



**Open Report on behalf of Heather Sandy, Executive Director - Children's Services**

Report to:	<b>Lincolnshire Schools' Forum</b>
Date:	<b>06 October 2022</b>
Subject:	<b>National Funding Formula for Schools - Update for 2023/24</b>

**Summary:**

The purpose of this report is to provide a summary of the updates from the Department for Education (DfE) relating to the national funding formula for schools, central schools services, high needs and early years for 2023/24.

**Recommendation(s):**

Schools' Forum is asked to note the content of the report, and to comment on the steps to ensure the national funding formula is affordable.

**Background**

The government first introduced the national funding formula (NFF) in 2018/19 for mainstream schools, its purpose was to create consistency in funding across all schools nationally ensuring a fairer settlement for each school. Since its introduction, Local Authorities (LAs) have continued to be responsible for agreeing and calculating schools funding allocations however, LAs were strongly encouraged to move to the NFF arrangements so that schools' allocations were on a sensible trajectory towards the 'hard' formula, subject to floors and ceilings due to a re-distribution of funding nationally.

In 2020/21, the Government made available sufficient funding to LAs to replicate the NFF so that all schools would attract at least their full allocations under the formula. Only 78 out of 150 LAs have mirrored the NFF in 2022/23. Lincolnshire is one of those LAs. Since the introduction of the NFF in 2018/19, Lincolnshire has replicated the Government's NFF due to the increased per pupil funding levels that have been received. It currently remains the LA decision on setting its schools funding formula within the DfE's funding framework.

In 2022/23, Lincolnshire continued to replicate the monetary values of the NFF factors, however due to the significant increase in Free School Meals (FSMs) recorded on the October 2021 census resulting from the pandemic, as LAs are expected to finance this increase through their Schools block allocation, the Minimum Funding Guarantee (MFG)

had to be applied at +0.5% (within the MFG range) to support the formula being affordable.

As part of the spending review the government announced in 2021, the total core schools budget will increase to £56.8 billion by 2024/25. A £4bn funding increase in the current year (including the supplementary grant) compared to 2021/22 levels. The further two years up to 2024/25 will see an increase of £3bn overall. Funding through the schools NFF is increasing by 1.9% overall in 2023/24, and 1.9% per pupil compared to 2022/23<sup>1</sup>.

The government's initial consultation outcomes on how further reforms to the NFF can be implemented for mainstream schools with the intention of moving to a 'hard' formula were published this year, and a report to the Schools' Forum was provided in the April 2022 meeting. The Council responded to this consultation concluding the importance of retaining local flexibility and decision-making powers for all aspects of schools funding. LAs in working with the sector are best placed to respond to local needs and demands on a timely basis within reasonable DfE parameters rather than through a centralised system. The focus of the consultation was on progressively tightening the rules governing LAs' flexibilities over school funding, so that school allocations move closer to the NFF which is being implemented in 2023/24, with particular focus on premise factors and schools growth funding.

On 7 June 2022 the DfE launched a second consultation which considered the next steps in completing the NFF reforms to move all schools onto the 'hard' NFF. The consultation was more future focused rather than for 2023/24. The department has listened to the concerns of LAs within the consultation responses and will ensure local flexibilities operates within an over-arching framework for growth funding. Other key headlines that were consulted upon:

- 'Notional SEN' budgets are proposed to be set nationally. The concept of 'Notional SEN' was introduced by the government and has been a mandatory addition to local formulas since. A nationally set indicative SEND budget would improve consistency of funding and practice across the country, and the NFF should underpin those assumptions. It is important that any nationally set level of 'Notional SEN' provides fair funding and not a disincentive, for schools to be inclusive, including clearly setting out the responsibilities that should be expected of mainstream schools but also afforded within the indicative SEND allocation.
- Government's intentions to determine split-site funding centrally. The LA contested this position, emphasising that each split-site arrangement is unique therefore localism is imperative to ensure these schools receive fair funding levels that reflect the costs in running their school. The government proposals would see a reduction in funding for three secondary split-site schools.
- Popular growth applications propose to be available to all schools, whether that be maintained or academies.
- Increasing the threshold above 2.5% from 1% of the total of schools budget for costs relating to exceptional circumstances funding, such as rents. The LA does not support such a proposal as it will not deliver fair funding leaving a number of

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<sup>1</sup> Year on year funding comparisons include the funding from the School Supplementary Grant for 2022/23.

Lincolnshire primary schools losing out financially compared to similar size schools.

- A review of the Minimum Funding Guarantee’s application. The LA explained that measures must be in place to protect school-led factor policy changes.

The LA will report back to the Schools’ Forum on the DfE’s consultation outcomes in due course. The LA did use the consultation to re-iterate the message that the department should focus its attentions on ensuring the NFF (pupil-led factors and funding levels) are developed further to ensure it is underpinned by key assumptions and principles using ‘modelled’ school settings and the costs built up using key cost drivers through a zero-based review, rather than a re-distribution of funding using LA averages, and then subsequent increases in funding. This suggested approach would ensure fair funding is achieved and would also be responsive to cost changes taking place from year to year, which is particularly important at this moment in time. Unfortunately, the department do not consider a zero-based approach to be sensible on the basis there is “one size fits all” approach to running a school.

### **School funding announcements**

On 20 July 2022, the government announced its funding intentions for 2023/24 including publication of the Schools Revenue Funding 2023/24 Operational Guidance and the provisional Dedicated Schools Grant (DSG) allocations for 2023/24.

For 2023/24, the DSG will continue to comprise of four blocks – Schools block, Central School Services block, High Needs block, and Early Years block.

Provisional allocations for 2023/24 are detailed in the table below:

<b>Block</b>	<b>Lincolnshire (£m)</b>
Schools block	542.167 <sup>2</sup>
Central School Services block	4.751
High Needs block	121.466
<b>Total</b>	<b>668.384</b>
Early Years block	TBC

#### **Schools block**

Schools block allocations are calculated by aggregating schools' notional allocations under the NFF. Schools block allocations are expressed as a separate per pupil primary and secondary rate for each LA. The primary ranked positions for Lincolnshire have improved from a national context (out of 150 LAs) for 2023/24, the secondary ranked position remains the same for Lincolnshire when comparing to the national context. Although the rates have increased, they are however still below the England national average, as a result of the indices being used:

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<sup>2</sup> Excludes Schools Growth funding.

<b>2022/23</b>	Lincolnshire's Unit of Funding	England National Average	Difference	Rank
Primary	£4,735	£4,786	-£51	96
Secondary	£5,899	£6,213	-£314	54
<b>2023/24</b>				
Primary	£4,933	£5,014	-£81	103
Secondary	£6,216	£6,542	-£326	54
<b>Difference</b>				
Primary	£198	£228	-£30	7
Secondary	£317	£329	-£12	0

The Schools Revenue Funding 2023/24 Operational Guide is available on the below link:

[Pre-16 schools funding: local authority guidance for 2023 to 2024 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/guidance/pre-16-schools-funding-local-authority-guidance-for-2023-to-2024)

Information within the guidance in relation to the Schools block confirms:

- LAs will continue to set the local schools funding formula for 2023/24.
- Following consultations on completing the reforms to the NFF, for 2023/24 all LAs must use all the NFF factors and for those LA not mirroring the NFF they must move their local formula factors at least 10% closer to the NFF. This will not impact Lincolnshire as the LA are already replicating the NFF.
- Additional support is being directed towards disadvantaged pupils by increasing the Free School Meals Ever 6 (FSM6) and IDACI factors by 4.3%
- All other formula factors in the NFF will increase by 2.4%.
- The minimum per pupil funding levels will be set at £4,405 for primary (currently £4,265) and £5,715 for secondary schools (currently £5,525)<sup>3</sup>.
- Every school will be allocated at least 0.5% more pupil-led funding per pupil compared to their 2022/23 NFF baseline, i.e. the Minimum Funding Floor. This means that every school will attract an increase in their pupil-led funding of at least 0.5% per pupil, if the NFF is replicated. The application of this will be subject to affordability.
- LAs will continue to set the Minimum Funding Guarantee (MFG) between +0.0% and +0.5%.
- Schools Supplementary Grant funding that schools received as a separate grant in 2022/23 has been rolled into the NFF for 2023/24. This will be achieved by adding an amount representing the amount schools received through their grant into their baseline and adding values of the lump sum, basic per pupil rates and FSM6 parts of the grant onto the respective factors in the NFF.
- There will be no gains ceiling cap. All schools will attract at least their full allocations under the formula. LAs will still be able to use a cap in their local formula for affordability purposes.
- The ESFA proposed changes to the methodology of paying rates bills in 2022/23. Under the new methodology the Education Skills Funding Agency (ESFA) would pay

<sup>3</sup> The minimum per pupil values have been uplifted by the supplementary grant's basic per-pupil values, and an additional amount which represents the average amount of funding schools received from the FSM6 and Lump Sum parts of the grants

rates bills directly to the billing authority on behalf of all maintained schools and academies. In order for the new methodology to be adopted all billing authorities in the LA would need to agree to the new payment method. The billing authorities in Lincolnshire opted not to adopt this change in 2022/23. However, the ESFA are strongly encouraging all billing authorities to adopt the new payment method in 2023/24. Officers are awaiting further information as to whether the billing authorities in Lincolnshire will adopt the new payment method for 2023/24.

- Following the cancellation of progress assessments in the summer of 2020 and the summer of 2021 due to the pandemic, LAs will be required to use 2019 assessment data as a proxy in the low prior attainment factor within their local funding formulas' for the reception to year 6 cohort.
- Premise funding will continue to be allocated to LAs on the basis of prior year actual spend in the 2022/23 APT. The Private Finance Initiative (PFI) factor will increase in line with the RPIX measure of inflation (11.2%) to reflect PFI contracts.
- Growth funding will continue to be allocated to LAs based on the formulaic approach introduced in 2020/21 based on the growth in pupil numbers between October 2021 and October 2022 census. The government's growth funding applies a lagged approach rather than forecasting future growth expected.
- The Schools block continues to be ring-fenced, LAs can transfer up to 0.5% of their Schools block funding into another block, following consultation with all schools and academies and the approval of Schools' Forum.

Appendix A provides a funding comparison of the NFF factors from 2022/23 to 2023/24.

The sector and Schools' Forum have supported the decision for Lincolnshire to replicate the NFF due to the increased per pupil funding levels being seen in all mainstream schools. The LA still does however consider local flexibility and decision-making powers important to best respond to local needs and demands on a timely basis within reasonable DfE parameters.

The fundamentals principles of the NFF are not changing for 2023/24. In accordance with the 20 January 2021 Executive Councillor decision and sector support through the consultation exercise, the LA plans to continue replicating the NFF in 2023/24, which will include the modest changes identified above. This will of course be subject to affordability of the Schools block due to the government's application of lagged funding arrangement for LA Schools block funding. The latest October schools census information for determining schools budgets is typically shared with LA Finance departments in mid-December, and at that point the LA completes the Authority Proforma Tool (APT) to determine schools budgets and the assessment of affordability, before being submitted to the ESFA for compliance towards mid to late January. This therefore leaves limited time for engagement with the sector on the impact of specific measures to address affordability, if necessary. Schools responses have previously been mixed on affordability matters, however MFG and the ceilings cap have been the preferred solutions, in that order. In 2022/23, the LA decision was to alter the MFG (to the lower range of +0.5%) along with considering the use of other DSG funding streams. This was required due to the rise in FSMs eligibility. The reason for the preference to alter the MFG is firstly it is a positive MFG (i.e. all schools receive a per pupil increase) and those schools are being funded above the NFF due to historic funding levels. Another option available is to apply a

percentage gains ceiling cap to schools per pupil gains, which was a mechanism the DfE used to incrementally introduce the NFF due to affordability purposes. The LA would favour adopting the same approach and principles, if affordability issues arose for 2023/24. The affordability position will be shared with the Forum in the January meeting including the mitigating measures to address this and the school impact.

In light of the LA plans to replicate the NFF in 2024/24; the support received from the sector for this decision from previous consultations (since 2018/19); the minor DfE refinements to the NFF for next year through the mainstreaming of the school supplementary grant funding and formula factor monetary value increases by defined percentages, and the time practicalities on consulting with schools on the impact of affordability changes and prior feedback from schools on solutions, the LA concludes at this point in time that a schools consultation will not be required for mainstream schools funding in 2023/24.

### Central Schools Services block

The published information outlines that within the Central School Services block, funding will continue to be provided to LAs to carry out central functions on behalf of maintained schools and academies, comprising two distinct elements:

- Ongoing responsibilities
- Historic commitments

The ongoing rate per pupil for 2023/24 is £37.17 (compared to 2022/23 rate of £36.29), a 2.4%<sup>4</sup> increase. The final allocation will be subject to the October 2022 schools census, but the provisional allocation is £3.612m (2022/23: £3.500m). This will be considered when the detailed budget setting exercise is fulfilled.

The government will continue to reduce historic commitments monetary values by 20% in 2023/24. This will be a challenge for LAs to ensure a sustainable outcome is achieved for the remaining long term contract in place, namely PFI school buildings. It is forecast that the 2023/24 funding levels will be sufficient to meet next year's historic commitments.

### High Needs block

The published information outlines that within the High Needs (HN) block the provisional allocation for 2023/24 has increased by £6.124m to £121.466m<sup>5</sup>.

Within the HN block the funding floor has been set at 5% so that each LA will see an increase of at least 5% per head of their 2 to 18 population in 2023/24. Lincolnshire has received a funding uplift within its funding allocation of £8.692m or £59.50 per pupil to ensure it receives this 5% minimum uplift, and is therefore in receipt of protection funding above the HN NFF. The protection funding in 2022/23 was £8.607m. Hospital funding has increased by 2%.

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<sup>4</sup> CSSB ongoing responsibilities 90% distributed through basic per pupil factor, 10% through FSM Ever 6

<sup>5</sup> Historic Funding £31,461,638, Proxy Funding £68,909,602, 5% growth funding £8,692,091, Hospital School funding £2,817,481, Basic Entitlement funding £10,755,280, Imports & Exports -£1,170,000.

The increased funding in the HN block is welcomed, however detailed budget planning and trajectory work, and sector engagement will take place in the autumn to substantiate the requirements of HN spending. Information will be shared in the January Forum meeting. The SEND Green paper acknowledges the unsustainable SEND system and considers ways to address this. The outcomes of the consultation will likely have an impact on high needs funding allocated to LAs and schools.

There continues to be a growing trend nationally, and this growth is being experienced in Lincolnshire with more young people requiring specialist support which is having a material financial impact on the HN block. This remains a financial challenge. In Lincolnshire, transformational work is considered fundamental to securing further improved outcomes for young people with SEND through a truly integrated approach, whilst also securing an offer for Lincolnshire that is financially sustainable within the central Government allocation. The SEND Transformation Board is governing the transformational process and its key work streams, including of monitoring of progress against our ambitions.

#### Early Years block

The DfE launched a consultation of reforms to the Early Years Funding formula on 4 July 2022. The reforms propose:

- Updating the funding formulae for the early education entitlements for children aged 2,3 and 4. These formulae are no longer using the most recent data available.
- Creating a fairer distribution of maintained nursery school supplementary funding.

The LA responded to the government consultation raising a number of concerns relating to the Area Cost Adjustment (ACA) mechanism in place; the considerable levels of protection in the formula for some LAs in the 3 & 4 year old funding formula, which date back a number of years, which is limiting Lincolnshire receiving its entitled allocation; the introduction of a premise proxy of rates within the ACA calculation for 2 year olds, which risks potential double funding leading to material increases in funding for London areas, and the recommendation to devolve the teachers' pay and pension grant through the Maintained Nursery School (MNS) supplementary funding rate using universal hours only and not recognising the planned teachers' pay increases in September 2022 and 2023.

The consultation does propose funding increases for the sector, but with the economic challenges facing providers and schools, it is crucial that fair funding for Lincolnshire is secured. The LA is meeting with the department to discuss these matters further.

#### Pupil Premium

Pupil Premium will continue in the 2023/24 financial year. Rates will be published later in the year.

#### **DSG Deficit Balances**

Where a LA has a substantial in-year overspend or cumulative DSG deficit balance at the end of the financial year, a LA management plan should bring the overall DSG account into balance within a timely period. The ESFA has published a deficit recovery plan format for applicable LAs to complete. The report must be discussed with Schools Forum and signed by the Chief Finance Officer.

## **Conclusions**

The funding announcements show an increase in per pupil funding for Lincolnshire mainstream schools. 2023/24 is the second year of the three-year funding settlement. Although the increase in funding is welcomed, there are concerns regarding the financial position of schools when considering the proposed pay awards, utility costs and general inflationary increases. The LA will be monitoring the position for the county's schools.

The HN block will continue to require careful and prudent management going forward.

The LA will continue to work through the Early Years block arrangements and funding proposals in readiness for setting provider and school funding rates for 2023/24 within the early years funding quantum.

## **Next Steps**

The LA has received the draft version of the APT that includes October 2020 census data to enable officers to undertake financially modelling of school budgets to fully understand the impact of the funding announcements detailed in this paper. In addition, officers are modelling any further rises in FSMs and the impact this will have on affordability of the Schools block.

The sector and Schools' Forum have supported the decision for Lincolnshire to replicate the NFF due to the increased per pupil funding levels being seen in all mainstream schools. The LA plans to continue replicating the NFF in 2023/24. The fundamentals principles of the NFF are not changing for 2023/24, and such refinements are increasing the formula factor monetary values. The LA concludes at this point in time that a schools consultation will not be required for mainstream schools funding in 2023/24, as the LA plans are to continue replicating the NFF.

A final version of the APT will be released in December 2022. This tool will include October 2022 census information and will be used to calculate school budget shares for 2023/24. The Schools' Forum will be updated on the affordability position of the NFF in the January 2023 meeting. The APT will be submitted to the ESFA by 20 January 2023 for compliance.

School budget shares must be published by 28 February 2023.

The government has conducted its latest consultation on how further reforms to the NFF will be implemented, with the intention of moving to a 'hard' formula. The government expect to have moved all schools onto the NFF within the next five years, by the 2027/28 funding year. This would remove the LA responsibility in the setting of school budgets. The LA has responded to the latest consultation concluding the importance of retaining local flexibility and decision-making powers for aspects of schools funding, such as schools growth arrangements to support our statutory duty and premise-led factors. What the NFF has achieved is a move to greater consistency in how LAs are funded, which the LA considers to be extremely important in ensuring fair and equitable funding for the schools sector in each area.

## Consultation

### a) Risks and Impact Analysis

The affordability of the Schools block in replicating the NFF for 2023/24 will be considered through the financial modelling and completion of the December APT that contains the latest census information. The preferred options for addressing affordability (such as considering other DSG funding streams; reducing the MFG and ceilings cap) have been outlined in the body of the report.

CSSB Historical Commitment Funding started to reduce by 20% per annum in 2020/21 in line with the ESFA expectations that contracts are starting to have reached their natural conclusion. Officers are continuing to raise this with the department due to the commitment of the PFI contract (due to end August 2032). It is forecast that the 2023/24 funding levels will be sufficient to meet next year's historic commitment.

High Needs funding continues to see growth in the demand for more specialist support for young people, which is having a material financial impact on those centrally held budgets of the HN block. Although the government has again responded to the financial demands placed on the HNs block, spending levels continue to grow. The SEND Transformation Board is governing the transformational process and its key work streams, including monitoring of progress against our ambitions. The HN block will continue to require careful and prudent management going forward.

## Appendices

These are listed below and attached at the back of the report	
Appendix A	NFF for Schools - Update for 2023/24

## Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
National Funding Formula: Government Consultation Outcomes	<a href="https://www.moderngov.co.uk">Report Reference: (moderngov.co.uk)</a>
National Funding Formula for Schools – Update for 2022/23	<a href="https://www.moderngov.co.uk">Report Reference: (moderngov.co.uk)</a>

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