DERBYSHIRE COUNTY COUNCIL

Agenda Item 6

Rep 720

SCHOOLS FORUM

14 December 2017

Report of the Strategic Director for Children’s Services

Minimum Funding Guarantee

1. Purpose of the Report

To provide additional information to the Schools Forum to help inform decisions on the Minimum Funding Guarantee (MFG) for 2018-19 and future years.

1. Information and Analysis

For the last 14 years the MFG has been the mechanism for limiting year on year turbulence in individual schools’ budgets. A negative MFG caps an individual school’s loss so the change in budget is manageable whilst a positive MFG provides a minimum per-pupil increase.

It should be noted that the MFG does not fully protect schools from the impact of a reduction in pupil numbers as it is calculated as a per-pupil sum. As the MFG is part of the LA’s funding formula, the final decision on the MFG rate rests with the Authority.

The recent mainstream formula consultation with schools proposed a +0.5% per pupil MFG for 2018-19, thus ensuring that, whatever formula changes are agreed, all schools would see an increase in funding next year, assuming no change in data.

At the Schools Forum meeting in November concerns were expressed about this approach, the main issues from the debate included:

* The uncertainties around what would happen from April 2020 when, potentially at least, the DfE moves to a “hard” national funding formula;
* Consequently, what transition arrangements would apply from April 2020 and whether some schools would face a greater funding cliff-edge;
* Whether increasing the budgets of schools that would otherwise lose under the NFF was wise as it would make the gap between their actual budget and their pure NFF funding greater;
* Considering if a less generous MFG would incentivise schools which are due to lose funding under the NFF to use the next two years to reduce their costs; and
* That the increase in MFG costs would potentially have to be paid for by limiting the funding of other schools.

Perhaps the key uncertainty was what might happen in April 2020 and the risk that a positive MFG would store up a greater problem for some schools. The DfE are unable at this time to confirm the nature of any MFG-style protection arrangements that might apply from April 2020. However, given that the DfE have for many years taken steps to limit budgetary turbulence via the MFG, it is extremely unlikely that schools in receipt of significant amounts of MFG in 2019-20 would lose all of it in 2020-21.

The responses from schools to the formula consultation on this issue, and reported in an earlier agenda item to this meeting, showed high levels of support from both sectors for the proposed positive MFG rate for 2018-19.

Since the LA’s consultation document was published, the DfE have indicated a willingness to consider a different MFG rate for each sector, should an LA wish to adopt this approach. Since the November meeting further modelling has taken place on possible MFG scenarios, with three models considered:

|  |  |  |  |
| --- | --- | --- | --- |
|  | % MFG change per pupil | | |
| MFG model | 2018-19 | 2019-20 | 2020-21 |
| Model 1 - as per consultation/LA working assumption | +0.5% | 0.0% | 0.0% |
| Model 2 - Maximum negative MFG per pupil | -1.5% | -1.5% | -1.5% |
| Model 3a – Primary alternative (preferred model) | +0.5% | -0.5% | -0.5% |
| Model 3b - Secondary alternative (preferred model) | 0.0% | -0.5% | -0.5% |

All the models were based on the following assumptions:

* Pupil/other data used for the 2017-18 budget/consultation calculations;
* Cap on gains of 3% per pupil each year; and
* Primary sector Low Prior Attainment multipliers increasing from £540 to £740 to £940 over the period.

A summary of the overall impacts of the models, both in total and on individual schools, is shown in Appendix 1 & the enclosed school schedules. N.B. The actual impacts, particularly at individual school level, will vary from the schedules due to year on year changes in data. It should also be noted that for some schools the loss in MFG protection would be partially or fully abated if their overall funding were to fall below the £3,300/£3,500 or £4,600/£4,800 minimum funding thresholds.

The issues to consider for each sector are set out below.

2.1 Primary Sector

Two key issues need to be borne in mind in respect of the impact at individual school level. First, the existing MFG support received by many schools will be reduced or eliminated completely due to the impact of the NFF. For example, in 2018-19 large schools will benefit from the AWPU increase whilst others will benefit from the introduction of IDACI as an indicator for deprivation or the increased funding for low prior attainment (LPA). The expected further increases in the LPA multiplier in future years will reduce the cost of MFG protection in primary schools.

Second, in 2018-19 many schools with an NOR below 199 will be more likely to trigger MFG support as this is the break-even point whereby the reduction in the lump sum (£19,621.79) is offset by the increase in KS1/2 AWPU (£98.55). This outcome is reflected in the second half of the primary sector schedule which shows those schools which do not receive MFG in 2017-18 but would do so in 2018-19.

The MFG paid in 2017-18 is £0.976m, the amounts payable in future years, and the year on year changes for each model, would be as follows:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Primary** | **Model 1** | | | **Model 2** | | | **Model 3a** | | |
|  | MFG | MFG | MFG | MFG | MFG | MFG | MFG | MFG | MFG |
|  | **+0.5%** | **+0.0%** | **+0.0%** | **-1.5%** | **-1.5%** | **-1.5%** | **+0.5%** | **-0.5%** | **-0.5%** |
| **Item** | 18-19 | 19-20 | 20-21 | 18-19 | 19-20 | 20-21 | 18-19 | 19-20 | 20-21 |
|  | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Total** | **1.411** | **0.902** | **0.628** | **0.826** | **0.415** | **0.234** | **1.411** | **0.792** | **0.508** |
| No. schools | 136 | 96 | 68 | 87 | 53 | 29 | 136 | 86 | 57 |
|  |  |  |  |  |  |  |  |  |  |
| By school size: |  |  |  |  |  |  |  |  |  |
| NOR <=50 | 0.503 | 0.440 | 0.380 | 0.426 | 0.313 | 0.213 | 0.503 | 0.420 | 0.344 |
| NOR >50&<=100 | 0.581 | 0.357 | 0.208 | 0.320 | 0.088 | 0.021 | 0.581 | 0.300 | 0.142 |
| NOR >100&<=200 | 0.250 | 0.094 | 0.039 | 0.076 | 0.014 | 0.000 | 0.250 | 0.068 | 0.022 |
| NOR >200&<=300 | 0.074 | 0.011 | 0.001 | 0.004 | 0.000 | 0.000 | 0.074 | 0.004 | 0.000 |
| NOR >300 | 0.003 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.003 | 0.000 | 0.000 |
| **Total** | **1.411** | **0.902** | **0.628** | **0.826** | **0.415** | **0.234** | **1.411** | **0.792** | **0.508** |
|  |  |  |  |  |  |  |  |  |  |
| **Yr on yr MFG change** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| By school size: |  |  |  |  |  |  |  |  |  |
| NOR <=50 | +0.378 | -0.063 | -0.060 | +0.301 | -0.113 | -0.100 | +0.378 | -0.082 | -0.077 |
| NOR >50&<=100 | +0.464 | -0.224 | -0.149 | +0.204 | -0.232 | -0.068 | +0.464 | -0.281 | -0.158 |
| NOR >100&<=200 | -0.180 | -0.156 | -0.055 | -0.354 | -0.062 | -0.014 | -0.180 | -0.182 | -0.045 |
| NOR >200&<=300 | -0.120 | -0.063 | -0.010 | -0.190 | -0.004 | 0.000 | -0.120 | -0.071 | -0.003 |
| NOR >300 | -0.107 | -0.003 | 0.000 | -0.110 | 0.000 | 0.000 | -0.107 | -0.003 | 0.000 |
| **Total change** | **+0.435** | **-0.509** | **-0.274** | **-0.149** | **-0.411** | **-0.182** | **+0.435** | **-0.619** | **-0.284** |

Model 1 is based on the consultation document proposals with an MFG rate of +0.5% for 2018-19 followed by rates of 0% for 2019-20 and 2020-21. Under this model the MFG bill would rise in 2018-19, mainly due to the impact of the lump sum reduction, then fall back to £0.902m in 2019-20 and £0.628m in 2020-21 as the funding for low prior attainment increases. The result is a gradual reduction in MFG over the 3 years.

Model 2 shows the impact of adopting the maximum negative per pupil MFG over the period. Although this minimises the MFG bill going into 2020-21 (£0.415m) the model gives the lowest level of protection to small schools and the least time for them to deal with the reductions in funding.

Model 3a is a variation of model 1 which keeps the positive MFG per pupil in 2018-19 but reverses it in 2019-20 and also applies a further negative MFG in 2020-21, reducing the MFG payable in those two years to £0.792m and £0.508m.

There was extensive support within the primary sector for the +0.5% MFG next year. If agreed, this would increase the MFG bill from £0.976m to around £1.411m in 2018-19. This cost has been factored into the overall funding envelope.

Assuming the following years’ MFG rates are -0.5% the MFG bill will fall to around £0.508 in 2020-21, equivalent to 0.2% of the overall primary sector delegated total.

In terms of affordability, the cost of the MFG support within the primary sector:

1. is relatively modest (see above);
2. allows all of the NFF multipliers to be adopted in 2018-19, except for LPA;
3. allows other schools to gain up to 3% per pupil each year, consistent with the basis on which funding has been allocated to LAs; and
4. allows a minimum per pupil threshold of £3,300 in 2018-19 and £3,500 in 2019-20, in line with DfE expectations.

On balance the Council is minded to adopt Model 3a and set a 0.5% MFG per pupil for primary schools for 2018-19 but ask schools to plan on the basis of a negative rate of -0.5% per pupil for 2019-20 and 2020-21. This approach would stabilise the funding of schools that are set to lose under the NFF over a two year period.

In the unlikely event that the DfE were to signal an end to MFG protection from April 2020, the MFG rate could be lowered to -1.5% per pupil in each of the next two years which would reduce the MFG bill to £0.638m (2019-20) and £0.331m (2020-21.) These residual costs could, if necessary, be funded by a lower increase in LPA funding.

**Recommendation 1**- The views of the Schools Forum on the proposed 2018-19 MFG for primary schools of +0.5% per pupil are welcomed.

2.2 Secondary Sector

A majority (9 of 12) of the secondary sector responses to the consultation document were in favour of the proposed positive MFG rate for 2018-19.

However, for the secondary sector there is a technical complication regarding the starting MFG position. The actual cost of MFG protection in 2017-18 was only £0.187m and was paid to 8 schools with amounts varying from a few hundred pounds to £62k and £54k at Parkside Community and Springwell Community College respectively. The MFG cost in 2017-18 was artificially depressed by the Council’s decision, supported by the Schools Forum, to allocate an additional £2m to secondary schools, equivalent to £53.86 per pupil. This increase in funding wiped out many schools’ entitlement to MFG support.

The £2m investment was intended to be a one-off allocation but when it is removed to determine a starting position for 2018-19, the MFG framework automatically adds the funding back in. Hence the starting cost of MFG protection for 2018-19 is £2.187m.

The impacts of the three models on the levels of MFG protection for secondary schools are provided in the table overleaf and the enclosed schedules. Models 1 and 2 are the same as the primary sector. It should be noted that in Model 2 a negative rate of -1.5% in 2018-19, together with the increases in funding for some schools from the NFF, would wipe out most of the MFG in one year.

Model 3b has a less generous MFG rate in 2018-19 of 0.0% but with the same reductions in 2019-20 and 2020-21 as the primary sector.

The MFG allocations from the three models are set out in the table overleaf.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Secondary** | **Model 1** | | | **Model 2** | | | **Model 3b** | | |
|  | MFG | MFG | MFG | MFG | MFG | MFG | MFG | MFG | MFG |
|  | **+0.5%** | **+0.0%** | **0.0%** | **-1.5%** | **-1.5%** | **-1.5%** | **0.0%** | **-0.5%** | **-0.5%** |
| **Item** | 18-19 | 19-20 | 20-21 | 18-19 | 19-20 | 20-21 | 18-19 | 19-20 | 20-21 |
|  | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Total payable** | **1.506** | **1.506** | **1.506** | **0.011** | **0.000** | **0.000** | **0.883** | **0.394** | **0.111** |
| No. schools | 34 | 34 | 34 | 3 | 0 | 0 | 28 | 21 | 11 |
|  |  |  |  |  |  |  |  |  |  |
| By school size: |  |  |  |  |  |  |  |  |  |
| NOR <=600 | 0.326 | 0.326 | 0.326 | 0.005 | 0.000 | 0.000 | 0.198 | 0.103 | 0.037 |
| NOR >600&<=900 | 0480 | 0480 | 0480 | 0.000 | 0.000 | 0.000 | 0.295 | 0.141 | 0.043 |
| NOR >900&<=1200 | 0.545 | 0.545 | 0.545 | 0.006 | 0.000 | 0.000 | 0.305 | 0.135 | 0.031 |
| NOR >1200 | 0.155 | 0.155 | 0.155 | 0.000 | 0.000 | 0.000 | 0.085 | 0.015 | 0.000 |
| **Total** | **1.506** | **1.506** | **1.506** | **0.011** | **0.000** | **0.000** | **0.883** | **0.394** | **0.111** |
|  |  |  |  |  |  |  |  |  |  |
| **Yr on yr MFG change** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| By school size: |  |  |  |  |  |  |  |  |  |
| NOR <=600 | -0.045 | 0.000 | 0.000 | -0.366 | -0.005 | 0.000 | -0.173 | -0.095 | -0.066 |
| NOR >600&<=900 | -0.293 | 0.000 | 0.000 | -0.772 | 0.000 | 0.000 | -0.477 | -0.154 | -0.098 |
| NOR >900&<=1200 | -0.262 | 0.000 | 0.000 | -0.802 | -0.006 | 0.000 | -0.502 | -0.170 | -0.104 |
| NOR >1200 | -0.082 | 0.000 | 0.000 | -0.237 | 0.000 | 0.000 | -0.152 | -0.070 | -0.015 |
| **Total change** | **-0.682** | **0.000** | **0.000** | **-2.177** | **-0.011** | **0.000** | **-1.304** | **-0.489** | **-0.283** |

Given the high cost of the MFG under the consultation proposal and the impact of other future funding pressures, it would be prudent to set a lower MFG per pupil. This option was not included in the consultation as it was unclear that a differential MFG rate could be set in the two sectors.

Whilst, the cost of the MFG in the consultation (£1.506m) is affordable in 2018-19, its affordability in 2019-20 is marginal and becomes a potential issue in 2020-21 (see the earlier DSG paper). Secondly, by 2019-20, the funding allocated to the LA in respect of secondary schools and academies will be the full amount payable under the NFF. Thus any shortfall resulting from MFG protection would have to be funded from other sources e.g. reductions in one or more secondary sector NFF multipliers.

Given the need to limit the MFG bill for 2020-21, the Council is minded to set a 0% MFG rate for 2018-19 and indicative negative rates of -0.5% for both 2019-20 and 2020-21. This would leave an MFG cost of £0.394m for 2019-20 which is in line with the MFG paid to secondary schools in 2015-16, the last comparable year before one off allocations from DSG reserves distorted the picture.

In the unlikely event that the DfE were to signal an end to MFG protection from April 2020, the MFG rate for 2019-20 could be lowered. As an example, a rate of -1.5% for 2019-20 would mean the MFG bill going into 2020-21 would only be £0.011m.

The MFG rates under model 3a would allow:

1. the secondary sector NFF multipliers to be adopted in full in 2018-19;
2. schools to receive their NFF gains in full in 2018-19; and
3. minimum per pupil thresholds of £4,600 in 2018-19 and £4,800 in 2019-20 to be set, in line with DfE expectations

The views of the Forum on the MFG rates for both sectors will be taken into account when Cabinet sets the funding formula early next year. The final decision will also be determined by the actual 2018-19 Schools Block settlement including the impact of the revised formula data.

**Recommendation 2**- The views of the Schools Forum on the proposed 2018-19 MFG rate for secondary schools of 0.0% per pupil are welcomed.

1. Background Papers

Held in Children’s Services Finance.

1. Strategic Director’s Recommendation
2. The views of the Schools Forum on the proposed 2018-19 MFG rate for primary schools of +0.5% per pupil are welcomed; and
3. The views of the Schools Forum on the proposed 2018-19 MFG rate for secondary schools of 0.0% per pupil are welcomed.

**JANE PARFREMENT**

**Strategic Director for Children’s Service**

Summary of different MFG profiles Appendix 1

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Primary** |  |  | **Model 1** | | |  | **Model 2** | | |  | **Model 3a** | | |
|  | Base |  | MFG | MFG | MFG |  | MFG | MFG | MFG |  | MFG | MFG | MFG |
|  | MFG |  | **+0.5%** | **+0.0%** | **+0.0%** |  | **-1.5%** | **-1.5%** | **-1.5%** |  | **+0.5%** | **-0.5%** | **-0.5%** |
| **Item** | 2017-18 |  | 2018-19 | 2019-20 | 2020-21 |  | 2018-19 | 2019-20 | 2020-21 |  | 2018-19 | 2019-20 | 2020-21 |
|  | £m |  | £m | £m | £m |  | £m | £m | £m |  | £m | £m | £m |
| **Total primary** | **0.976** |  | **1.411** | **0.902** | **0.628** |  | **0.826** | **0.415** | **0.234** |  | **1.411** | **0.792** | **0.508** |
| No. schools | 103 |  | 136 | 96 | 68 |  | 87 | 53 | 29 |  | 136 | 86 | 57 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total by school size: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| NOR <=50 | 0.125 |  | 0.503 | 0.440 | 0.380 |  | 0.426 | 0.313 | 0.213 |  | 0.503 | 0.420 | 0.344 |
| NOR >50&<=100 | 0.117 |  | 0.581 | 0.357 | 0.208 |  | 0.320 | 0.088 | 0.021 |  | 0.581 | 0.300 | 0.142 |
| NOR >100&<=200 | 0.429 |  | 0.250 | 0.094 | 0.039 |  | 0.076 | 0.014 | 0.000 |  | 0.250 | 0.068 | 0.022 |
| NOR >200&<=300 | 0.195 |  | 0.074 | 0.011 | 0.001 |  | 0.004 | 0.000 | 0.000 |  | 0.074 | 0.004 | 0.000 |
| NOR >300 | 0.110 |  | 0.003 | 0.000 | 0.000 |  | 0.000 | 0.000 | 0.000 |  | 0.003 | 0.000 | 0.000 |
| **Total** | **0.976** |  | **1.411** | **0.902** | **0.628** |  | **0.826** | **0.415** | **0.234** |  | **1.411** | **0.792** | **0.508** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| No. schools: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| NOR <=50 | 19 |  | 30 | 29 | 28 |  | 29 | 28 | 22 |  | 30 | 29 | 28 |
| NOR >50&<=100 | 24 |  | 61 | 51 | 35 |  | 50 | 23 | 7 |  | 61 | 48 | 26 |
| NOR >100&<=200 | 38 |  | 37 | 14 | 4 |  | 7 | 2 | 0 |  | 37 | 8 | 3 |
| NOR >200&<=300 | 18 |  | 7 | 2 | 1 |  | 1 | 0 | 0 |  | 7 | 1 | 0 |
| NOR >300 | 4 |  | 1 | 0 | 0 |  | 0 | 0 | 0 |  | 1 | 0 | 0 |
| **Total** | **103** |  | **136** | **96** | **68** |  | **87** | **53** | **29** |  | **136** | **86** | **57** |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Secondary** |  |  | **Model 1** | | |  | **Model 2** | | |  | **Model 3b** | | |
|  | Adj base |  | MFG | MFG | MFG |  | MFG | MFG | MFG |  | MFG | MFG | MFG |
|  | MFG |  | **+0.5%** | **+0.0%** | **0.0%** |  | **-1.5%** | **-1.5%** | **-1.5%** |  | **0.0%** | **-0.5%** | **-0.5%** |
| **Item** | 2017-18 |  | 2018-19 | 2019-20 | 2020-21 |  | 2018-19 | 2019-20 | 2020-21 |  | 2018-19 | 2019-20 | 2020-21 |
|  | £m |  | £m | £m | £m |  | £m | £m | £m |  | £m | £m | £m |
| **Total secondary** | **2.187** |  | **1.506** | **1.506** | **1.506** |  | **0.011** | **0.000** | **0.000** |  | **0.883** | **0.394** | **0.111** |
| No. schools | 45 |  | 34 | 34 | 34 |  | 3 | 0 | 0 |  | 28 | 21 | 11 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total by school size: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| NOR <=600 | 0.371 |  | 0.326 | 0.326 | 0.326 |  | 0.005 | 0.000 | 0.000 |  | 0.198 | 0.103 | 0.037 |
| NOR >600&<=900 | 0.772 |  | 0480 | 0480 | 0480 |  | 0.000 | 0.000 | 0.000 |  | 0.295 | 0.141 | 0.043 |
| NOR >900&<=1200 | 0.807 |  | 0.545 | 0.545 | 0.545 |  | 0.006 | 0.000 | 0.000 |  | 0.305 | 0.135 | 0.031 |
| NOR >1200 | 0.237 |  | 0.155 | 0.155 | 0.155 |  | 0.000 | 0.000 | 0.000 |  | 0.085 | 0.015 | 0.000 |
| **Total** | **2.187** |  | **1.506** | **1.506** | **1.506** |  | **0.011** | **0.000** | **0.000** |  | **0.883** | **0.394** | **0.111** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| No. schools: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| NOR <=600 | 12 |  | 11 | 11 | 11 |  | 2 | 0 | 0 |  | 9 | 6 | 5 |
| NOR >600&<=900 | 16 |  | 10 | 10 | 10 |  | 0 | 0 | 0 |  | 9 | 6 | 3 |
| NOR >900&<=1200 | 14 |  | 11 | 11 | 11 |  | 1 | 0 | 0 |  | 8 | 7 | 3 |
| NOR >1200 | 3 |  | 2 | 2 | 2 |  | 0 | 0 | 0 |  | 2 | 2 | 0 |
| **Total** | **45** |  | **34** | **34** | **34** |  | **3** | **0** | **0** |  | **28** | **21** | **11** |