



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

Report to:	<b>Children and Young People Scrutiny Committee</b>
Date:	<b>12 January 2024</b>
Subject:	<b>Mainstream Schools Funding 2024/25</b>

**Summary:**

This report invites the Children and Young People Scrutiny Committee to consider a proposed approach to mainstream schools funding for 2024/25.

The purpose of the eventual decision report is to seek approval from the Executive Councillor for the Local Authority's (LA's) mainstream schools funding formula proposals for 2024/25 in light of the Government's funding announcements on the National Funding Formula (NFF) for mainstream schools and the impact of the latest October 2023 schools census.

Because of the timing of the Committee's meeting in relation to the release of Government funding information and the need for more detailed analysis, it has not been possible to present the draft decision report to the Committee which will include full financial details once the necessary analysis has been carried out. However, although the final figures may change, the principles set out in this Report are those that are proposed to form the basis of the recommendation to the Executive Councillor.

Since the introduction of the Government's NFF in 2018/19 for mainstream schools, Lincolnshire has adopted the NFF due to the increased per pupil funding levels that have been received.

The fundamental principles of the Government's NFF are not changing for 2024/25. The 20 January 2021 Executive Councillor decision (I021123) remains in place to adopt the NFF. The measures to address the affordability gap when adopting the NFF for mainstream schools in 2023/24 were approved on 7 February 2023 by the Executive Councillor (I028812).

It currently remains the Council's decision to set its schools funding formula within the Department for Education's (DfE's) funding framework.

**Actions Required:**

The Children and Young People Scrutiny Committee is invited to: -

1. Consider the contents of this report and to determine whether the Committee supports recommendations being made to the Executive Councillor for Children's Services, Community Safety, Procurement and Migration on the basis of the principles and approach as set out in the report.
2. Agree any additional comments to be passed on to the Executive Councillor in relation to this item.

**1. Background**

The Government first introduced the 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, 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 'direct' formula.

The Schools block within the ring-fenced Dedicated Schools Grant is allocated to LAs to fund schools delegated budgets through their agreed formula. Lincolnshire's Schools block allocation for 2024/25 is £580.838m. Schools block allocations are expressed as a separate per pupil primary and secondary rate for each LA using prior year pupil-led characteristics and latest pupil numbers under the Government's notional NFF. The primary and secondary ranked positions for Lincolnshire continue to remain fairly static from a national context for 2024/25.

**Table 1**

<b>2023/24</b>	<b>Lincolnshire's Unit of Funding</b>	<b>England National Average</b>	<b>Difference</b>	<b>Rank</b>
Primary	£4,933	£5,014	-£81	103
Secondary	£6,216	£6,542	-£326	54
<b>2024/25</b>				
Primary	£5,278	£5,281	-£3	104
Secondary	£6,552	£6,879	-£327	56
<b>Difference</b>				
Primary	£345	£267	£78	1
Secondary	£336	£337	-£1	2

The 2021 Spending Review announced a three-year funding settlement for schools. This included the 2024/25 national school funding levels rising by £1.5bn to £56.8bn or a 1.9% increase in per pupil funding. The Autumn 2022 statement announced a further £2bn increase in funding (equating to an additional 3.4% increase in per pupil funding) in each of 2023/24 and 2024/25 to respond to increasing costs faced by schools, particularly

through staff pay awards and utilities. The 2023/24 allocation was made through a separate grant (Mainstream Schools Additional Funding Grant), however for 2024/25, this funding will go through the NFF. In addition, a separate grant has been made to mainstream schools through the Teachers' Pay Additional Grant starting from September 2023. This will continue as a separate grant in 2024/25 (£0.8m). Overall, core school budgets will be £59.6bn in 2024/25.

## **Context**

In 2020/21, the Government made available sufficient funding to LAs to adopt the NFF so that all schools would attract at least their full allocations under the formula. In 2021/22, the Government made further refinement to the NFF, which the LA consulted with the sector on to continue adopting the NFF (I021123). This decision remains in place.

As part of the transition to the 'direct' formula, all LAs were required to bring their own formula factor values 10% closer to the NFF in 2023/24. This has seen a further increase in LAs who are now mirroring the NFF, 106 out of 150 LAs mirrored<sup>1</sup> the NFF in 2023/24 (78 LAs mirrored the NFF in 2022/23). Lincolnshire is one of those LAs. Since the introduction of the NFF in 2018/19, Lincolnshire has adopted 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. This DfE funding framework will continue to progressively tighten the rules governing LAs' flexibilities over school funding by requiring LAs to move their local formula factor values closer by at least a further 10% to the NFF in 2024/25, where they are not mirroring the NFF.

In 2023/24, Lincolnshire continued to adopt the monetary values of the NFF factors, however due to the increase in Free School Meals (FSMs) recorded on the October 2022 census resulting from the pandemic and cost-of-living challenges, of which LAs are expected to finance this increase through their Schools block allocation, Lincolnshire undertook three steps in order to ensure the affordability of the NFF:

- Reduction of the Schools Growth funding budget by £1.934m whilst still ensuring the LA fulfils its statutory duty of providing school places for pupils in Lincolnshire.
- A budget transfer of £0.495m from available funding within the Central Schools Services block.
- A downward adjustment of 0.075% of the Age Weighted Pupil Unit (AWPU<sup>2</sup>) values from the Government's NFF rates (£0.227m).

The main reason that causes Schools block affordability challenges relates to the Government's application of lagged funding arrangements for LA Schools block funding for pupil-led factors (i.e. the DfE uses the October 2022 schools census). The Council is required to fund mainstream schools 2024/25 budgets using the latest schools census (October 2023).

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<sup>1</sup> Formula Factor values within 2.5% of the respective NFF values are deemed to be 'mirroring' the NFF.

<sup>2</sup> Each school attracts AWPU funding for each pupil on the latest October census based on their key stage level.

As an illustration of this, the October 2022 schools census which was used for 2023/24 mainstream schools' budgets continued to see significant growth in both FSMs and FSMs Ever 6<sup>3</sup> with the cost-of-living challenges being a contributing factor to this. The increase in the recorded FSMs eligibility, being 8% and 14% for primary and secondary schools respectively when comparing to the October 2021 schools census, was a major contributing factor to the 2023/24 NFF affordability gap shortfall of £2.656m. When comparing pre-pandemic data from the October 2019 schools census to the October 2022 schools census, Lincolnshire has seen significant growth in the recorded FSMs eligibility<sup>4</sup>.

### **2024/25 NFF Key Updates**

- LAs will continue to set the local schools funding formula for 2024/25.
- LAs not mirroring the NFF must move their local formula factors 10% closer to the NFF.
- Free School Meals factor will increase by 1.6%, in line with GDP deflator forecast for 2024/25.
- All other formula factors in the NFF will increase by 1.4%.
- The minimum per pupil funding levels will be set at £4,610 for primary (currently £4,405) and £5,995 for secondary schools (currently £5,715).
- LAs will continue to set the Minimum Funding Guarantee (MFG) per pupil between +0.0% and +0.5%. Lincolnshire currently apply a +0.5% MFG rate. This means that every school will attract an increase in their pupil-led funding of between 0-0.5% per pupil.
- Mainstream Schools Additional Grant funding that schools received as a separate grant in 2023/24 has been rolled into the NFF for 2024/25. This will be achieved by adding an amount representing the funding schools received through their grant into their baseline for protection purposes and adding funding to the NFF lump sum, basic per pupil rates and FSM Ever 6 replicating the distribution of the grant.
- Following the second consultation on the transition to the 'direct' NFF, a national formulaic approach to split site funding will be introduced, replacing the previous LA-led approach. This will be a compulsory factor. The split sites factor targets extra funding to schools which operate across more than one site. The factor will be made up of two parts: basic eligibility entitlement (where schools will receive a lump sum for each of their additional eligible sites) and a distance funding entitlement (schools will receive this funding if the eligible sites are separated by more than 100 metres (by road distance) from the main site). Funding protection will be applied through the operation of the MFG.
- The Education and Skills Funding Agency (ESFA) proposed changes to the methodology of paying rates bills in 2022/23. Under the new methodology, the ESFA would pay 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 continue to opt not to adopt this

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<sup>3</sup> Schools receive funding for pupils who have been recorded as eligible for FSM at any time in the last six years (FSM Ever 6) through this factor (this includes all pupils who are currently eligible for FSM).

<sup>4</sup> Comparing the FSMs recorded on the October 2019 schools census to the October 2022 schools census, the primary sector eligibility has increased by 55% and secondary schools eligibility by 70%. The schools population has only grown by 2% in this period.

change in 2024/25. Further dialogue will take place with billing authorities on the matter.

- Premise funding will continue to be allocated to LAs on the basis of prior year actual spend from 2023/24. The Private Finance Initiative (PFI) factor will increase in line with the RPIX measure of inflation (10.4%) 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 2022 and October 2023 census. The Government's growth funding applies a lagged approach rather than forecasting future growth expected. When allocating growth funding to schools, LAs must ensure funding allocated is at least the minimum funding level as set out in the NFF guidance, which the LA complies with.
- Continuation of the primary schools rents relating to schools premises within Lincolnshire's current local formula under the exceptional circumstances criteria<sup>5</sup>. Lincolnshire has had to make a disapplication request to the DfE, since the DfE has advised pre 2019/20 decisions made require consideration for 2024/25.
- For the first time in 2024/25, LAs will receive funding based on falling rolls as well as growth. Falling Rolls funding will be allocated to LAs on the basis of the reduction in pupil numbers that an LA experiences each year. The Council is to review whether a Falling Rolls factor is required in Lincolnshire.
- LAs have received updated guidance regarding their Notional SEN budget calculations within a schools delegated budget<sup>6</sup>. Lincolnshire 2023/24 overall schools funding identified as notional SEN was 11.4%, which is in the mid-point range of LAs. Lincolnshire has a targeted funding approach in the High Needs block to supporting schools with a higher number of Education, Health and Care Plans.
- 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.

The fundamental principles of the NFF are not changing for 2024/25. With the sector and the Lincolnshire Schools' Forum having supported Lincolnshire's decision to continue adopting the NFF due to the increased per pupil funding levels being seen in all mainstream schools, the recommendation is for the continued application of the NFF in the development of the County Council's mainstream schools funding for Executive Councillor decision (subject to affordability).

The Council still does, however, consider local flexibility and decision-making powers important in schools funding to best respond to local needs and demands on a timely basis within reasonable DfE parameters, including LAs having a voice on nationally established arrangements.

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<sup>5</sup> The exceptional factor is applicable where the rents factor is more than 1% of a school's budget and applies to fewer than 5% of the schools in the LA area.

<sup>6</sup> Requirement to identify for each mainstream school a notional amount to guide schools in their spending to meet the costs, up to £6,000 per pupil, of additional support for the school's pupils with special educational needs (SEN).

## **2024/25 Financial Modelling**

The Government published to LAs the latest October 2023 schools census information on the 20 December 2023 for 2024/25 schools funding purposes, which will be used locally to determine Lincolnshire's individual mainstream schools budgets for 2024/25. At the time of writing this report, the detailed process for determining individual school budgets has just commenced, with key milestones being the 18 January 2024 Lincolnshire Schools' Forum update on affordability of the NFF and the submission to the ESFA for compliance purposes to conform to the Schools and Early Years finance regulations.

The Council has however undertaken financial modelling on schools funding that uses the Government's updated NFF changes for 2024/25 (that are explained in the section above); the prior year October 2022 census data; and modelling of growth in the number of Lincolnshire pupils eligible for FSMs caused by the cost-of-living challenges faced by families. LA-level analysis has also taken place on the pupil-led school census information from the latest October 2023 schools census comparing this to the prior year. Financial modelling at this stage is indicating an affordability gap in adopting the NFF in full<sup>7</sup>, noting the actual affordability gap will be confirmed when individual schools budgets are determined using the latest October 2023 schools census by the 18 January 2024, which will be included within the final decision report. A decision is to be sought on the steps to address the affordability gap when adopting the NFF for mainstream schools in 2024/25.

Where the Council is unable to set an affordable formula, the steps below set out how the Council is to address the affordability issues of the Schools block in the Dedicated Schools Grant from 2024/25 when setting the mainstream schools NFF.

An affordability gap is estimated to be in the region of c.£2.2m for 2024/25 through the adoption of the NFF in its entirety including a +0.5% MFG. FSMs (primary: 2.7% and secondary: 11.6% increases) and FSM Ever 6 (primary 1.3% and secondary 3.7% increases) continue to be the factors for this.

The following steps are recommended to be taken:

1. To reduce the Schools Growth funding budget within the Schools block from £2.674m<sup>8</sup> (funded by central Government through a formulaic allocation using prior school level growth data) to £1.572m. The remaining budget of £1.572m will meet the financial commitments for planned primary and secondary reorganisations (in accordance with the LA's policies) in 2024/25 to ensure the Council fulfils its statutory duty to provide sufficient school places for pupils in Lincolnshire. The budget movement to fund the NFF is £1.102m. The Council is required to seek the Lincolnshire Schools' Forum's agreement to the 2024/25 Schools Growth budget level in accordance with the DfE regulations. This will take place on the 18 January 2024.

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<sup>7</sup> At this stage of the process, it does not incorporate potential individual school funding adjustments relating to the minimum per pupil funding levels. This is considered to be worse case.

<sup>8</sup> Includes the Falling Rolls allocation (£0.280m). The Council is to review whether a Falling Rolls factor is required in Lincolnshire from 2025/26.

2. The remaining shortfall of c.£1.1m is planned to be addressed through a downward adjustment of 0.26% of the Key Stage Age Weighted Pupil Unit (AWPU) values<sup>9</sup> from the Government’s NFF rates in 2024/25. This change is reflected in the table below.

**Table 2**

<b>Sector</b>	<b>Government NFF rate (AWPU)</b>	<b>Lincolnshire Proposed Rate (AWPU)</b>	<b>Monetary Change</b>
<b>Primary</b>	£3,562.00	£3,552.69	-£9.31
<b>Key Stage 3</b>	£5,022.00	£5,008.87	-£13.13
<b>Key Stage 4</b>	£5,661.00	£5,646.20	-£14.80

For the purposes of the DfE’s tightening criteria to move all LAs to the direct NFF, local factor values within 2.5% of the respective NFF values are deemed to be mirroring the NFF. This means that LAs such as Lincolnshire can establish their NFF values for 2024/25 anywhere within the +/- 2.5% range. The Council has previously considered a sector-wide solution to be the preferred approach in Lincolnshire to manage the forecast affordability gap, which is being proposed for the 2024/25 funding formula for mainstream schools. The forecast AWPU is recommended to be -0.26% below the Government NFF values, as outlined in Table 2. The impact at an individual school level is low through using the AWPU factor (£9-£15 per pupil). The Council considers it to be the fairest approach. The minimum per pupil funding levels and MFG will still remain in place within the formula to provide protection to schools.

The actual affordability gap will be confirmed upon completing the detailed schools budgets process using the latest October 2023 schools census. The affordability position will be reported to the Lincolnshire Schools’ Forum on the 18 January 2024, and this position will be included within the decision report. A decision is to be sought on the steps to address the affordability gap when adopting the NFF for mainstream schools in 2024/25.

An alternative option available to the Council to address the NFF affordability gap 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. This does have its disadvantages, however, for those schools impacted, particularly where schools have seen an increase in pupil deprivation levels, such as FSMs eligibility. Therefore this option is not recommended.

School budget shares must be published by 29 February 2024.

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<sup>9</sup> All Lincolnshire mainstream schools receive AWPU funding for each child on roll at the time of the latest October school census.

## **2. Conclusion**

For 2024/25, the policy decision is to continue adopting the Government's NFF, subject to affordability. The Council, through its financial modelling, is forecasting to be unable to set an affordable formula and with limited time to consult, the recommendation is for the Council to continue to adopt the same principles for 2024/25 when addressing affordability issues of the Schools block. This includes the utilisation of available Schools Growth funding.

The final amendment includes the forecasted 0.26% downward adjustment to the AWPU NFF rates in the primary and secondary sectors. Local factor values within 2.5% of the respective NFF values are deemed to be mirroring the NFF. This means that LAs such as Lincolnshire can establish their NFF values for 2024/25 anywhere within the +/- 2.5% range. The recommendation to downward adjust the AWPU NFF rates remains within this range.

The Committee is requested to consider whether it supports recommendations being made to the Executive Councillor for Children's Services, Community Safety, Procurement and Migration on the basis of the principles and approach as set out in the report and whether it wishes to make any additional comments to the Executive Councillor. Comments from the Committee will be reported to the Executive Councillor.

## **3. Consultation**

The Committee is being consulted on the proposed decision of the Executive Councillor for Children's Services, Community Safety, Procurement and Migration between 1 and 7 February 2024.

Lincolnshire's Schools' Forum, which is a consultative body providing a formal channel of communication between the Council and Lincolnshire schools with elected schools sector members, will be consulted with at the meeting on the 18 January 2024. A report confirming the affordability gap and steps to address this will be shared at the meeting. The Forum also has decision-making powers in relation to certain budget, such as the size of the Schools Growth funding budget.

### **a) Risks and Impact Analysis**

For 2024/25, the policy decision is to continue adopting the Government's NFF, subject to affordability. The Council is forecasted to be unable to set an affordable formula. The Council considers a sector-wide solution to be the preferred approach in Lincolnshire to manage the final affordability gap (£1.1m), which is being recommended for the 2024/25 funding formula for mainstream schools. This is in the context of Lincolnshire's overall School block for 2024/25 of £580.838m.

The AWPU is recommended to be -0.26% below the Government NFF values and the impact at an individual school level is low through using the AWPU factor in the context of the schools overall budget. The Council considers it to be the fairest approach. The



minimum per pupil funding levels and MFG will still remain in place within the formula to provide protection to schools.

The Council’s recommendation is to adopt the Government’s NFF factors and monetary values in 2023/24 except for a 0.26% downward adjustment to the AWPU NFF rates in the primary and secondary sectors. The DfE would continue to recognise Lincolnshire as mirroring the NFF.

Schools are required to respond to pupil number and pupil characteristic changes, which is currently the case for schools.

#### 4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Government’s Notional NFF for Schools - Update for 2024/25

#### 5. 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
Lincolnshire Schools’ Forum: National Funding Formula for Schools – Update for 2024/25 – item 4	<a href="#">Agenda for Lincolnshire Schools' Forum on Thursday, 5th October, 2023, 1.00 pm (moderngov.co.uk)</a>
Lincolnshire Schools’ Forum: Implementing the Direct National Funding Formula – Government consultation outcomes	<a href="#">Report Reference: (moderngov.co.uk)</a>
Executive Councillor Decision report: Schools Funding Update 2023/24 – Mainstream Schools	<a href="#">Decision - Schools Funding Update 2023/24 - Mainstream Schools (moderngov.co.uk)</a>

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