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**Report to: Schools Forum**

**Date 21st January 2021**

**Report of: John Betts, Interim Finance Business Partner (Education & Skills)**

**Title: Mainstream Schools Funding Formula and Minimum Funding Guarantee 2021/22**

**Status For Decision**

**Purpose**

The purpose of this report is to seek Schools Forum approval to the treatment of the Minimum Funding Guarantee (MFG) as part of the mainstream school funding formula for Birmingham for 2021/22.

**Background**

Each year local authorities are required to detail their schools block funding formulae in accordance with the arrangements set out by the Secretary of State for Education. The Education and Skills Funding Agency (ESFA) has developed the authority proforma tool (APT) to assist local authorities to model and then confirm how they plan to do this for the funding year.

In using the APT modelling tool, it is evident that we cannot fully replicate the national funding formula and maintain a Minimum Funding Guarantee of 2%, because the Dedicated Schools Grant financial settlement does not provide sufficient funding to deliver this. Department for Education has indicated that a MFG of between 0.5% and 2.0% should be used for 2021/22.

The minimum funding guarantee (MFG) is intended to provide schools with stability of funding: the MFG does this by guaranteeing all schools a minimum percentage increase in their funding per pupil from one year to the next. MFG excludes business rates and lump sum.

The rest of this report outlines the reasons why a 2% MFG is unaffordable; identifies two options to resolve this option and suggests a preferred option.

**Government Funding Expectations**

Every school should receive a minimum of £5,415 per-pupil funding for secondary schools and £4,180 for primary schools. This is already reflected in the Birmingham proposal (and is checked by the APT modelling referenced above).

However, the situation is somewhat confused as funding to cover increases to teacher pay and pensions has also been included by DfE within formula funding from 2021/22 rather than being paid separately. The issue here is that the way teacher pay and pensions costs are distributed to schools on a grant basis differs from funding funnelled through the national formula. However, the Local Authority has no choice except to follow the national formula methodology.

**Affordability – The Funding Gap**

Appendix 1 shows the summary from the APT, with the national formula applied and a MFG of 2% and results in a total cost of £1,002.769m.

However, after accounting for growth and falling rolls funding etc, there is only funding available of £ 996.486m

This results in a shortfall of £6.283m.

The primary reason behind this shortfall in funding is because the numbers of pupils used by DfE to calculate the Dedicated Schools Grant allocation for 2021/22 (based on the October 2020 pupil census) is 870 pupils fewer than the Authority forecasts need to be used in the 2021/22 formula (181,785 pupils in the local formula, compared with 180,915 used in DSG calculation). This is in addition to additional pupils expected and funded from the Growth Fund that the Schools Forum approved in December 2020.

The characteristics of some of these pupils also means that the deprivation factors that these pupils attract is also under-represented in the DSG calculation.

**Options to Resolve The Funding Issue**

In order to make the formula affordable there are two basic options:

* OPTION 1 - Set a MFG of 0.66% (assuming we don’t cap schools that gain more than that figure)
* OPTION 2 - Set the maximum MFG we can afford that also involves capping gainers too – so the minimum funding guarantee per pupil also becomes the maximum funding guarantee per pupil too. Those who would gain more (had the MFG been set lower) have their gains capped. The maximum we can afford here is 1.91%.

The impact of these (using the same ATP output) is shown in Appendices 2 and 3.

In addition, to demonstrate the impact of these proposals, two real life (although anonymised) examples have been overleaf.

* A school with rapidly growing pupils gains more from a lower MFG and no cap. This is to be expected because there is no “clawback”or cap on the funding gains derived from the increased number of pupils. In this example, the rapidly growing school gains £781k. However, with a maximum gain of 1.91% per pupil, the same school only loses £23k (relative to the £781k gain).
* Conversely, a school rapidly losing pupils, under the 0.66% MFG is being relatively unsupported by that mechanism and so loses £238k. With a more generous MFG of 1.91%, the loss is reduced – in this case, by £47k. Of course, that reduction in the funding loss is coming from those schools with rapidly rising pupils.

Where schools are rapidly expanding and this is known and has been planned for then it is recognised and reflected in the mainstream formula and so is not also separately funded from the Growth Fund (as that would be double funding). The Growth Fund primarily covers other, additional in-year growth not forecast when the formula is finalised. Conversely, we would expect any falling rolls funding to also take the impact of the MFG highlighted above into account.

**Conclusions**

It is for the Forum to decide on which option (0.66% with no cap; or a 1.91% funding guarantee that acts as both the minimum and maximum factor) to implement. However, the Technical Sub Group highlighted that generally the policy of the Local Authority and the Schools Forum was to design a funding system that protected schools facing sudden reductions in funding. The situation is exacerbated this year as the teachers pay and pensions grant has been rolled into the overall funding mechanism, so all schools are facing higher levels of cost pressures and, therefore, need as much funding protection as possible.

**For Decision:**

**OPTION 1 - Implement a Minimum Funding Guarantee of 0.66% (with a presumption that schools that gain more than that do not have any of those gains capped)**

**Or**

**OPTION 2 - Set a Funding Guarantee of 1.91%[[1]](#footnote-1) that acts as an overall minimum and maximum factor**

Picture of 2 tables, option 1 and 2 of Minimum Funding Guarantee

Appendix 1 – Shows 2% MFG is unaffordable

picture of a table showing 2% MFG is unaffordable

Appendix 2 – Shows Option 1 – MFG at 0.66% Picture of Option 1 MFG at 0.66%

Appendix 3 – Shows Option 2 (MFG at 1.91% with gains above that capped at 1.91%)

Picture showing option 2 MFG at 1.91%

1. NB final figures may need to go to more than two decimal places, to ensure overall funding affordability [↑](#footnote-ref-1)