally. It is a concern if this

is implemented, both Manchester schools who will be eligible under the proposed categories, are likely not to meet the minimum threshold level.

Response from Manchester will include that this formula is imbalanced, and the minimum threshold remains at 1%. As a school can be eligible for exceptional funding within the categories set by DfE, thereby accepting that there are exceptional circumstances, but if it does not meet the increased minimum threshold no additional funding will be awarded.

2.4 **Operation of the minimum funding guarantee (MFG)**

Local authorities set a MFG which protects schools from excessive year-on-year losses in per-pupil funding. The MFG under 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.

The MFG will move to a fully pupil-led protection, excluding school-led factors such as split site and exceptional circumstances once the direct NFF is fully implemented. Until the NFF has fully taken effect, school-led factors will be included in the MFG to ensure protection. Once the direct NFF is fully implemented the issue will disappear since all schools will be funded by NFF factor values

In 2022/23, Manchester is paying out £5.292m for MFG under the LFF. Manchester welcomes confirmation that this protection will be provided on an on-going basis.

2.5 **Funding cycle process**

Consultation includes a proposed high-level timeline for the annual funding cycle under the direct NFF and how the data is gathered to calculate funding allocations. Appendix one shows the key features of the current funding cycle and how the DfE proposes these would change with the direct NFF. Apart from local authorities no longer preparing the LFF, all other features of the cycle will remain unchanged.

A consequence of local authorities no longer required to prepare the LFF under the direct NFF, is that local authorities would no longer complete the Authority Proforma Tool (APT). The APT is the tool local authorities use to calculate budget shares, as under the NFF the formula will be set nationally, as illustrated in Appendix two. Other additional information will need to be submitted under the NFF: -

- PFI data (subject to outcome of an upcoming PFI consultation)
- Exceptional circumstances (local authorities would submit request for maintained schools. Academy trust responsible for submitting their request).
- Split sites (data on changes to split sites to be submitted by local authorities and academy trust, as the expectation is this data would remain broadly stable).
- Growth Funding (information required dependant on the outcome of this consultation).
- Transfer to high needs budget

3 **Conclusion and Recommendations**

3.1 School Forum members are asked to note and comment on:

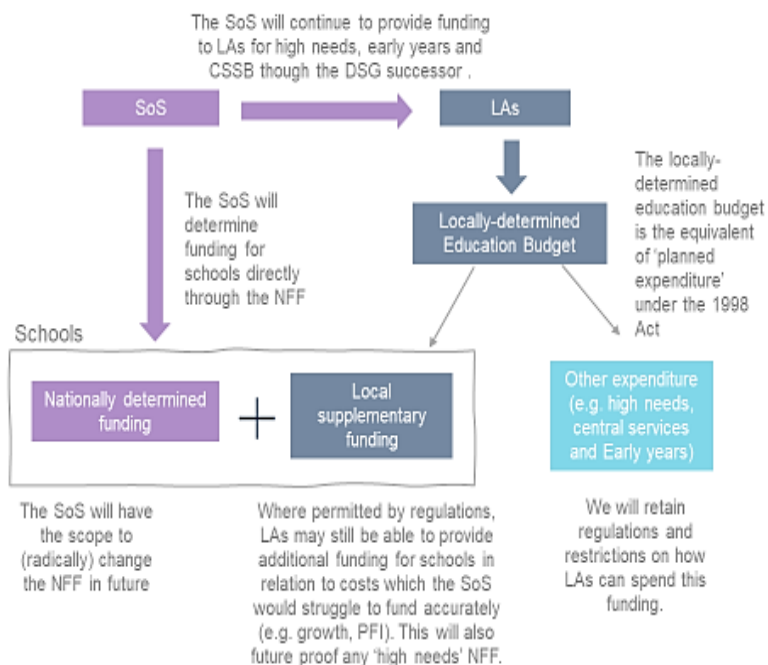
- DfE proposals under the NFF consultation: *Implementing the direct National Funding Formula (NFF)*
- Manchester’s draft response to the consultation, final response to be shared with schools.
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Appendix One: Comparison of current annual funding cycle and proposed change

Timing	Current arrangements	Proposed changes from the current system
Spring (usually)	DfE usually consults on any planned significant changes to the NFF in the spring before the NFF is published.	No change proposed to the current DfE-led consultation processes.
July	NFF structure and factor values published for the subsequent funding year, together with notional allocations and local authority primary and secondary units of funding (PUFs and SUFs).	We propose to keep the timing of the NFF publication on the structure and factor values unchanged, although what we publish alongside the formula will change. (See below for details.)
Autumn	Local authorities consult with their schools’ forums on local funding formulae, de-delegation and block-transfers.	Local authorities will still need to consult by autumn on de-delegation and transfers to high needs.
December	Local authorities’ Dedicated Schools Grant (DSG) allocations published.	DSG allocations will no longer be published for the schools NFF, but they will still be published for early years,
December – January	Local authorities submit the “Authority Proforma Tool” (APT) with the local funding formulae as well as information on the school estate and pupil data.	Local funding formulae will no longer be produced. We will still need to gather some information from local authorities, but to a slightly different timescale from now. (See below for details).
February	Deadline for local authorities to confirm funding allocations for maintained schools	ESFA will issue the allocations under the direct NFF, and will try to get them out to all schools and academies as early as possible – and no later than current deadlines
March	Deadline for mainstream academies to be informed of GAG allocations by ESFA	

Appendix two:

Legislative approach: ...And so we plan standalone chapter on the new funding system in the Schools Bill



There are a number of limitations with the 1998 Act which means it is not suitable to simply amend to deliver the direct NFF:

- A. The current legislation has school funding operating on a strictly local basis. We want legislation system to have **SoS responsible for allocating and distributing funding to (mainstream) schools** and have a role in allocating other funding to LAs.
- B. The current legislation only applies to maintained schools, with the funding on academies contained in funding agreements. We want to put the **funding of academies on a statutory basis** through a new legal framework.

However, we will be leaving Chapter IV of the SSFA in place in Wales which still operates a system of local funding.