

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

Report to:	Lincolnshire Schools' Forum
Date:	7 October 2021
Subject:	National Funding Formula for Schools - Update for 2022/23

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 school services, high needs and early years for 2022/23.

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. 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.

The introduction of the NFF was to create consistency in funding across all schools nationally ensuring a fairer settlement for each school. To enable a managed transition to take place nationally, the government initially adopted a funding floor and ceiling approach to enable incremental steps for schools to move towards the 'hard' formula allowing for a financially sustainable re-distribution of funding across the country.

On 30 August 2019, the Prime Minister announced an investment of over £14bn in primary and secondary education between 2020/21 and 2022/23. The funding package for schools (aged 5 to 16) included £2.6bn for 2020/21, £4.8bn for 2021/22 and £7.1bn for 2022/23 compared to 2019/20 funding levels.

Through this investment and to support the move towards the 'hard' formula in 2020/21, the DfE stated the minimum per pupil levels of funding applied to all schools would

become a mandatory factor, and there would be no ceiling cap so that all schools would attract at least their full allocations under the formula.

Since its introduction in 2018/19, Lincolnshire has replicated the government's NFF due to the increased per pupil funding levels that have been received. It is currently a LA decision on setting its schools funding formula within the DfE's funding framework.

A DfE NFF consultation was launched on the 8 July 2021 with an end date of the 30 September 2021, which considered steps to complete the reforms to move all schools onto the NFF. Only 73 out of 150 LAs are mirroring the NFF in 2021/22.

In 2021/22, Lincolnshire replicated the monetary values of the NFF factors, however due to the significant increase in Free School Meals (FSMs) recorded on the October 2020 census resulting from the pandemic, of which LAs were expected to finance this increase through its Schools block allocation, the Minimum Funding Guarantee (MFG) had to be applied at +0.5% (within the MFG range) to ensure the formula was affordable.

School funding announcements

On 19 July 2021, the government announced its funding intentions for 2022/23 including publication of the Schools Revenue Funding 2022/23 Operational Guidance and the provisional Dedicated Schools Grant (DSG) allocations for 2022/23.

For 2022/23, 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 2022/23 are detailed in the table below:

Block	Lincolnshire (£m)
Schools block	510.141 ¹
Central School Services block	4.923
High Needs block	110.294
Total	625.358
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. Both the primary and secondary ranked positions for Lincolnshire have improved from a national context (out of 150 LAs) for 2022/23. Although the rates have increased, they are however still below the England national average, as a result of the indices being used:

¹ Excludes Schools Growth funding.

2021/22	Lincolnshire's Unit of Funding	England National Average	Difference	Rank
Primary	£4,570	£4,665	-£95	81
Secondary	£5,724	£6,046	-£322	50
2022/23				
Primary	£4,735	£4,786	-£51	96
Secondary	£5,899	£6,213	-£314	54
Difference				
Primary	£165	£121	£44	15
Secondary	£175	£167	£8	4

The Schools Revenue Funding 2022/23 Operational Guide is available on the below link:

[Pre-16 schools funding: local authority guidance for 2022 to 2023 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/pre-16-schools-funding-local-authority-guidance-for-2022-to-2023)

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

- LAs will continue to set the local schools funding formula for 2022/23.
- The key formula factors in the NFF will increase by c.3%.
- The Free School Meal factor will increase by c.2%.
- The minimum per pupil funding levels will be set at £4,265 for primary (currently £4,180) and £5,525 for secondary schools (currently £5,415).
- Every school will be allocated at least 2% more pupil-led funding per pupil compared to their 2021/22 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 2% 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 +0.5% and +2.0%.
- For the third year 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.
- Following a consultation on the methodology of paying rates bills, the process will change from 2022/23. Rates will be paid by the Education Skills Funding Agency (ESFA) directly to the billing authority on behalf of all maintained schools and academies. Schools and academies will no longer receive a rates factor within their budget for 2022/23. The LA is still required to collect rates data for 2022/23. Officers are awaiting further guidance regarding how schools and academies should treat this notional cost in their financial accounts.
- The DfE have confirmed there is further financial support to small and rural schools by increasing the maximum amount of funding schools can receive for Sparsity funding by £10,000. The methodology of calculating sparsity will also change. A schools' remoteness will be calculated using road distance rather than straight line, and a taper methodology has also been introduced.
- Following the cancellation of progress assessments in the summer of 2020 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.

- FSM Ever 6 funding will be based on the October census rather than the preceding January census, this will bring the factor in-line with the calculation of other formula factors. This decision has been made by the DfE, and LAs will be required to use this earlier data source.
- Premise funding will continue to be allocated to LAs on the basis of prior year actual spend in the 2021/22 APT. The Private Finance Initiative (PFI) factor will increase in line with the RPIX measure of inflation (3.17%) 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 2020 and October 2021 census. The government's growth funding applies a lagged approach rather than forecasting future growth expected therefore the Schools block will need to absorb the costs of any increased growth in 2022/23.
- 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 2021/22 to 2022/23.

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 fundamental principles of the NFF are not changing for 2022/23. The formula refinements of recognising inflationary rises and changing the sparsity measure to better reflect sparsity are seen as positive steps to better reflect costs that will be incurred by schools.

In accordance with the 20 January 2021 Executive Councillor decision and sector support through the consultation exercise to continue replicating the NFF, the LA plans to replicate the NFF in 2022/23, 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 2021/22, 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 2022/23. The affordability position and would be shared with the Forum in the January meeting including the mitigating measures to address this and the school impact. The Forum is asked to comment on this.

In light of the LA plans to replicate the NFF in 2022/23; 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, 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 2022/23.

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 2022/23 is £36.29 (compared to 2021/22 rate of £32.75) a 10.81%² increase. The final allocation will be subject to the October 2021 schools census, but the provisional allocation is £3.500m (2021/22: £3.150m). 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 2022/23. 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 2022/23 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 2022/23 has increased by £7.630m to £110.294m³.

Within the HN block the funding floor has been set at 8% so that each LA will see an increase of at least 8% per head of their 2 to 18 population in 2022/23. Lincolnshire has received a funding uplift within its funding allocation of £8.807m (or £61 per pupil) to ensure it receives this 8% minimum uplift, and is therefore in receipt of protection funding above the HN NFF. Hospital funding has increased by 8% in line with the funding floor.

² CSSB ongoing responsibilities 90% distributed through basic per pupil factor, 10% through FSM Ever 6, information is now taken from the October census rather than the preceding January, there was a large increase in the number of children qualifying for FSM due to the pandemic which explains the increase in this element of funding.

³ Historic Funding £31,461,638, Proxy Funding £58,709,162, 8% growth funding £8,806,947, Hospital School funding £2,696,792, Basic Entitlement funding £9,888,520, Imports & Exports -£1,269,000.

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. LAs are awaiting the outcomes of the DfE 2019 SEN review and Call for Evidence, which are fundamental to securing a long-term financial plan for HNs.

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 risk. Transformational work is well underway⁴ and progress of work streams is being measured. The LA continues to work with key partners in supporting children and young people with SEND. This transformational work is intended to secure 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 its central government allocation.

Early Years block

The DfE have confirmed the Early Years NFF operational guide will be provided in the autumn, which will include funding rates at a LA level.

There have been no further updates regarding the future position of nursery schools supplementary funding - the current agreement ends in March 2022. The LA is working with the sector to support sustainability.

Pupil Premium

Pupil Premium will continue in the 2022/23 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.

It has previously been reported to the Forum that an increasing number of LAs are incurring a deficit on their overall DSG, largely due to overspends on their High Needs block. Some of these DSG deficit balances are material in value. The ESFA has recently agreed financial support to five LAs that have the highest DSG deficits worth £97m. Under these agreements, these councils are expected to agree to a plan of action to make them more sustainable in the long-term and stop deficits growing.

⁴ Lincolnshire Schools Forum: Annual Report on Special Educational Needs and Disabilities – June 2021.

Conclusions

The funding announcements of increased per pupil funding are positive for Lincolnshire mainstream schools. 2022/23 is the final year of the current three year settlement for schools, therefore it is important schools are provided with the same level of financial certainty at a national level in the next funding round.

The HN block continues to be an area of concern and will require careful and prudent management.

Next Steps

The LA is awaiting the draft version of the APT that includes October 2020 census data and the new sparsity information to enable officers to provisionally undertake financially modelling of school budgets. Officers will be utilising the tool to undertake financial modelling to fully understand the impact of the funding announcements detailed in this paper. In addition, the rise in FSMs through the pandemic and what impact this has on FSM Ever 6 is being substantiated.

The sector and Schools Forum have supported the decision for Lincolnshire to replicate of 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 2022/23. The fundamentals principles of the NFF are not changing for 2022/23, and such refinements are considered positive for schools, namely an inflationary uplift and sparsity arrangement changes. The LA concludes at this point in time that a schools consultation will not be required for mainstream schools funding in 2022/23, as the LA plans are to continue replicating the NFF.

A final version of the APT will be released in December 2021. This tool will include October 2021 census information and will be used to calculate school budget shares for 2022/23. The Schools Forum will be updated on the affordability position of the NFF in the January 2021 meeting. The APT will be submitted to the ESFA by 21 January 2022 for compliance.

School budget shares must be published by 28 February 2022.

The government has conducted its initial consultation on how further reforms to the NFF could be implemented with the intention of moving to a 'hard' formula, the proposals suggest that the DfE would set the formula for all schools, removing all LA responsibility in the setting of school budgets. The LA has responded to this initial consultation concluding the importance of retaining local flexibility and decision-making powers for all aspects of schools funding. LAs 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. 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.

The LA intends to undertake a workshop in the autumn term to discuss Notional SEN and Targeted Funding following the change to the methodology of calculating Targeted Funding in 2021/22.

Consultation

a) Risks and Impact Analysis

The affordability of the Schools block in replicating the NFF for 2022/23 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 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).

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.

Appendices

These are listed below and attached at the back of the report	
Appendix A	NFF for Schools – Update for 2022/23

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
School Funding Arrangements 2021/22	Report Reference: (moderngov.co.uk)
National Funding Formula for Schools – Update for 2021/22	Report Reference: (moderngov.co.uk)

This report was written by Lizzie Bowes, Strategic Finance Manager Schools Finance Team, who can be contacted on elizabeth.bowes@lincolnshire.gov.uk.