

**Herefordshire council & Herefordshire schools forum's joint response to the schools national funding formula consultation (stage one) and High needs funding formula and other reforms (stage one)**

In advance of responding to specific questions, Herefordshire wishes to make the following statements:

- We unequivocally welcome the introduction of a national school funding formula that will ensure schools receive fair funding nationally. The sooner the better because schools in Herefordshire have been underfunded for too long.
- In principle we agree with the ring-fencing of the Schools Block separately from the other blocks in the DSG. Herefordshire has adopted this practice since April 2013 and believes this provides an essential budget discipline that supports good management. However, it will only be successful nationally if supported by a proper and fair formulaic allocation of the early years block and high needs block which fully reflects increasing costs from both growth in pupil numbers and the increasing complexity and cost of individual cases. Without common implementation timescales there is a real danger of cost shunting high needs pressures onto the local authority, which will be unable to cope within diminished funding.
- It is difficult to comment constructively on the individual factors in the formula and until the DfE publishes the stage two consultation, it is not possible to see whether the proposals actually meet the declared principles.
- We would wish to see the evidence base that supports the stage two consultation and the individual factor values. As a small rural authority the value of the primary lump sum and sparsity factor are crucially important in ensuring that Herefordshire is able to sustain the many small and viable primary schools in our most rural areas. We would not welcome the inevitable school closures should the DfE set these critical factors too low. Herefordshire is happy to work with the DfE to establish an appropriate lump sum amount.
- Since inception in 1998 Herefordshire has been a high delegator of funds to schools and welcomes the greater fairness implicit in a national funding formula. Herefordshire has no legacy of historic cost commitments for combined services, prudential borrowing, CERA and expensive long-run pension commitments. Having delegated the maximum to our schools we would not want our national formula entitlement to be reduced to pay for other authorities historic commitments whilst those authorities continue to receive such benefits.
- The proposals to fund LA statutory duties for maintained schools by top-slicing maintained school budgets seem in particular to be designed to create conflict between maintained schools and supportive local authorities like Herefordshire. Local authorities should be properly and fairly funded for their responsibilities, for example it is not yet clear what "championing parents" will mean in practice but to perform this service well for local parents, will require the gathering and processing of significant local intelligence at a cost and then the ability to use this with a range of partners to champion children's outcomes. The function requires more than simply responding to the local newspaper headlines and cannot be done on the cheap nor can it be provided by a remote and undemocratic regional schools commissioner from Birmingham or Whitehall. The funding proposals needs to be altered to reflect such work.

## Schools national funding formula

### Question 1

**Do you agree with our proposed principles for the funding system?**  YES  NO

We agree in principle, but the definition of 'fair' has yet to be defined and it will not be clear until the factor values are published in the second consultation. Inevitably there has to be a trade-off between many of these principles, e.g. fairness and simplicity

This means for example, that the basic entitlement and lump sum will need to be justified and fairly based on the actual cost of service provision. The lump sum should reflect the fixed costs of running a school and the basic entitlement should reflect a national pupil teacher ratio. To gain widespread national acceptance (which should surely be an additional eighth principle), the published evidence must support the values chosen by DfE in stage two.

### Question 2

**Do you agree with our proposal to move to a school-level national funding formula in 2019-20, removing the requirement for local authorities to set a local formula?**

YES  NO

A national school funding formula cannot be a true national formula if it continues to include the local flexibilities implicit in a local authority 'soft' formula, and which will inevitably distort the fairness principle for similar funding for similar schools in similar areas.

The upheaval and risk in these changes is only warranted if the national formula and its supporting processes are significantly better/cheaper than the system that is being replaced. It will be essential that the national formula provides sufficient flexibility to ensure that local needs are included as fairly as possible. Ultimately there may have to be an on-going need for the Secretary of State to make exceptions decisions for the very few schools that do not easily fit the national formula model.

The Education Funding Agency (EFA) will clearly need to be staffed and funded appropriately to ensure the successful implementation to accurately distribute funding to over 23,000 schools be they academies or maintained schools.

### Question 3

**Do you agree that the basic amount of funding for each pupil should be different at primary, key stage 3 and key stage 4?**  YES  NO

Funding for the different values needs to be based upon evidence and a clear rationale for the amounts chosen. There may be merit in including a separate KS1 factor to allow different funding rates for KS1 and KS2 if necessary in future. The same applies in reflecting higher funding for KS1 for higher reception class costs and to encourage early intervention, which is proven to be cost effective in the long term. We trust the DfE will provide the appropriate evidence base in stage two.

### Question 4

a) **Do you agree that we should include a deprivation factor?**  YES  NO

b) **Which measures for the deprivation factor do you support?**

- Pupil-level only (current FSM and Ever6 FSM)
- Area-level only (IDACI)
- Pupil-and area-level

(b) Funding for the different values needs to be based upon evidence and a clear rationale for the amounts chosen.

Herefordshire (and other rural authorities) remain concerned that IDACI is not accurate in very large rural non-homogenous postcode areas (or Super Output Areas) and we have chosen not to use IDACI for this reason.

The significant turbulence in deprivation funding at a school level in 2015 that followed an (arbitrary) five year review of IDACI indicators surely warrants a degree of caution by DfE. Either annual revaluation is required or a degree of smoothing so that the old values are smoothed out over 5 years.

Herefordshire uses Ever6 free school meals as a factor, which is updated annually. We agree with the use of the FSM indicator but that it should be limited to the cost of free school meal provision.

#### **Question 5**

**Do you agree we should include a low prior attainment factor?  YES/ NO**

Funding for the different values needs to be based upon evidence and a clear rationale for the amounts

We are concerned that use of Low Prior Attainment could be perceived as rewarding failure and there should be some element of "success" funding by using value added. It continues to be a concern that the DfE School funding branch still uses the Early Years Foundation Stage Profile indicator even though the DfE early years policy team have moved to different assessment methods. This does not bode well for the future robustness of the national formula and its wide scale credibility in schools.

#### **Question 6**

**a) Do you agree that we should include a factor for English as an additional language?  YES/ NO**

Funding for the different values needs to be based upon evidence and a clear rationale for the amounts chosen.

**b) Do you agree that we should use the EAL3 indicator (pupils registered at any point during the previous 3 years as having English as an additional language)?  YES/ NO**

Herefordshire currently uses the one year factor for EAL as this targets funding where it is immediately required and where it makes the most difference. If schools haven't made significant improvement and integration within 3 years then arguably they are never going to. Please justify and publish the evidence so that we can all agree or not.

#### **Question 7**

**Do you agree that we should include a lump sum factor?  YES/ NO**

Funding for the different values needs to be based upon evidence and a clear rationale for the amounts chosen. The value chosen for this factor will be critical for rural authorities with large numbers of small but necessary schools. The lump sum value needs to be a fair assessment of school fixed costs and given the current variation in values between local authorities it currently seems to reflect an authority's ability to fund. Low funded rural

authorities with proportionately larger numbers of smaller schools simply cannot afford to pay more.

This will be a very important part of the stage 2 consultation and the options considered need to be well set out by DfE. This will need to include consideration of shared headship arrangements which reduce costs in small rural schools – what’s reasonable and what’s not. Herefordshire would welcome the chance to work with the DfE to establish the appropriate lump sum.

#### **Question 8**

**Do you agree that we should include a sparsity factor?  YES/ NO**

Yes – there needs to be a method of allocating additional funding to small but necessary rural schools where there are no other schools within reasonable travelling distance. Delivering education across large geographical areas inevitably costs more than in urban areas. On-going resilience must be built into the funding arrangements because birth rates fluctuate over time and once a school is closed it cannot be easily re-opened.

The DfE have not really addressed the relationship between the cost of rural schools and an accurately targeted sparsity factor at school level. Herefordshire is willing to work with the DfE to help get the sparsity factor right.

Just as importantly, schools also support the local community in very rural areas and are not just stand-alone institutions. Small schools need to be supported not only to maintain standards but also to preserve, in an efficient manner, their benefit to the community around them.

#### **Question 9**

**Do you agree that we should include a business rates factor?  YES/ NO**

Yes, if Business Rates are to be part of the school funding formula.

However, given that rates add no value to the education of pupils, they cannot be formularised and given that they are hugely different dependent on the charitable status of the school, DfE should explore other options.

#### **Question 10**

**Do you agree that we should include a split sites factor?  YES/ NO**

Herefordshire does not need to use this factor but accepts that within a national formula there will need to be fair and clear arrangements to provide for schools with genuine additional costs that arise from operating over two or more sites. In the long term it may be better to simply make schools with split sites into different schools.

#### **Question 11**

**Do you agree that we should include a private finance initiative factor?  YES/ NO**

The funding of private finance initiative schools is a long term complex contractual matter and costs are usually linked to inflation factors and increase annually across the full life of the contract. Herefordshire has recently reached agreement with schools forum that additional cash injections from both the council and DSG were necessary to ensure that Herefordshire’s long term PFI contract continues to be fully financed. A PFI factor is essential however it is more important how the value attached to this factor will be determined in future.

The PFI factor must be inflated by RPI each year and whilst inflation is low, the cost will be small however should inflation increase much above 5% pa then the cost will increase dramatically. DfE will need to be very clear about what proportion of cost will be funded through DSG and what will be passed onto local authorities to fund. It would not be fair to leave all costs with the local authority. Local authorities with and without PFI schemes will have very different views.

#### Question 12

**Do you agree that we should include an exceptional premises circumstances factor?**  
 YES/ NO

If a national formula is to be in place, the EFA will need to create clear, solid criteria for exceptional premises circumstances and administer these over time. Joint use agreements for sports or swimming facilities is the most commonly cited reason. It is Herefordshire's view that in such cases if the school pays a fair price for their facility usage there is no need for any correction in the national funding formula. Should the school be paying an unfair amount then the agreement should be re-negotiated!

#### Question 13

**Do you agree that we should allocate funding to local authorities in 2017-18 and 2018-19 based on historic spend for these factors?** YES/ NO

- Business rates
- Split sites
- Private finance initiatives
- Other exceptional circumstances

These must be on an actual cost basis and inflated annually by for example RPI. A reasonable proxy in the next two years would be to inflate historic costs by RPI.

Business rates generally increase year on year and so if funding is provided to the school based on historic costs, schools will not receive actual funding but a reduced funding. All schools will need a mechanism whereby EFA pays actuals based on receipt of the rates bill.

#### Question 14

**Do you agree that we should include a growth factor?**  YES/ NO

Pupil growth should be funded nationally and fairly for those schools affected. It should not be, as now, top-sliced from existing DSG allocations to authorities.

#### Question 15

**Do you agree that we should allocate funding for growth to local authorities in 2017-18 and 2018-19 based on historic spend?** YES/ NO

This would seem a reasonable starting point however future growth could be very different from past growth and an appeal process to the Secretary of State may be required for local authorities that feel unfairly treated. A better way forward in future will be required and we look forward to seeing more details in the stage two consultation.

#### Question 16

a) **Do you agree that we should include an area cost adjustment?**  YES/ NO

b) **Which methodology for the area cost adjustment do you support?**

- general labour market methodology
- hybrid methodology

We accept that the ACA factor is fundamental to the proposed national formula and it is essential it provides a fair allocation of extra costs for those authorities and schools that have to operate in high cost labour markets.

The hybrid methodology that is directly linked to the education labour costs is preferred on the basis that it is more directly explainable and relevant. It is not clear how the hybrid will be applied when there are no national pay scales as ever more academies are established

#### **Question 17**

**Do you agree that we should target support for looked-after children and those who have left care via adoption, special guardianship or a care arrangements order through the pupil premium plus, rather than include a looked-after children factor in the national funding formula? YES/NO**

No particular view – although this seems a proposal that simply maintains the separate funding arrangements for the Pupil Premium rather than including the maximum funding in the national formula and passing direct to schools in a clear, fair and simple process.

As set out above, funding for the different formula values needs to be based upon evidence and a clear rationale for the amounts chosen and in this case what is the evidence for setting the LAC factor to a zero value?

#### **Question 18**

**Do you agree that we should not include a factor for mobility?  YES/NO**

Nationally there is little use of the mobility factor and as currently defined it does not work in Herefordshire. There is a clear need for some mechanism for a very small number of service/army schools.

#### **Question 19**

**Do you agree that we should remove the post-16 factor from 2017-18?  YES/NO**

#### **Question 20**

**Do you agree with our proposal to require local authorities to distribute all of their schools block allocation to schools from 2017-18?  YES/NO**

In principle we support this as it provides an essential budget discipline for managing DSG effectively. However it will only be successful if the early years block and high needs funding formula is properly and fairly reflective of rising high needs costs. The timescale for implementation of the proposed high needs formula must be common with the schools national funding formula. It would be helpful if the DfE were to address the wide spread perception in local authorities that this proposal is intended to simply cost-shunt high needs funding pressures from the DSG to the local authority's budget at a time when local authorities will be unable to respond.

#### **Question 21**

**Do you believe that it would be helpful for local areas to have flexibility to set a local minimum funding guarantee?  YES/NO**

Yes – simply on the basis that it does not have to be used and until we see the detail of stage two we will not know whether it will be helpful or not.

**Question 22**

**Do you agree that we should fund local authorities' ongoing responsibilities as set out in the consultation according to a per-pupil formula?  YES/ NO**

Yes this seems fair provided that any formula reflects the dis-economies of scale in small local authorities and also accurately reflects the cost of providing the on-going responsibilities. The present proposal does not accurately reflect the costs of providing on-going responsibilities and the consultation paper recognises this by alluding to the need for other sources of funding being required. The proposed per-pupil formula should provide sufficient funding for local authority responsibilities.

It is not at all clear what services will continue to be provided by local government, for example from 2017 onwards, when LAs will no longer have statutory responsibilities for school improvement, how will school improvement be organised? It is of equal concern that responsibility for school deficits is also not clear, for example how can local authorities work with schools to avoid deficits without sufficient means to do so?

The consultation papers and the White Paper are strangely silent on the responsibility for existing and potential new school deficits, is it the local authority, the regional school commissioner or the Education Funding Agency's responsibility? Avoiding school deficits is complex work that must not be ignored in the transitional phase or there will be serious consequences for some schools and local authorities.

**Question 23**

**Do you agree that we should fund local authorities' ongoing historic commitments based on case-specific information to be collected from local authorities?  YES/ NO**

Yes this would seem reasonable. However as an authority that has in the past been a high delegator of funds to schools we would not wish to see Herefordshire schools funding top-sliced to pay for other local authorities' historic commitments whilst they continue to receive those benefits. We accept that there has to be a reasonable transition time and some give and take is necessary.

**Question 24**

**Are there other duties funded from the education services grant that could be removed from the system? YES/NO**

As far as we can see the White Paper "Educational Excellence Everywhere" maintains all the existing local authority statutory duties but the funding mechanism significantly reduces the level of funding available to undertake such duties. If this perceived mismatch of responsibility and funding transpires in practice then clearly the statutory duties of the local authority will be provided on a minimal basis only. This is totally unsatisfactory for all and DfE must review and set out the intentions on a much clearer basis and provide the funding required

Local authorities must be fairly funded for their continuing statutory duties.

**Question 25**

**Do you agree with our proposal to allow local authorities to retain some of their maintained schools' DSG centrally—in agreement with the maintained schools in the schools forum – to fund the duties they carry out for maintained schools?  YES/ NO**

Yes but the whole concept of top-slicing maintained schools is a back door cut on maintained school budgets apparently designed to expedite the academy conversion process. Maintained schools should be protected by the MFG to ensure such cuts are fair.

There is merit in agreeing with Schools forum the level of redundancy payments as this is equitable with academies but for local authority statutory duties the top-slice process seems simply to be muddled thinking about how to continue the local authority's statutory role but without any money.

**Question 26 (from Equality Assessment document)**

**Are there any other factors not included in the consultation document and not included in the [equality] assessment that we should take into account? Has the analysis we have conducted so far captured all relevant statistics or is there further analysis we should undertake?**

It is difficult to comment further without knowing the stage two formula values and seeing the detailed evidence base used by the DfE to determine these values.