# Agenda Report Pack - Schools Forum – January 2022 – Item 6 School Funding 2022/23

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| **Date: 13 January 2022** **Type of report: Decision** | **Item7** |
| **Report title:** 2022-23 Schools Funding Formula | |
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## 1. Executive Summary

This report provides the Schools Forum with the details of the mainstream school funding formula for 2022-23. The budgets need to be formally submitted to the Education & Skills Funding Agency (ESFA), using their spreadsheet template called the Authority Proforma Tool (APT), on 21st January 2022. The details of the settlement have been provided in an earlier paper and it is not the intention of this report to reiterate that, but how the funds available should be allocated to schools.

## 2. Schools Forum Actions

The Schools Forum is asked to:

i. Agree to set the Minimum Funding Guarantee (MFG) at 2%
ii. Agree to use the Mobility factor
iii. Agree to use the Free Meals factor
iv. Agree to set the rates of funding for each factor by adding available funds to those furthest away from the National Funding Formula level

## 3. Background

3.1 Each year, every Local Authority is required to submit details of their mainstream school funding formula to the ESFA. The funding formula is based on data provided by the ESFA, although there is some flexibility in the design of the formula and the funding rates, which the Forum are consulted on.

3.2 Each Local Authority (LA) receives Dedicated Schools Grant (DSG) Schools Block funding from the ESFA via a standard calculation, in principle it is simple, each LA has an individual rate of funding for primary (Southwark's: £6,095.56) and this is multiplied by the numbers of pupils on the previous October census, likewise there is one for Secondary (Southwark's: £8,517.62). Added to this is an element for premises (mainly business rates) and an element for growth in pupils. Although in 2022-23 business rates for primary and secondary schools will be recouped from the DSG by the ESFA and then paid back to Southwark.

3.3 The Schools Block funding has to be allocated to schools via a pre-determined formula, although before the funding is distributed, it can be top-sliced with agreement of the schools, for a growth fund and a falling rolls fund.

3.4 Further, a school block transfer can be agreed, the recent consultation with schools considered a £1.9m school block transfer to the high needs block, although a lower sum is being proposed at this meeting.

3.5 Once any of the above has happened, a formula operates to distribute the balance to schools. The criteria on which it is allocated to schools is set by national regulations, the discretion for the Schools Forum is around the rates of funding that are attached to each formula factor.

3.6 Sitting over the top of this formula is a protection factor called the Minimum Funding Guarantee (MFG). This provides protection of a school's per pupil rate of funding, but does not protect them against falls in pupils.

3.7 The Department of Education (DfE) provides the data that has to be used in the formula, although the business rates are updated by each LA.

## 4. Key changes for 2022-23

4.1 Data on pupils who have been eligible for Free School Meals at any point in the last 6 years (FSM6) is now taken from the October 2021 school census instead of the January 2021 census, to make the factor more up to date and bring it in line with arrangements for other National Funding Formula (NFF) factors as well as the pupil premium.

4.2 In calculating low prior attainment proportions, data from the 2019 early years foundation stage profile (EYFSP) and key stage 2 (KS2) tests is used as a proxy for the 2020 tests, following the cancellation of assessment due to coronavirus (COVID-19).

4.3 Local funding formula will still operate in 2022-23, although back in July 2021, the DfE published a consultation on proposals whereby individual schools budgets would be set directly through one single national formula, rather than local funding formulae. The consultation proposed that, from 2023-24 onwards, LAs will be required to bring their own formulae closer to the schools NFF, to smooth the transition. These requirements do not apply in 2022-23, but consideration needs to be given to move our local formulae closer to the NFF in advance of these requirements in order to further minimise the turbulence.

4.4 The table below explains the differences between our formula and the national funding formula. Adding funding to those factors below the NFF will avoid some turbulence in the funding system when or if the NFF is introduced.

| Pupil-Led Formula Factors | Comparison of Southwark Formula Rates to NFF Rates | Comparison of Southwark Formula Rates to NFF Rates |
|---|---|---|
| | Primary | Secondary |
| | | |
| AWPU - Primary | + 18% | |
| AWPU – KS3 | | + 20% |
| AWPU – KS4 | | + 6% |
| FSM | -100% | -100% |

| Pupil-Led Formula Factors | Comparison of Southwark Formula Rates to NFF Rates | Comparison of Southwark Formula Rates to NFF Rates |
|---|---|---|
| FSM6 | + 66% | + 38% |
| IDACI | -25% | -4% |
| Low Prior Attainment | -64% | -16% |
| EAL | -59% | -18% |
| Mobility | -100% | -100% |

## 5 Mobility

The mobility factor supports schools in which a significant proportion of pupils join the school part way through the year. Pupils are classed as mobile if they joined the school at a ‘non typical’ date within the last three years. We do not use this factor at the moment and it is suggested funding is applied to it.

This factor is included in the NFF as there is a correlation between pupils that join the school at a non-typical time in the year and pupils that have additional needs that will require additional spend. In a Southwark context, this allocation would also support those schools with the extra burden of taking pupils when a school is re-organised.

For the 2022-23 financial year, the mobility allocation would total £219k if introduced (0.08% of the total allocations).

## 6 Free Meals

The NFF allocates 9.1% of its funding to deprived pupils. Pupil deprivation is based on three deprivation measures – current Free School Meal (FSM) eligibility, FSM eligibility at any timed in the last 6 years (FSM6), and the level of deprivation in the postcode where the pupil lives, which is measured using the Income Deprivation Affecting Children Index (IDACI).

Currently we do not use FSM but use the other factors. It is suggested that, in order to ease our move into the NFF we start allocating funding to Free Meals. This funding is broadly intended to cover the cost of providing free meals for each eligible pupil. As this funding is currently distributed through the FSM6 allocation, which is higher than the NFF rate, a redistribution of funding from the FSM6 is proposed.

It has proven possible to create the FSM factor for 2022-23 financial year without any school seeing a reduction in funding.

## 7 Setting the Minimum Funding Guarantee

Whilst the MFG rate can be set between +0.5% and +2% for this coming year, the DfE’s expectation is that the MFG rate matches the 2% addition that has been added to schools’ funding levels in the NFF.

The MFG is a required part of the allocation calculation that maintains schools per pupil funding levels. It does not protect schools from funding reductions caused by drops in pupil numbers. For 2022-23 we are in the fortunate position of being able to afford the maximum level of MFG as well as adding further funding, as shown in the next section of this report. Adopting the maximum MFG level will provide the maximum level of protection possible to schools, but limit the formula's responsiveness to data changes.

## 8 Funding Available

Once the MFG has been actioned, there is still funding available. This is the result of the £1.9m reduction in the schools block transfer. This has been partially offset by reductions in the growth funding received, by movements in NNDR and by the increase in FSM6 eligibility. More detail on these can be found in **Appendix B** to this report.

The principal adopted with the remaining additional funding has been to add to the funding factor the furthest below the NFF rates until it is raised to the next lowest funding factor and then adding to both until reaching the next lowest and then continuing the cycle until funds run out.

For 2022-23, after creating mobility and FSM allocations for primary and secondary schools, funding was added to primary low attainment and then primary EAL, bringing both up to 53.5% of the NFF rate.

## 9 Funding Models

There are two funding models provided in Appendix A, as well as the comparable allocation for 2021-22. The main decision the Schools Forum needs to consider for this meeting is about the Schools block transfer, as this influences the overall level of funding, this decision will need to be made under item 8 of this agenda.

Appendix A shows the results of the above proposals and the agreement of the £1.2m block transfer in comparison to allocations this financial year.

## Appendix B

### 2022-23 - main differences between the funding income to the Local Authority and the allocation of that income to schools

### Growth Funding

Growth Funding in the DSG does not come in the same way we pass it to schools. The funding built into the DSG is based on growth in school numbers in Middle Layer Super Output Areas (MSOA) from one October to the next October.

Our growth fund that we provide to schools covers funding for bulge classes and estimated pupil numbers for "new" schools taking on new year groups. These schools' School budget share will include seven months of funding for pupils that will join in September during the funding year.

DSG Growth funding income is looking backwards while our growth fund spend is looking to the future. This gives a timing difference.

In the first financial year where one of the "new" schools has pupils in all of its year groups, we face a double edged sword. The Growth Funding element of the DSG will recognise the growth of the intake of the final year group and the pupil number element of the DSG will fund the new higher pupil numbers. This results in a DSG bonus for that year. (Note that in the first year of the school opening, the Schools Block will have funded the estimated pupil numbers without any Growth Funding income).

The school will receive the full year funding for its new pupils and the growth funding income that has arrived "too late" becomes available to the funding formula and is distributed to schools.

The DSG bonus has been distributed to schools and is now baked in by the Minimum Funding Guarantee, which says that those funding rates cannot be reduced. But, with the data having moved on a year, the Funding Income no longer reflects the former growth and falls. This means that we have to continue funding the higher rates, but no longer have the funding to do so. Consequently any increase in the DSG in this second year is automatically committed to the higher rates achieved in the previous year.

| | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|
| | | | |
| Growth Funding | 2,389,718 | 1,813,670 | 1,096,308 |
| | | | |
| Growth Spend | 2,220,512 | 1,191,670 | 1,273,108 |
| | | | |
| To/(From) Funding Formula | 169,206 | 622,000 | (176,800) |

The table above shows that in 2021-22, when growth funding was higher than needed, due to its lagged nature, £622k of Schools Block growth funding was spare and was distributed through the funding formula. In 2022-23, the £622k is now protected by the MFG, but there is no longer the spare growth funding to pay for it and in fact the growth spend is higher and requires £177k from the formula pot, an £800k turnaround.

**National Non Domestic Rates**

Schools are funded for the actual cost of their National Non Domestic Rates (NNDR). However, the deadline for submitting the APT to the DfE is earlier than the date for setting the NNDR charges. This means that the APT is based on estimates numbers. As Schools' Budget Share cannot be changed in year, any amendments required by revaluations or corrections to the estimate have to take place in the following year. This means that this second year the schools block will have to fund the new higher NNDR charge plus the backdated change, which can sometimes be multiple years.

NNDR funding in the DSG is provided on a lagged basis. So the funding to cover the adjustment is received in the year after it is given to schools. The third year of this process.

Year 1 – Schools pay a higher bill
Year 2 – Schools block funds the higher rate plus the backdating
Year 3 – Schools Block spend falls by the backdated amount, but Schools Block income is boosted by the backdated amount
Year 4 – Schools Block income falls by the backdated amount.

This gives us a situation similar to the Growth Funding above. In Year 3 there is a DSG bonus as the spend falls but the income rises. This means that the amount available to the formula increases and is distributed to schools. In year 4, the higher funding rates are baked in by the MFG, but the additional funding has disappeared and any headroom in year 4 is automatically committed to continuing those higher rates

The table below shows the situation for Southwark. In 2019-20 and 2020-21 the formula funding had to give up an increasing amount to cover NNDR, eating into the headroom in those years. In 2021-22 the funding was up and the spend down (as described in year 3 above), releasing over £975k into the formula. In 2022-23, the additional funding now protected by the NNDR, the funding has fallen by over £300k, leaving this year’s headroom to make up the difference.

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|---|
| | | | | |
| NNDR Funding | 2,786,497 | 3,064,447 | 3,695,996 | 3,350,883 |
| | | | | |
| NNDR Spend | 3,064,447 | 3,695,996 | 3,350,883 | 3,345,883 |
| | | | | |
| To/(From) Funding Formula | (277,951) | (631,549) | 345,113 | 5,000 |

**Data Changes**

The NFF is often portrayed as showing what the APT would provide schools if the ESFA had completed. The reality is somewhat more complex than that.

The Schools Block notification that we receive in December is not the result of the ESFA having taken the same data used in the APT, running the NFF and adding up the results. In fact, the ESFA have taken the pupil numbers from the October Census and multiplied these by a primary funding rate and a secondary funding rate.

The primary funding rate (PUF) and the secondary funding rate (SUF) were calculated by running the NFF over the summer term 2021.

As the APT is (largely) based on the October 2021 census, there is a difference between the data used to fund us and the data we have to use to fund schools. For example, we have received Schools Block funding calculated using FSM data from October 2020, whilst we will be funding schools on FSM data from October 2021.

So changes in data may not be reflected in the funding provided. For 2022-23, the data changes lead to an increased allocation over all. Applying last year's pupil numbers to this year's FSM rates, EAL Rates, etc. shows that changes in the data are costing an additional £550k and if these are not funded through the schools block, then once again any headroom has to be used to fund these changes.

Looking in more detail, most areas of data have seen falls. FSM Ever6 is the exception with an 11% increase in the primary phase (comparing Oct 2021 with Oct 2020). The cost of this increase is over £900k.

**Minimum Funding Guarantee (MFG)**

The MFG currently guarantees that a school's per pupil funding in a year will have increased by no less than a certain percentage. For example, schools' 2021-22 per pupil allocations had to increase by 2% compared to 2020/21. (NNDR and the lump sum are excluded from this calculation.)

The MFG is like a film laying on top of the funding formula. If a school's allocation breaks through the film to a higher level, then it received that higher level. If the school's allocation does not exceed the MFG level, then it received the MFG level. In other words, schools receive the higher of the funding formula or the MFG level.

This MFG level is calculated by taking the old year's School Budget Share, including MFG funding, removing the old year NNDR and new year lump sum allocations, before dividing by the pupil numbers in that year. This old year per pupil figure is then increased by the MFG rate (e.g. 2%) and multiplied by the new year's pupil numbers to give the minimum allocation level for the new year. This minimum level is then compared to the new year's formula allocation (excluding NNDR and the lump sum) and any shortfall will be added as an MFG adjustment.

The MFG is currently set by LAs within a range fixed by the DfE – for 2022-23 the range is 0.5% to 2%. (The MFG rate used to be set by DFE and for a number of years was a negative figure, i.e. it guaranteed that a school's per pupil allocations would not reduce by more than a certain percentage each year.)

The per pupil nature of the MFG means that it is not triggered by a reduction in pupil numbers, rather it is triggered by a reduction in the allocation per pupil. Consequently, it does not protect schools from reductions in the allocations caused by a drop in pupil numbers.

The MFG will be triggered where the data relating to pupil need falls. For example, if a school sees a reduction in its proportion of FSM pupils, the amount allocated per pupil will fall. In this situation, the MFG will step in and maintain the school's funding as if those FSM pupils were still on roll. This means that as well as funding current levels of pupil need, the MFG requires that the Schools Block be used to fund former levels of pupil need.

If the school in the above paragraph were to subsequently have a rise in its proportion of FSM pupils, the MFG acknowledges that it is already funding a higher level of pupil need and will prevent any additional funding being awarded (unless the increase is sufficient to break through the MFG funding level). This means that if the MFG is set at a high level, it prevents schools' allocations from varying with changing levels of pupil need.

Whilst the DfE sets the possible MFG range (e.g. 0.5% to 2%), there is no guarantee that an MFG rate at the top of the range can be afforded. If in future, LAs are required to move their funding rates closer to the NFF rates each year, it will be necessary to action this change first and then assess the level of MFG that can be afforded from the remaining funds.