

Implementing the Direct National Funding Formula - Government consultation response

(Key Extracts summary)

April 2023 DfE

[Implementing the direct national funding formula - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/implementing-the-direct-national-funding-formula)

In 2021 the Department held its first-stage consultation on the direct national funding formula (NFF) for schools: Fair school funding for all: Completing our Reforms to the National Funding Formula. Following the feedback to that consultation, in March 2022 the Department published its response. This confirmed our commitment to introducing the direct NFF. This will mean that, in time, every mainstream school's final funding allocation will be determined by the same national funding formula. A direct NFF will make funding simpler and more transparent for all those involved to understand. Allocating funding on a consistent basis, regardless of which local authority schools happen to be located in, will provide schools and trusts with the predictability needed to make the best use of resources and to drive up academic standards, and ensure fairness between individual schools' allocations.

The move towards a direct NFF constitutes a major change to our school funding system. It will also ultimately require a new legislative framework, replacing the 1998 School Standards and Framework Act which sets out that education funding is delegated to local authorities. The government will bring the necessary legislation forward in a future parliamentary session. However, even in the absence of this legislation, since the introduction of the NFF in 2018, we have seen local authorities voluntarily choosing to move their funding formula closer towards the NFF, in discussion with their local schools. As of 2022-23 there were 78 local authorities whose formula factor values were within 2.5% of the NFF factor values³. This year the Department has begun the formal process of transition to the direct NFF, requiring local authorities (LAs) to move their local funding formulae towards the NFF from the 2023-24 funding year. An additional 27 local authorities have moved so that they are mirroring the NFF in 2023-24. Between 7 June 2022 and 9 September 2022, the Department held its second stage consultation on these reforms: Implementing the Direct NFF. This consultation sought views on the details of how a direct NFF would work in practice. This document provides the Department's response to the outcome of that consultation.

The proposals consulted on were:

- The continuation of two current elements of funding for children and young people with special educational needs and disabilities (SEND). First, continuing to have some flexibility within the funding system to move funding to local authorities' high needs allocations (and correspondingly adjust mainstream schools' NFF allocations) and second, the determination of indicative budgets for mainstream (Annex C: National funding formula for schools and high needs - GOV.UK (www.gov.uk) schools' provision for pupils with SEND, within their direct schools NFF allocations.
- How the Department should fund schools experiencing significant growth in pupil numbers, or falling rolls, under a direct NFF. This included proposals for a system which retains some local flexibility to determine how this funding is allocated, while achieving much greater fairness, simplicity, and predictability.
- The allocation of split sites and exceptional circumstances funding, such that we move away from relying on historic local authority spending decisions to the allocation of these "school-led" elements directly through the NFF.

- How the Department will operate the minimum funding guarantee (MFG) in the direct NFF to ensure we continue to protect schools effectively against excessive year-on-year changes in their per pupil funding.
- How the funding cycle should operate in the direct NFF – that is, the regular timescales for gathering data to calculate funding allocations, and then confirming these allocations to schools – to support schools' and trusts' budget planning.

Implementing changes in 2024-25:

- Place further requirements on how local authorities can operate their growth and falling rolls funding.
- Introduce a national split sites factor.

Interaction between high needs and schools funding

- continued flexibility to transfer funding to authorities' high needs budgets, through a new mechanism to adjust mainstream schools funding. Such transfers will be subject to final decisions being made by the Secretary of State, on applications from local authorities following consultation with local schools. We will work with the sector to identify a menu of options that will be provided to local authorities in submitting any such applications and to ensure this aligns with the wider funding cycle.
- We will calculate indicative SEND budgets for individual schools in the direct NFF – continuing to give mainstream schools an indication of a (non ringfenced) portion of their core budget for meeting the additional costs of provision for pupils with special educational needs. This will replace the notional SEN budgets that local authorities currently calculate within their local formulae. The exact design of these indicative budgets will be developed alongside the wider reforms following the Government's SEND and Alternative Provision Improvement Plan, as it will be important to ensure that indicative SEND budgets align with expectations set out in the SEND and Alternative Provision national standards.

The pattern of demand and supply for high needs varies significantly across local authorities, as does the current ability of local authorities to manage their high needs costs from within their high needs funding allocation. A result of this is that sufficiency of funding at a national level will not immediately obviate some need for the local level adjustments (through the proposed funding transfer mechanism) to deal with specific, local issues. As we see the impact of the reforms in bringing local high needs systems to financial sustainability, we expect that this flexibility would be used increasingly rarely. But these reforms will take time to have an impact, and so it will be important to allow this flexibility – even if it is seldom used by local authorities – as part of the direct NFF funding system.

As set out in the recent SEND and Alternative Provision Improvement Plan, the Department will be developing new National Standards for SEND and alternative provision. We will engage further with the sector to consider the design of the indicative SEND budget in the context of the National Standards as they are developed. In the meantime, it is important that mainstream schools are resourced appropriately to allow them to make suitable provision for those of their pupils with SEND, taking into account the current cost threshold of £6,000 per pupil. In August 2022 we published guidance that sought to clarify what the current notional SEN budget is for, and how local authorities should review the calculation of that budget through local funding formula factors.

We will look at whether to strengthen the guidance we issue for 2024-25 so that there is more consistency in the calculations adopted by local authorities.

Growth and Falling Rolls Funding

We understand that some local authorities will have committed growth funding over a number of future years and so will implement only minimum requirements for 2024-25 rather than fully determined national standards.

These requirements will apply in all circumstances where a school has agreed with the local authority to host an additional class to meet basic need. Local authorities will not be required to provide funding where the growth is as a result of parental choice or academies have admitted above PAN by their own choice. In addition, we will place minimum requirements on how much funding should be provided.

We will continue to engage with local authorities and other stakeholders on the particular design of these new requirements – including the minimum funding rates – in advance of publishing final guidance in the Schools Operational Guide in July 2023. We will allow local authorities to retain any underspent growth funding within their DSG.

The new requirements will form a *minimum* expectation for local authorities, and we anticipate that some local authorities will choose to allocate funding in circumstances beyond the national requirements or at a higher rate. For example, local authorities might choose to provide enhanced funding in circumstances where the pupil intake has a higher proportion of pupils with English as an additional language, perhaps as a result of international migration. We will continue to consider such circumstances as we progress towards the direct NFF.

We will change how growth funding is recorded in the Authority Proforma Tool (APT) that local authorities return to the Department to increase transparency around the use of growth funding. We will include a requirement for local authorities to use a consistent formulation of their growth and falling rolls criteria. This will allow the Department to collect and publish summary statistics on growth funding.

There was widespread support for the removal of the restriction that falling rolls funding can only be provided to schools judged “Good” or “Outstanding” by Ofsted. We have carefully considered this issue and concluded that the use of robust data on falling rolls (through SCAP) will ensure that this funding is targeted only at schools where places will be needed in future. We intend, therefore, to remove the Ofsted restriction for 2024-25, and to require local authorities to use SCAP data in taking decisions and only provide funding where SCAP data shows that school places will be required in the subsequent three to five years.

From 2024-25 we will revise the current growth allocation methodology to allocate funding on the basis of both growth and falling rolls.

We will measure whether small areas within a local authority (Medium Super Output Areas, or MSOAs) have either seen growth or (significant) declines in pupil numbers. Those MSOAs that have seen pupil growth will have funding allocations calculated at the growth funding rate. In addition, MSOAs that have seen significant declines will be allocated at a separate falling rolls funding rate.

There will not be any “netting off” of funding allocations: that is, if a local authority has MSOAs that have experienced growth as well as MSOAs that have experienced falling rolls, its full funding allocation will include both the element relating to pupil growth, and the element relating to falling pupil numbers.

In advance of the funding allocations incorporating data on falling rolls, we will work with stakeholders to define what constitutes a “significant” decline in pupil numbers for the purposes of this calculation.

from 2024-25 we will expand the use of growth and falling rolls funding to allow local authorities to fund the revenue costs associated with repurposing or reducing school places.

Such funding could support local authorities to repurpose surplus space to create SEND Units or Resourced Bases in mainstream schools, activity which we know many local authorities already undertake. We will provide further guidance in the Schools Operational Guide and make the relevant changes to the Regulations.

We will retain some local flexibility in the allocation of growth funding to schools, rather than moving to a fully national, standardised system.

Premises: Split sites

The Government plans to allocate split sites funding nationally on the basis of a formula factor made up of a 'basic eligibility' element and a 'distance eligibility' element from 2024-25.

This will replace the current local authority led approach. A national formula will allow the Department to ensure funding is allocated consistently and fairly across the country, and that all split site schools receive funding towards the additional costs they face from operating across multiple, separate sites. Introducing this new approach for split sites funding is an important part of developing the NFF in advance of the final transition to the direct NFF.

the Government plans to allocate funding to schools who meet the basic split sites eligibility criteria:

- To be separated from the school's main site by a public road or railway.
- To be used primarily for the education of 5 to 16-year-olds.
- To share a unique reference number (URN).
- To have a building on a site that is maintained by the school.

we are excluding playing fields from being eligible for split sites funding.

Split sites distance criterion – 500m threshold

We think that around 60% of the 2024-25 NFF lump sum is an appropriate amount for this given that an additional site should cost less to run than the school's main site, and funding should be seen as a contribution to overall costs. We will keep the precise level of funding under review. We plan to publish the split sites factor value for 2024-25 alongside the July 2023 NFF announcement.

We plan to increase the weighting given to the basic eligibility element – allocating two-thirds of the available funding through the basic element and one-third of the available funding through the distance element.

Local authorities will be required to return data to the Department on all split site schools in their area (including academies and voluntary aided schools) as part of the APT, until we transition to the direct NFF in full.

We have published details of split site schools that meet the Department's basic and distance eligibility criteria. These details can be found here:

<https://www.gov.uk/government/publications/schools-block-national-fundingformula-split-sites-funding>

Valley Primary school, the only school in Solihull with split site funding meets the criteria.

schools with split sites which lose funding, or are no longer eligible, as a result of the "formularisation" of the split sites factor will see their funding protected through the minimum funding guarantee (MFG).

This is in line with our position that schools should be protected from changes in funding resulting from policy changes as we transition to a direct NFF.

In contrast, once the reform has taken place, schools will not be protected from losses in split site funding resulting from them ceasing to be a split site school.

Exceptional Circumstances

The Government will continue to progress plans to reform the exceptional circumstances factor. We will move away from a locally led approach to a national application system, in line with our wider policy objectives of ensuring greater fairness and consistency in schools funding. We plan to implement changes to the factor in time for the introduction of the direct NFF.

- We will look to include schools with Building Schools for the Future contracts that are currently funded through exceptional circumstances in a reformed PFI factor. We will work closely with the sector to develop a suitable approach and will provide more details in due course.
- Amalgamated schools will receive 100% of the joint lump sums in the year they amalgamate and continue to receive 85% of the combined lump sum of their predecessors in the year following amalgamation. We will review the use of the flexibility for the following year, which allows local authorities to apply for a combined lump sum of up to 70%, before coming back to the sector with any final decisions.
- In considering whether, and how, to bring “super sparsity” (additional funding to very small, rural secondary schools who wouldn’t otherwise be viable) into the NFF, we will work with the sector to ensure that some form of protection mechanism is put in place to protect against cliff edge effects resulting from year-on-year fluctuations in sparsity distances.
- We will also review whether to incorporate adjustments to minimum per pupil funding levels for all-through schools with uneven year group structures into the direct NFF.

The threshold will remain at the rate of 1% for now.

We plan to build in some flexibility to the new, standardised system to allow for newly arising exceptional circumstances to be funded, rather than solely historic commitments.

The Minimum Funding Guarantee (MFG) under a direct NFF

The Government will use local formulae baselines – and actual GAG allocations for academies – in the year that we transition to the direct NFF.

The Government will move to a simplified pupil-led funding protection under the direct NFF. This will simplify the floor significantly, which will help improve the transparency of the funding system and make it easier for schools to understand how their funding levels are calculated.

The Funding Cycle

We will continue to give early information regarding the design of the subsequent year’s formula in July each year. We will also explore what information, be it general levels of funding change, policy changes within the national funding formula or some formula values, can be provided in advance.

Given the strong support for a calculator tool, we will aim to develop a product that schools can use to estimate future funding. We will explore including prepopulated data from the previous year as this will provide some form of notional allocation.

Regarding de-delegation, we can confirm that we will issue one single data collection in March when we introduce the direct NFF

There are no plans to change the actual payment processes for maintained schools. DfE will pay local authorities, who in turn will pass the funding on to maintained schools. As such, local authorities will continue to deduct the funding for de-delegation before they pass on the funding to maintained schools.

Next steps

We will announce the 2024-25 National Funding Formula for schools and high needs in July, in line with the usual timetable. This will also confirm requirements on local authorities to bring their local funding formulae closer to the NFF in 2024-25, following the initial transitional steps in 2023-24. We plan to engage with the sector further on funding for PFI schools, and the determination of indicative SEND budgets. This will support a smooth transition to the direct NFF.