

SUBJECT:	Future of School Funding Consultation and School Budgets 2022-23
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SUMMARY OF REPORT:

- Share the Council’s response to the recent DFE consultation on the future of school’s funding
- Outline the principles of the 2022-23 Budget proposals

FOR:	For Information and Discussion
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1. Department of Education (DFE) Consultation on the Future of School Funding

1.1 The DFE Consultation on the Future of School Funding ran between 8th July 2021 and 30th September 2021. This consultation reaffirmed the intention of the DFE to move to a “Hard”¹ National Funding Formula (NFF) for the core funding of all primary and secondary schools (funding for year R to Year 11).

1.2 In summary the consultation proposes the following:

- all parts of the formula used to calculate the main schools’ budget will be calculated under a single national approach (there will be no local authority discretion to any part of the formula).
- Further technical changes will be proposed to remove local authority discretion from all parts of the formula. This specifically relates to school specific factors such as extra funding if they are a PFI or operating on a split site and/or additional rental costs (exceptional circumstances). Currently LA’s decided the criteria and amounts.
- This will also extend to a national approach (criteria and formula) for determining extra funding for growth (due to basic need or increasing school capacity), or protection from falling rolls.
- Currently academies can also access extra funding for general population growth (not due to basic need) whilst maintained schools do not benefit from this system. The DFE are proposing to continue to allow only academies to access this under the belief significant population growth can

¹ Under a “Hard” NFF: all individual school budgets across the country will be calculated using a single, consistent formula. This differs from the current arrangement (or “Soft” NFF) whereby a national funding formula is used to determine the total allocation for each local authority but the local authority still determines the final distribution between schools in their area.

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occur when a failing school is taken on by an academy trust leading to rapid increase in pupils. Therefore, maintained schools will continue not to gain any benefit from this.

- The process of moving to a “hard” NFF will be phased with an initial requirement for all current local formulas to move 10% closer to the national funding formula in 2023-24. If this goes well then LA’s will be required to set their formulas at least 15% closer in 2024-25 and at least 20% closer in 2025-26. Phasing is proposed to limit negative impacts.
- Multi-academy trusts will continue to be able to pool their budgets.

1.3 In addition:

- The Central Services School Block will be reviewed including what it is used for and whether it should move into the MHCLG Local Government Finance Settlement. This currently funds a number of central LA services for schools.
- The Historic Commitments element of the Central Services School Block will be ended in 2023-24 and replaced with a legacy grant for unavoidable costs associated with historic agreements to fund termination of employment costs.
- The process of transferring funding from the school block to another (i.e. High Needs) will end with the introduction of the “Hard” NFF. However, a mechanism is expected to be developed to replace block transfers where LAs continue to face significant, unavoidable pressures on their high needs spending i.e. where areas have high usage of special schools and relatively low proportion of children with EHCPs educated in mainstream schools. Therefore, implying there is an underlying expectation schools will be expected to contribute in some way.
- The Schools Funding Forum role will be reviewed by the DFE in light of these proposals – but DFE still see a role for this group in relation to High Needs and Early years.
- Exploring the possibility of moving the funding cycle from a financial year to an academic year.

1.4 The impact of the Hard NFF is very different for Kent than some other LAs. Kent has historically been a low funded authority compared to others (particularly the London Boroughs). Our secondary rate is currently ranked 107 out of 150 LAs. The consultation specifically references Kent as a reason why the current NFF system doesn’t go far enough in addressing this inequality. Unfortunately, it is written in a way that implies this is because of our local formula distribution rather than the wider failings of the national NFF which has not done enough to address this to date (Please see Appendix A for further details). The timescales for the transition mean that this inequality will not be addressed anytime soon. Schools that receive significantly more funding per pupil will continue to be protected at their historic per pupil rate so even though LAs such as Hackney will receive minimal future increases it is going to take a significant amount of time before OLA’s such as Kent catch up.

1.5 Appendix D provides the full consultation response from Council.

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2. **2022-23 School Budgets: National Changes**

- 2.1 This is the final year of the three-year settlement for school funding and completes the Government's commitment to increase school funding by £7.1 billion or just over 15% since March 2020:

	Total Budget £'bn	Of which Pension Funding £'bn	Of which Spending Round £'bn	Increase from 2019-20 levels %
2019-20	44.4	0.9		
2020-21	47.6	1.5	2.6	5.8%
2021-22	49.8	1.5	4.8	10.8%
2022-23	52.2	1.5	7.1	15.9%
			14.5	

School block (primary & secondary school budget calculations):

- 2.2 For 2022-23 the Local Authority will remain responsible for determining the formula used to calculate primary & secondary school budgets in their area and there are no significant changes to the NFF for 2022-23. The following minor changes have been made to individual factors within the NFF:

- Most factor values will increase by 3% except for the minimum per pupil levels and Free School Meals factor which will increase by 2% and,
- The Sparsity factor (which provides additional funding for small and remote schools) will increase by up to £10,000. The calculation used to determine the remoteness of the schools has also changed so it will be based on the distance travelled by road rather than the "crow flies". In addition, a distance taper has been introduced meaning the definition of being "remote" has been broadened slightly.
- The data used to calculate the Ever6FSM factor has been updated so it will be based on the previous year's October census for measuring eligibility rather than January of the previous year (so the budget for 22-23 will be based on October 2020 census rather than January 2020).
- The payment of business rates by schools is set to be centralised. This will not make a significant difference to the Council but will involve a change in routine for schools' administration.
- The minimum funding guarantee will continue to be set between +0.5% and +2%. This ensures all schools will receive a minimum per pupil funding rate increase of between 0.5% to 2%.

- 2.3 The rules for block transfers remain unchanged for 2022-23 whereby agreement is needed from:

- The Schools Funding Forum to agree a transfer up to 0.5% of their total schools' block allocations to other blocks of the Dedicated Schools Grant (DSG)
- The Secretary of State will need to agree a transfer above 0.5%, or for any amount without schools' forum approval.

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High Needs Block (Support for children with Special Educational Needs)

- 2.4 Nationally, High needs funding is set to increase by £780m, or 9.6%, in 2022-23 – this is on top of the £1.5 billion increase over the last two years. All LAs will receive a minimum increase of 8% per head of population.

Central Block (to support local authority school related functions)

- 2.5 There are no changes proposed to the ongoing responsibilities element of the central block, which will continue to be paid on a per pupil basis with a maximum increase of 5.6%. The historic commitment element of this funding will continue to reduce by 20% per year: this will be the third year of reductions. In the past local authorities were able to make some local decisions as to how the central DSG was spent, in 2020 the Government set out its intention to remove funding associated with these historic decisions to reduce variation on how DSG is spent between Local Authorities.

Early Years Block

- 2.6 Early Years funding announcements are not normally made at the same time as the other blocks. There is no current update. The announcement is not expected until sometime during the Autumn Term.

3. 2022-23 School Budgets: Kent

- 3.1 The overall Dedicated Schools Grant for 2022-23 will increase by just over £51m before any pupil number changes based on the October 2021 census.

Block	School Budgets	High Needs	Early Years	Central Services
	Primary & Secondary	Support for SEN: including special schools	Free Entitlement & central services	LA Central Services for maintained & academies
22-23 £'ms	1,110.6	269.3	88.4	11.4
21-22 £'ms	1,079.5	249.1	88.4	11.8
Change £'ms	31.1	20.2	0	-0.4

- 3.2 The central block will continue to reduce in light of the DFE's intention to reduce funding for historic commitments. This funding was historically agreed by the Schools Funding Forum to support the Early Help and Preventative Services and Virtual Schools Kent along with historic pension costs. Kent is investigating with the DFE whether it is possible to limit this reduction in light of ongoing pension costs.
- 3.3 Kent's high needs block will receive the minimum increase of 8% which is insufficient to meet the current in-year funding gap of £50m. This is discussed further in the High Needs Funding paper (item 4).

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Schools Block Details

- 3.4 Kent's primary and secondary unit rate of funding is ranked 129th and 109th respectively out of 150 number of Local Authorities.
- 3.5 To date, Kent has taken the approach that Kent's formula (LFF) will reflect the national formula (NFF) but still take into account local priorities, where it is reasonable and affordable to do so. In 2021-22 the school budget mirrored the NFF except (also see Appendix B):
- Basic entitlement (aged-weighted pupil unit)
 - Ever6FSM
 - Mobility factor
- 3.6 The variations helped to fund the following local circumstances:
- Maintaining the historic rate for the primary lump sum at £120,000 (£2,200 higher than the NFF) to provide some protection to the smallest primaries who have not benefited from other changes to the formula such as the Minimum Per Pupil Funding Level (MPPFL)
 - Continue to support a Falling Roll Fund
 - Transfer 1% from the Schools' block to High Needs Block to support the inclusive activities in mainstream schools.

Primary Lump Sum

- 3.6.1 For 2022-23, the national funding rate for the primary lump sum is now higher than the £120,000. In 2021-22 both schools and the Schools Forum took the view this protection should continue to be unwound and a higher rate for the primary lump sum would not continue to be maintained once the NFF caught up with historic rate in Kent. Therefore, the intention is for the primary lump sum to mirror the NFF in 2022-23.

Falling Roll Fund

- 3.6.2 There is currently a fund to support schools with significant falling rolls where they are expected to recover their pupil numbers within three financial years. This fund is currently set at £1.5m. In 2020-21 £1,271,000 was committed, and the forecast commitment for 2021-22 is £396,000. The DFE's recent consultation set out the intention to have central Falling Roll policy therefore in line with this we are expecting to retain the Falling Roll Fund for a further year. A recommendation will be made to the Forum at the next meeting (December) on the value of the fund.

High Need Block Transfer

- 3.6.3 Item 4 of the agenda sets out the financial position on the High Needs Block. In the absence of SEN review and insufficient increases in the High Needs block for 2022-23 the Local Authority has no choice but to pursue a further 1% transfer from the Schools' block to the High Block to support current commitments including support services for inclusive practices in mainstream schools. Therefore, the consultation on the options on how this can be funded.

Sparsity Factor

3.7 The sparsity factor within the Local Formula allocates funding to schools that are remote, measured by distances, with a smaller than average year group size. The changes to the sparsity factor in 2022-23 National Funding Formula have been advantageous for Kent schools. Overall, the combination of both an increase in the rate (up to £10,000) and shortening the distance that is defined as “remote” has resulted in an increase of £1,500,000 in the Kent formula for this factor. The number of schools eligible for this factor has also increased from 20 to 70 of our smallest rural schools. The following elements of this factor can be varied in the Local formula:

- the average year group size threshold,
- increase the distance threshold in local funding formulae (so less school will be eligible),
- the distance taper threshold is optional,
- the value (£ per pupil) of factor can be varied

The National Funding Formula eligibility criteria for this factor are set out below. Example: a primary school would be eligible if they have less than 150 pupils and nearest compatible school is 2 miles away. A reduced amount would be given if that school was between 1.6 miles & 2 miles away from their nearest school. No funding would be given if the distance between schools was less than 1.6 miles away.

School phase	**Size threshold: Maximum average number of pupils per year group: **	Main distance threshold: Minimum average distance to second nearest compatible school	Distance taper threshold: Minimum average distance to second nearest compatible school
Primary	21.4	2 miles	1.6 miles
Secondary	120	3 miles	2.4 miles
Middle	69.2	2 miles	1.6 miles
All-through	62.5	2 miles	1.6 miles

3.7.1 Kent’s Local Formula has historically tried to provide some additional financial support to our smallest schools, through the higher primary lump sum therefore the consultation will seek views as to whether the Local Formula should take steps towards mirroring the National Funding Formula methodology in this area.

Factor values

3.8 Appendix B sets out the 2021-22 Kent Local Funding Factor values, compared to the National Funding Formula and the 2022-23 National Funding Formula Factor values. The consultation will focus on the best approach to varying the Local Funding Formula values to afford the Falling Roll Fund and 1% High Needs transfer if agreed. It is important to recognise the impact the Minimum Per Pupil Funding Level (MPPFL) has on the funding of these items.

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Nearly a 1/3rd of schools do not contribute to the funding of the local factors (i.e. High Needs transfer) as they are protected through the MPPFL as a mandatory factor (185 out of 560 schools). Appendix C models the impact of continuing with the existing local formula (with inflationary uplifts applied) and moving to a full NFF.

Risk to Affordability

- 3.9 During the pandemic the county has seen a significant increase in the number of children identified as eligible for a Free School Meal. We will not know the full impact of this until the DFE release the individual school data used to calculate the schools budgets before Christmas. There is a risk if the numbers of children have significantly increased the overall cost of the school budget may be unaffordable as the rates used to calculate the Local Authorities funding is based on previous years activity.

Appendix A: Extract from the DFE Consultation on the Future of Schools Funding

Extract from the Consultation where Kent has specifically been used as an example regarding the unfairness of the current soft NFF:

*For example, our small primary school with low deprivation would receive £101,000 more under the North East Lincolnshire local formula than under the Medway local formula. Our large, deprived secondary school would receive £1.25 million more in Hackney than in Kent – a difference of 22%. **Even relative to the mean funding allocation from LA formulae, under the Kent LA formula our example school would receive £371,000 (6%) less.** Such disparities mean that schools do not all operate on a level playing field. and we are not fully delivering the fairer funding system the schools NFF is designed to achieve*

This highlights the inequality in the current funding system but it is written in a way that implies this is because of the local LA formula rather than the wider National Funding Formula which has continued to allow these inequalities to persist.

- Hackney has the highest per pupil funding in the country. Their secondary unit of funding is £8,501 per pupil whilst Kent's is £5,679 (ranked 107). Therefore, unless the DFE are planning on increasing all LAs rates so they are proportionally the same as Hackney's this is not going to change! The NFF has not gone far enough to address this to date and their time scales mean it will not be addressed any time soon.
- The highlighted statement is based on comparing the "mean average funding allocation" to Kent's local formula allocation. I compared our local formula to the NFF for 21-22 which showed the biggest difference to be £212k not £371k, which equates to 2.5% (the total budget for the school is over £8m). Therefore, even if Kent was fully on the NFF this Kent school wouldn't get £371k more! The comparison above is again comparing our formula to the average that all other LAs get – we get lower funding therefore we have less opportunity to give "above and beyond" like many other LAs!
- Kent made 3 very clear policy choices in 21-22: 1% transfer and retaining the falling roll fund and continuing to fund the primary lump sum at a higher rate (whilst NFF catches up). These had to be paid for and Kent had to spread the cost over a smaller number of schools due to the mandate of the Minimum Per Pupil Funding Level (MPPFL)* (i.e. those not subject to MPPFL top ups) therefore this type of school ended up taking the biggest hit.

*Mandate of MPPFL - In 2020-21 all LAs must ensure all schools receive a minimum per pupil amount (originally it was £4,000 per pupil for a primary aged child and £5,000 for secondary aged child) there are any schools who were only receiving the minimum level of funding could not have their funding reduced to help pay for the 1% transfer. Therefore only those that received more than these minimum levels would have contributed.

Appendix B: Kent's Local Funding Formula Rates and National Funding Formula Rates in 2021-22 and 2022-23. IDACI = Income Deprivation Affecting Children Index. EAL = English as an Additional Language.

Factor Description	2021-22 Kent Local Funding Formula rates (incl. 0.07% uplift)	2021-22 Kent indicative NFF rates (incl. 0.07% uplift)	2022-23 Kent indicative NFF rates (incl. 0.07% uplift)	NFF Rate increase %
Primary - Basic Entitlement	£3,093	£3,125	£3,219	3.0%
Secondary - KS3 Basic Entitlement	£4,364	£4,407	£4,539	3.0%
Secondary - KS4 Basic Entitlement	£4,918	£4,966	£5,116	3.0%
Primary- Free School Meals	£460	£460	£470	2.2%
Secondary- Free School Meals	£333	£460	£470	2.2%
Primary - Ever 6 Free School Meals	£460	£575	£590	2.6%
Secondary - Ever 6 Free School Meals	£609	£841	£866	3.0%
Primary - IDACI (F)	£215	£215	£220	2.3%
Primary - IDACI (E)	£260	£260	£270	3.8%
Primary - IDACI (D)	£410	£410	£420	2.4%
Primary - IDACI (C)	£445	£445	£460	3.4%
Primary - IDACI (B)	£475	£475	£490	3.2%
Primary - IDACI (A)	£620	£620	£640	3.2%
Secondary - IDACI (F)	£310	£310	£320	3.2%
Secondary - IDACI (E)	£415	£415	£425	2.4%
Secondary - IDACI (D)	£580	£580	£595	2.6%
Secondary - IDACI (C)	£630	£630	£650	3.2%
Secondary - IDACI (B)	£680	£680	£701	2.9%
Secondary - IDACI (A)	£866	£866	£891	2.9%
Primary - EAL	£550	£550	£565	2.7%
Secondary - EAL	£1,486	£1,486	£1,531	3.0%
Primary- Low Prior Attainment	£1,096	£1,096	£1,131	3.2%
Secondary - Low Prior Attainment	£1,661	£1,661	£1,711	3.0%
Primary- Lump Sum	£120,084	£117,882	£121,386	3.0%
Secondary Lump Sum	£117,882	£117,882	£121,386	3.0%
Mobility Primary	£0	£901	£926	2.8%
Mobility Secondary	£0	£1,291	£1,331	3.1%
Primary - Sparsity	£45,031	£45,031	£55,039	22.2%
Secondary - Sparsity	£70,048	£70,048	£80,057	14.3%
Split Site	£33,000	£33,000	£33,000	0.0%
MPPFL Primary	£4,180	£4,180	£4,265	2.0%
MPPFL KS3	£5,215	£5,215	£5,321	2.0%
MPPFL KS4	£5,715	£5,715	£5,831	2.0%

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Appendix C: Tables showing the percentage increase in school budgets for 2022-23 based on size and type of school if either the National Funding Formula was fully implemented or the local formula for 2021-22 was used (including inflation).

Table 1: percentage increase in school budgets if the 2021-22 Kent Local Funding Formula was replicated (updated for inflationary increases)

Count of Replicate 21-22 Local Formula	Column Labels											Grand Total
	0% to 0.9%	1% to 1.9%	2% to 2.9%	3% to 3.9%	4% to 4.9%	5% to 5.9%	6% to 6.9%	7% to 7.9%	8% to 8.9%	9% to 9.9%	Above 10%	
Primary Below 105	2	3	9	5	9	2	1	1	3	6	16	57
Primary 106 to 140	1	3	11	6	3	1	2		3	1		31
Primary 141 to 175	1		35									36
Primary 176 to 210		7	99									106
Primary 211 to 315	2	2	60									64
Primary 316 to 420	2	3	75	15								95
Primary 421 and above			64	6								70
Selective Secondary		2	30									32
Non Selective Secondary	1	1	20	42		2						66
All through			1	2								3
Grand Total	9	21	404	76	12	5	3	1	6	7	16	560

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Table 2: percentage increase in school budgets if the National Funding Formula was adopted for Kent Schools

Count of Move to NFF2 Row Labels	Column Labels											Grand Total
	0% to 0.9%	1% to 1.9%	2% to 2.9%	3% to 3.9%	4% to 4.9%	5% to 5.9%	6% to 6.9%	7% to 7.9%	8% to 8.9%	9% to 9.9%	Above 10%	
Primary Below 105	2		2	4	6	11	1	5		2	24	57
Primary 106 to 140	1		1	6	10	3	5		1	3	1	31
Primary 141 to 175			1	5	23	6		1				36
Primary 176 to 210		3	36	7	34	21	5					106
Primary 211 to 315	1	1	22	5	12	16	6	1				64
Primary 316 to 420	1	4	51	2	7	12	16	2				95
Primary 421 and above			54	3	4	6	3					70
Selective Secondary		2	30									32
Non Selective Secondary	1		5	7	24	27		2				66
All through					2	1						3
Grand Total	6	10	202	39	122	103	36	11	1	5	25	560

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