

Report to Cabinet Member for Education and Skills

February 2021

School Funding 2021/22

Report by Director of Education and Skills

Electoral divisions: All

Summary

West Sussex County Council is required, under national funding regulations, to consult schools and the Schools Forum on proposed changes to funding arrangements affecting school budgets. The School Funding Review 2021/22 [consultation document](#) was published on 21st October 2020. Responses to the consultation and feedback from Schools Forum have been taken into account in the development of the local funding formula for mainstream schools in 2021/22.

To help alleviate pressures on the High Needs budget a proposal to transfer £2.5m of funding from the Schools block to the High Needs block of the Dedicated Schools Grant (DSG) was also included as part of the schools funding consultation. Under the funding regulations, any transfer between blocks is a decision that is taken by Schools Forum, although the County Council can seek to overturn this by applying to the Secretary of State for Education through a disapplication request. The Schools Forum declined to approve the proposed transfer and the County Council's application to the Secretary of State was rejected and so no transfer to the High Needs block is included.

Recommendations

- (1) The Cabinet Member for Education and Skills is asked to agree the proposals in relation to the local funding formula for mainstream schools as set out in section two and specifically at paragraph 2.26 to:
- Continue to protect the primary lump sum at a rate of £130,000, by continuing to scale back the primary unit values for Low Prior Attainment (LPA) from the National Funding Formula (NFF) primary unit value,
 - Continue to use 50% of the Sparsity funding that the County Council receives through the NFF to fund the payment of an additional transitional sparsity lump sum to those primary schools with less than 150 pupils.
 - Set the Minimum Funding Guarantee level at 2% to ensure that all mainstream schools benefit by this increase in their pupil-led funding.
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Proposal

1 Background and context

- 1.1 In 2018/19 the Government introduced a new National Funding Formula (NFF) for the Dedicated Schools Grant (DSG) Schools block. In order to avoid significant fluctuations in funding and maintain stability during implementation, although the NFF was introduced from 2018/19 it was done using 'soft formula' arrangements where the Department for Education (DfE) allocated funding to Local Authorities for the total of the schools in their area, and then each Local Authority was asked to distribute their allocation by means of a local funding formula.
- 1.2 The DfE has re-affirmed its long-term intention that schools' budgets should be set on the basis of a single, national 'hard' formula where all schools will be funded directly via the NFF. The DfE is intending to consult further on the implementation of a 'hard' formula during 2021, but in the meantime, Local Authorities have been asked to continue to determine local school allocations under the 'soft formula' arrangements in 2021/22.
- 1.3 Whilst the 'soft formula' arrangements remain in place, West Sussex County Council is required, under national funding regulations, to consult schools and the Schools Forum on proposed changes to funding arrangements affecting school budgets.
- 1.4 The School Funding Review 2020/21 [consultation document](#) was published on 21st October 2020 and set out proposals for changes as follows:
- Changes to the local funding formula for mainstream schools towards the implementation of the national funding formula (see paragraphs 2.1 to 2.26 below).
 - A one-off transfer of up to £2.5m from the Dedicated Schools Grant (DSG) Schools block to the High Needs and/or Central School Services blocks (see paragraphs 3.1 to 3.5).
 - Topslice the delegation of funding to Local Authority maintained primary and secondary schools in order to create pooled budgets (see paragraph 1.5).
 - The charge to maintained primary, secondary and special schools and Alternative Provision College for General Duties (see paragraph 1.5).

The consultation document included spreadsheets illustrating the local funding formula options for mainstream schools and a modelling tool was provided based on October 2019 pupil census data to show the indicative impact of the proposed formula options on individual school budgets both before and after the proposed transfer of £2.5m to the High Needs block.

- 1.5 After taking account of responses from schools to consultation proposals, at its meeting on 26th November the Schools Forum made decisions, as required in its constitution, to approve the topslice of delegated funding from the budgets of Local Authority maintained schools for the provision of specified services by the County Council (bullet point 3 above). Schools Forum also approved the proposed charge in 2021/22 to maintained schools for the former General Duties Education Support Grant (bullet point 4 above). These matters are therefore not covered in this report.

- 1.6 The purpose of this report is to recommend changes to the local funding formula for mainstream schools and academies which take account of responses from schools and Schools Forum to consultation proposals. The changes also take account of the outcome of disapplication requests submitted to the DfE by the County Council to vary the local formula to avoid disproportionate advantage or disadvantage to individual schools or groups of schools.

2 Proposal Details

National Funding Formula and the Local Funding Formula for Mainstream Maintained Schools and Academies

Options for allocating out DSG funds to mainstream schools

- 2.1 All the pupil led factors used in the National Funding Formula (NFF) are remaining the same next year, although there are two key technical changes:
- Funding previously received through the Teachers' Pay Grant (TPG) and Teachers' Pension Employer Contribution Grant (TPECG) has been rolled into the DSG next year and is therefore now included in the 2021/22 allocation figures set out in the table, and
 - The 2019 update to the Income Deprivation Affecting Children Index (IDACI) has been incorporated into the formulae, ensuring that the deprivation funding through the NFF continues to target schools most likely to need additional funding.
- 2.2 The other key aspects of the Schools block NFF formula for 2021/22 announced by the Minister of State for School Standards are:
- School funding is increasing by 4% nationally overall, compared to this year
 - Most individual factors in the formulae are increasing by 3% including the lump sum to £117,800
 - Free school meals funding rate is only increasing by 2%, as is the funding floor (MFG) in pupil-led funding – these rates are broadly in line with current inflation forecasts
 - There will be higher minimum per pupil funding levels (MpPFLs) directing further increases to the lowest funded schools – such as those in West Sussex. The primary rate is increasing from £3,750 to £4,000 (as previously announced) and the secondary rate by 3% from £5,000 to £5,150
 - The actual MpPFLs for 2021/22 have been announced as being £4,180 for primary and £5,415 for secondary; these rates include an additional £180 and £265 per pupil respectively to cover additional teachers' pay and teachers' pension employer contribution costs previously funded through the separate grants
 - The maximum sparsity value is set to increase from £26,000 to £45,000 for primary schools, and from £67,600 to £70,000 for secondary schools [This is set to be a first step in expanding and improving the support the NFF provides to small and remote schools. Further changes, planned from 2022/23, will be consulted on in due course].

- 2.3 The Schools block comprises the individual schools budget that is delegated to mainstream maintained primary and secondary schools and academies and in 2021/22 is set to rise by £45.685m to £534.626m:

	20/21 Final Allocations			21/22 Final Allocations		
	Pupil Numbers	Funding Rate £	Total Funding £	Pupil Numbers	Funding Rate £	Total Funding £
Primary Schools	65,052	3,958.13	257,484,273	64,939	4,324.07	280,798,620
Secondary Schools	42,387	5,129.83	217,438,104	43,220	5,553.50	240,022,270
	<u>107,439</u>		<u>474,922,377</u>	<u>108,159</u>		<u>520,820,890</u>
Premises Factors			10,373,020			10,848,222
Growth Factors			3,646,029			2,957,163
			<u>488,941,426</u>			<u>534,626,275</u>

Note: £23,416,637 of this DSG funding relates to teachers' pay and pension employer contribution costs which were previously funded through separate grants.

- 2.4 2021/22 will be the fourth year of the NFF for schools. This new formula is significantly different to our historic local formula, with the main changes being a reduction in the lump sum for fixed costs (previously £150,000 per school), and a change in the way deprivation funding is allocated, with a basket of measures including IDACI (Income Deprivation Affecting Children Index), Free School Meals and Free Schools Meals Ever 6 being used.
- 2.5 Since 2018/19, the NFF rates have been fully adopted within the local formula for secondary schools, but local variations are still made within the primary sector. Last year, the West Sussex local formula continued to provide transitional protection to the smaller and medium sized primary schools in the county through holding the primary lump sum at £130,000 and paying an additional lump sum amount to all primary schools with less than 150 pupils. The financial impact of removing these transitional arrangements in 2021/22 and adopting the NFF rates was summarized in Option 1 of the consultation.
- 2.6 The increase in the MpPFLs to £4,180 for primary schools and £5,415 for secondary schools next year is welcome. This funding factor generally benefits larger schools and those with the lowest levels of additional needs funding. These increased funding levels will therefore mean that all of the schools in the county that currently benefit from the MpPFL this year will continue to do so in 2021/22 and a number of our medium/larger sized primary schools will also begin to benefit from this funding stream next year. However, due to the inclusion of the lump sum in this calculation, all of our smaller primary schools (where the lump sum makes up a significant part of their school budget share) will be no better off, as their 'per pupil funding' already exceeds these levels.
- 2.7 It is for this reason that the Government's commitment to expand and improve the support the NFF provides to small and remote schools and the resultant increase level of support to these schools through the sparsity factor in 2021/22 is also welcome.
- 2.8 Unfortunately, only 15 of our 53 small primary schools in West Sussex currently qualify for this sparsity funding through the NFF. As a result, for the last three years we have sought a disapplication request from the Secretary of State in order to use these funds differently through our local formula. This has meant that we have been able to allocate 50% of the sparsity funding to the 16 schools

(includes one secondary) that qualify for it through the NFF, and to allocate the remaining 50% in a more targeted way that will benefit all of the small primary schools in the county, by paying these monies as an additional lump sum.

- 2.9 The indicative sparsity funding allocation to West Sussex was set to increase by £0.187m next year from £0.300m to £0.487m. As a result, if West Sussex were to continue to only allocate 50% of this funding to the 16 schools who qualify for it, the remaining funding could be used to increase the small schools lump sum from £2,775 to £4,275 for those schools with 100 pupils or more and from £3,375 to £4,875 for those schools with under 100 pupils. The financial impact of this was set out under Option 2 in the consultation.
- 2.10 In 2018/19, following consultation, Schools Forum agreed to reduce the lump sum for secondary schools to the NFF level of £110,000 whilst maintaining the lump sum for primary schools at the local level of £150,000. The following year, in order to move towards NFF rates it was agreed to implement a phased reduction in the primary lump sum to £130,000, and although this rate was maintained in the local formula for 2020/21 the gap to the NFF rate further reduced as the NFF rate increased by 4% from £110,000 to £114,400.
- 2.11 Next year the NFF lump sum is set to increase by a further 3% to £117,800, thereby reducing the gap still further. Therefore, rather than looking to reduce the primary lump sum in the local formula, consideration was given again to keeping the primary lump sum at its current rate of £130,000 and letting the difference between the two rates erode naturally each year through inflation increases. The financial impact of this was set out as Option 3 in the consultation.
- 2.12 The West Sussex local formula has always included a funding protection mechanism in order to ensure that all schools will gain by a certain minimum amount when comparing any one year to the next. This protection is known as the Minimum Funding Guarantee (MFG).
- 2.13 As part of its local formula, the Local Authority (LA) is required to set a MFG. This is known as the 'floor' and for next year, the DfE has stipulated that this needs to be set between 0.5% and 2%. Since the Government's expectation is that the higher rate will be elected in order to mirror the real terms protection in the NFF, 2% was used in the first three options of the consultation. However, in order to help understand the impact of a reduced MFG, the rate of 0.5% was used in Option 4 (a variant of Option 3).
- 2.14 The majority of respondents commented on the four local funding formula proposals.
- 14 (27%) schools responded that the local formula should mirror the NFF, whilst 34 (65%) thought that the transitional small school lump sum should continue for another year.
 - 11 (21%) schools responded that the local formula should mirror the NFF, whilst 38 (73%) thought that the primary lump sum should continue to be protected.
 - 36 (69%) schools stated that the MFG should be set at the Government's expected rate of 2%, whilst 9 (17%) thought the rate should be lower. The remaining 7 (13%) schools did not respond or their answer was unclear.

2.15 Following discussions around the four options Schools Forum recommended the use of Option 3 for the local funding formula in 2021/22.

Formula options with a transfer to the High Needs block

2.16 The simplest way of funding a transfer to the High Needs block would be to reduce one of the per pupil funding streams, such as the basic entitlement, which all schools receive. The financial impact of doing this was set out in Option A in the consultation.

2.17 Unfortunately, with 171 schools protected either through the Minimum per Pupil Funding level (MpPFL) or the MFG calculations, this means that only 93 schools would contribute to the funding of any transfer under this option. As a result, the maximum amount that could be deducted from the Schools block before all these 93 schools were also on the funding floor or on the MpPFL and therefore also protected is £2m. This represents 0.4% of the Schools block.

2.18 Therefore in order to transfer the full £2.5m (0.5% of the Schools block) to the High Needs block, not only would the basic entitlement rate need to be reduced in the local formula, but also the level of MFG protection would also need to be cut. The financial impact of using the lowest possible MFG value of 0.5% was set out in Option B in the consultation.

2.19 Under this scenario, 148 schools would contribute to the funding of the High Needs block transfer, but the 116 schools (100 primary and 16 secondary) receiving funding through the MpPFL mechanism would still see no reduction in their budget share allocation. Therefore, although a £2.5m transfer could be made by following this option, it would have a very inequitable impact on different schools' budgets.

2.20 To overcome this inequity, although the government has made the use of the national MpPFLs, at the values in the school NFF, compulsory for LAs to use in their own local funding formula, the County Council could still look to apply to the Secretary of State to disapply the use of these mandatory levels.

2.21 An example of the impact that such a decision would have on the local funding formula was set out in Option C in the consultation. Since this option would require a disapplication request to be made to the Secretary of State for Education, schools were also asked if they would support such a request.

2.22 Even though only 10 (19%) schools thought the LA should seek to disapply the mandatory nature of the MpPFL, with the remaining 42 (81%) saying no, it was noted that most of the 'no' comments were in relation to the need to transfer monies out of individual school budgets rather than the equity or not of including MpPFL schools in such a mechanism. Schools Forum therefore recommended that, in the event that a transfer to the High Needs block was actioned, Option C should be adopted in the 2021/22 local formula.

Disapplication Requests

2.23 Local authorities can submit disapplication requests to the DfE to make variations to the local formula to avoid disproportionate advantage or disadvantage to individual schools or groups of schools. With the approval of the Schools Forum, the County Council submitted the following disapplication requests in order to have additional flexibility with the County Council's local formula:

- Disapply the sparsity factor criteria and use 50% of the allocated sparsity funding to provide an additional lump sum to the small primary schools (outside of the MFG calculation). Under the NFF formula only 15 of our 53 small primary schools attracts sparsity funding. It is therefore proposed, as in the last three years, to allocate 50% of the additional monies received to the 16 schools (includes one secondary) that qualify for the sparsity funding under the National Funding Formula, and to allocate the remaining 50% in a more targeted way that will benefit all of the small primary schools in the county, by paying these monies as an additional lump sum.
- Disapply the Minimum per Pupil Funding Level criteria if a transfer from the Schools block is approved. 116 schools will benefit from this funding stream in 2021/22, and if the criteria remain mandatory this will mean that these schools will not be required to contribute to any movement of funds out of the Schools block next year.

2.24 Both disapplication requests were approved by Schools Forum at its meeting on 26th November 2020. The DfE subsequently approved the former request on 17th December 2020 but, in light of their decision in relation to the proposed transfer between the Schools block and High Needs block (see paragraph 3.5), the latter request was no longer relevant and therefore rejected.

2.25 Since the closure of the consultation the DfE has also confirmed the Schools block funding allocation for next year, taking account of October 2020 pupil census data, as part of the 2021/22 DSG settlement announced on 17th December 2020. The new data, consultation responses and the outcome of the disapplication requests have been used to rework the local formula.

2.26 It is recommended that:

- Option 3 (in the consultation proposal) is applied in 2021/22. This continues to protect the primary lump sum at a higher rate of £130,000, whilst also ensuring that all mainstream schools benefit by an increase of 2% on their pupil-led funding. This meets the Government's expectation that all schools will be protected at the higher rate, therefore mirroring the real terms protection in the NFF.
- The funding required to protect the primary lump sum at £130,000 will be generated by continuing to scale back the primary unit values for Low Prior Attainment (LPA) from the NFF primary unit value
- The local formula will also continue to ensure that 50% of the Sparsity funding that the County Council receives will be allocated to the 16 schools that meet the national sparsity criteria, and the remaining 50% will be used to fund the payment of an additional transitional sparsity lump sum of £3,750 for those small primary schools with 100 pupils or more and £4,350 for those schools with under 100 pupils.

3 High Needs Proposals

3.1 The funding regulations that were put in place in 2018/19 to allow LAs to consult with schools and Schools Forum about transferring up to 0.5% of the Schools block towards High Needs cost pressures have been extended into 2021/22. The purpose of consulting schools is to:

- Present a range of evidence to support a proposal to transfer funding from the Schools block to the High Needs block, and

- Seek views about that proposal.

- 3.2 The School Funding Review 2021/22 consultation document set out the case for the proposed one-off transfer of 0.5% (approximately £2.5m) from the Schools block to the High Needs block in 2021/22 showing the increase in Education Health and Care Plans (EHCPs) and expenditure since 2014/15.
- 3.3 19% of schools responded to the transfer from the Schools block proposal. Although responses recognised the reasons for the proposed transfer of £2.5m, in view of the pressures affecting school budgets, the majority (67% of respondents) did not support the proposals.
- 3.4 At the meeting of the Schools Forum on 26th November 2020, the forum voted against the proposed transfer, and as a result the County Council submitted an appeal (known as a disapplication) to the Secretary of State for Education stating that it still wished to proceed with a transfer from the Schools block of up to £2.5m (0.5%), despite Schools Forum turning down the proposal.
- 3.5 However, the disapplication request submitted by the County Council in relation to a £2.5m movement of funds from the Schools block to the High Needs block was not approved. The Secretary of State determined that the disapplication proposals did not adequately demonstrate how the additional funding would be used to address the pressures within the High Needs block or impact the DSG deficit, and therefore concluded that the Schools Forum had made a reasonable decision not to transfer the funds based on the evidence that was presented to them.
- 3.6 With no movement of funds between the DSG blocks approved this means that 100% of the Schools block DSG allocation in 2021/22 will be passported through to schools, either as part of their school budget share or through the subsequent allocation of funds from the Growth Fund for increased pupil numbers in September 2021.

4 Other options considered (and reasons for not proposing)

- 4.1 A number of different options for the local formula were modelled as part of the consultation with schools in October/November 2020. Following discussions at Schools Forum, Option 3 was recommended.
- 4.2 Now that the DfE has confirmed the level of Schools Block funding for 2021/22, the updated data set has been provided, and the outcome of the disapplication requests is known, further modelling using the recommended option has been undertaken to calculate the individual mainstream school budgets in 2021/22.

5 Consultation, engagement and advice

- 5.1 The School Funding Review 2021/22 consultation document was published on 21st October 2020 through the Have Your Say consultation section on the County Council website. The closing date for responses was 11th November 2020.
- 5.2 Unfortunately due to the Covid-19 pandemic it was not possible to hold any briefing sessions for schools as part of the consultation this year.

5.3 52 (19%) of all primary and secondary maintained schools and academies submitted written responses to the consultation proposals. As agreed with headteachers' executive groups, the written responses from schools are deemed to be representative of each phase.

5.4 The consultation responses were discussed at the Schools Forum meeting held on 26th November 2020.

6 Finance

6.1 The DSG Schools block in 2021/22 is £534.626m, and the changes to the local formula will ensure a more equitable redistribution of this funding between mainstream schools. All mainstream schools will receive an increase of 2% on their pupil-led funding.

6.2 In 2021/22 the provisional DSG High Needs block is £99.717m which is an increase of £10.841m on the 2020/21 final allocation. Despite this increase in high needs funding, with no approved transfer between the DSG blocks, there is still an estimated High Needs budget shortfall of £7m next year. Since the Local Authority is currently forecasting to have a DSG deficit at the end of the current financial year of £12m, this will mean that this deficit is expected to increase to £19m by 31st March 2022.

6.3 As set out in the conditions and regulations of the DSG:

- The DSG deficit should not be covered from Local Authority general funds but should be recovered from future DSG income over time, and
- All Local Authorities with a deficit need to submit a plan to the DfE for managing their future DSG spend.

6.4 To help Local Authorities meet this requirement, the Education and Skills Funding Agency (ESFA) published a management plan template on 17th September 2019. The County Council is currently populating this management recovery plan and once completed is planning to share it with both Schools Forum and the DfE.

6.5 The DfE has already been in touch with those Local Authorities to which they wish to offer discussions during 2020/21 about their DSG deficits, and West Sussex County Council was not one of the authorities selected. Due to the number of authorities that were in deficit at the end of March 2020, the DfE has had to prioritise those authorities with the most difficult deficits first, but have promised to extend negotiations to a further tranche of authorities next year.

6.6 The effect of the proposal:

(a) **How the cost represents good value**

This is covered in the narrative setting out the proposals and the rationale supporting them.

(b) **Future savings/efficiencies being delivered**

The County Council will not be required to deliver any savings or efficiencies as a result of this proposal. However, some schools may need to cut costs or re-structure their staffing establishment in order to live within their 2021/22 budget allocation. In most cases this is likely to be

due to a number of factors (e.g. falling pupil numbers) rather than just the funding formula itself.

(c) **Human Resources, IT and Assets Impact**

None

7 Risk implications and mitigations

Risk	Mitigating Action (in place or planned)
<p>Although funding for both mainstream and special schools is set to increase next year, in some schools this funding will not be sufficient to cover unavoidable cost pressures and unfunded cost burdens. Where subsequent redundancy costs cannot be funded by the schools themselves these costs may fall to the County Council.</p>	<p>This means that these schools and academies will need to consider further efficiency measures in 2021/22 to reduce expenditure, including staff reductions. This will impact on the provision of education. Some staff reductions may be achieved through natural turnover. Others will be achieved through redundancies. The County Council is the compensatory body for maintained schools and will be responsible for meeting redundancy costs. The 2021/22 Education and Skills budget includes a budget of £0.4m for this purpose.</p>
<p>The NFF funding changes may affect the viability of some small schools which will require consideration of future school organisation in some areas of West Sussex. This may cause concerns in local communities, affect parental choice of school, create additional capital and revenue costs and affect the reputation of West Sussex County Council.</p>	<p>The transitional arrangements included in the local funding formula will continue to help mitigate some of the impact of the NFF next year. However, just under 20% of the schools in the county still remain on the funding floor and will therefore only receive a 2% increase in funding in 2021/22. Those schools that do go into deficit will be required to submit a recovery plan to the County Council, and these will be monitored by officers on a regular basis with further support and challenge being provided to both Headteachers and Governing Bodies as required.</p>
<p>High Needs expenditure continues to increase at a greater rate than our annual High Needs DSG funding allocation, which means our DSG deficit continues to rise.</p>	<p>These cost pressures will need to be met from increased DSG provision or planned savings in the County Council's DSG recovery plan. These will include increasing the number of classrooms in maintained special schools and through the creation of additional Special Support Centres (SSCs) in maintained mainstream schools (as currently set out in the County Council's capital programme), a new two-year pilot which</p>

Risk	Mitigating Action (in place or planned)
	will see the County Council operating a specialist outreach team to support the inclusion of those year 7 pupils with an EHCP in their local mainstream school, and further plans to increase the number of post-16 students being educated in mainstream colleges, rather than special schools, so as to alleviate the pressure on special school places.

8 Policy alignment and compliance

8.1 Legal Implications

None

8.2 Equality Duty and Human Rights Assessment

The additional £9.592m (after allowing for teachers' pay and pension employer contribution costs which were previously funded through separate grants) that West Sussex is set to receive from its DSG High Needs Funding allocation in 2020/21, is not sufficient to cover the existing on-going pressures as at the end of the current financial year (2020/21). It is currently assumed for budgeting purposes that the number of pupils identified as needing additional support through an EHCP will continue to rise by at least at the current rate of 500 per year, and therefore no additional funds will be available to address this expected pressure.

In order to ensure that the needs of those pupils with an EHCP are being met next year the County Council is planning to set a High Needs budget which is £7m higher than its DSG allocation for 2021/22. The inability to make the £2.5m funding transfer from the Schools block to the High Needs block means that all £7m of this shortfall will have to be found from DSG reserves thereby increasing the County Council's DSG deficit by this amount. In this way the Council will ensure that the needs of those pupils who may otherwise be disadvantaged are met. In the planning for the management of the higher needs block the Council will ensure that its obligations under the Equality Act are met and that they continue to be met in its work in connection with EHCP provision and support.

8.3 Climate Change

Not applicable

8.4 Crime and Disorder

Not applicable

8.5 Public Health

Not applicable

8.6 Social Value

None

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Background papers

None