

| | | |
|---|---|---------------------------------|
| Date: 14 December 2023 | Item 7 | Type of report: Decision |
| Report title: | DSG 2024-25 Schools Funding Formula | |
| Author name and contact details: | Aron Brown aron.brown@southwark.gov.uk | |
| Officer to present the report: Education | Aron Brown, Senior Finance Manager, (Southwark Council Schools Finance Team) | |

Dedicated Schools Grant 2024-25 Schools Funding Formula

PURPOSE OF REPORT

1. This report outlines the authority's approach to the 2024-25 schools funding formula and seeks Schools Forum's views on the priorities shown.

RECOMMENDED ACTIONS FOR SCHOOLS FORUM

2. Schools Forum is asked for its views on the following ranking of priorities when modelling the 2024-25 funding formula for schools

- Set the schools block transfer at £1.2m
- To set the minimum funding guarantee (MFG) at the maximum affordable level (within the 0% to 0.5% permissible range)
- Ensure formula rates that are at or above the National Funding Formula (NFF) rates do not fall below the DfE range for matching the NFF
- Set FSM formula rate to £2.65 to match Mayor of London's KS2 funding rate
- Set lump-sum formula rate to the maximum
- To apply any remaining resources to those formula factor rates furthest below NFF rates.

Providing views at this time allows work on the allocations over the Christmas break so proposed allocations are presented to January Schools Forum. Final school budgets have to be submitted to the ESFA in mid-January

3. To note and comment on the distribution of the Schools In Financial Difficulty grant.

4. To note the DfE proposed increase in contributions to the Teachers' Pension Scheme.

BACKGROUND

5. The DfE provides LAs with funding for education via the Dedicated Schools Grant (DSG), which is the accumulation of separately calculated blocks; Schools Block, High Needs Block, Early Years Block and Central Support Services Block.

6. The Schools Block is distributed to schools, primarily through a formula administered by the LA, covered by statutory regulations and agreed with the Schools Forum. (Other distribution methods are the Growth Fund and the Falling Rolls Fund.)
7. The LA formula for calculating each School's Budget Share (SBS) uses data relating to pupil numbers and characteristics (FSM eligibility, home postcode deprivation, prior attainment, EAL, irregular admission date) and school characteristics (NNDR charges and split-site status). The formula also contains a lump-sum that awards a flat-rate amount as a contribution towards fixed costs.
8. Laying over the top of the funding formula is the Minimum Funding Guarantee (MFG). The MFG is a statutory requirement for all local authorities and sets a minimum amount by which a school's per pupil funding must increase (or at times a maximum amount by which it can decrease). The per pupil nature of the MFG means that it is not a cash guarantee: a school that loses pupils will still see a fall in its funding, just not in the amount per pupil.
9. The operation of the MFG is laid out in statutory regulations, but at present the MFG rate is set at a local authority level, within a range stipulated by the DfE.
10. The DfE uses the National Funding Formula (NFF) to calculate the Schools Block for each LA. The NFF uses the same formula factors available to local authorities to calculate a notional allocation for each school and includes MFG protection. Lagged amounts for premises, growth and falling rolls are then added to this along with a split-site amount to complete the schools block.
11. The current system, whereby the DfE uses the NFF to calculate the Schools Block, but the LA is free to use its own formula to calculate the Schools' Budget Shares is referred to as a soft-NFF. The DfE intends to move to a direct-NFF, whereby the DfE calculated figures will be the actual allocations to schools. The DfE intends to complete the implementation of the direct-NFF by the 2027/28 financial year at the latest.

Each summer the Education & Skills Funding Agency (ESFA) uses data from the previous year to run the NFF to create allocations for schools. The primary school allocations are aggregated and then divided by the number of primary pupils to arrive at the Primary Unit of Funding (PUF) and the secondary school allocations are aggregated and then divided by the number of secondary pupils to arrive at the Secondary Unit of Funding (SUF).

For 2024/25 the amount distributed by the NFF is increasing by 1.9%. 75.7% of the total is distributed on pupil numbers and 10.2% for deprivation.

12. In July of each year the DfE publishes the PUF SUF for the following financial year. These amounts will be multiplied by the October census primary and secondary pupil numbers to calculate the pupil-led element of the Schools Block (to which premises, split-sites, growth and falling rolls are added).
13. In October 2023 the DfE re-issued PUF and SUF figures after the discovery of an error in the pupil number estimates used to set the NFF rates. This resulted in the scaling back of the increases in funding for the 2024/25 financial year.

14. As Southwark currently has the 3rd highest SUF and PUF of any LA in England, the growth we were receiving was limited, which in turn means the impact of the reworking of the figures was also limited. The provisional DSG for Southwark was revised down by £192k, the third lowest reduction in London.

15. The DfE notifies Local Authorities of their final DSG Schools Block allocation each December and at the same time provides a spreadsheet which must be used to show the DfE the calculation of each school's School Budget Share. This spreadsheet, the Authority Proforma Tool (APT), contains the data that must be used in the calculation and restricts the calculation to that which falls within the regulations.

KEY ISSUES FOR CONSIDERATION

Main considerations for building the formula

Schools Block transfer

16. Members will be aware of the Safety Valve Funding Agreement that is in place with the DfE. The application contained a Schools Block transfer, moving funds from Schools Block to the High Needs Block of £1.2m (which is below the 0.5% threshold for the Schools Forum to agree without ministerial approval).

17. In turn £0.6m of this transfer is handed back to schools in the form of the EHCP inclusion fund. This transfer also funds the SEND consultants supporting schools (£0.3m) and invest to save initiatives (£0.3m). The continued transfer was endorsed at the recent High Needs Sub Group meeting. This funding needs to be put aside before running the formula.

ESFA mandated movement towards the National Funding Formula

18. As part of the move towards the implementation of the NFF as a means to allocate schools' budget shares, the ESFA have introduced funding bands for each formula factor, within which each local authority's funding rates must fall. These bands will narrow each year, bringing local authority funding rates ever closer to the NFF. The maximum and minimum rates allowed for Southwark can be found in the table at the end of this report.

19. Southwark's AWPU and lump-sum are within the permissible ranges. All other areas will require an increase except for one primary IDACI rate, which does not need to change and three secondary IDACI rates, which need to decrease.

Split site

20. For the 2024/25 financial year, the split-site allocation has been formularised in the NFF and the LA is required to mirror this in its local formula. The new formula allocates a lump-sum for each eligible additional site, then an additional allocation from a distance factor. Overall this has led to a 21% increase in the split-site allocation total, with individual schools seeing increases between 3% and 55%.

Minimum Funding Guarantee (MFG)

21. For the 2024/25 financial year, regulations allow the MFG protection rate to be set between 0.0% and +0.5%.

22. In July the DfE provided our initial allocations, but after identifying an error in their calculations had to scale back some of the growth. As the growth in our allocation was so low, we were one of the smallest losers in this error, with our allocation being revised down by £192k. The revised provisional allocation provided to us in October 2023 indicates that we will most likely be able to achieve the 0.5% maximum limit. However, until we receive the final Schools Block DSG allocation and the APT in late December, we cannot guarantee this.

23. The proposal is to set the MFG rate at the maximum affordable rate within the 0% to 0.5% permissible range.

Match the Mayor Of London Per Meal Funding Rate

24. For the 2023/24 academic year, the Mayor of London is providing a grant to cover the cost of free meals for KS2 pupils that are not free school meal eligible. The funding made available provides £2.65 per meal. It is proposed that the FSM rate used in the funding formula is set at £2.65 thereby ensuring FSM and non-FSM pupils are funded at the same rate.

Set Formula Lump-Sum Rate To Maximum

25. The lump-sum rate in the schools' funding formula is currently set at the maximum possible level. This formula element allocates a set amount to each mainstream primary and secondary school regardless of any school or pupil characteristics. The allocation is a contribution towards fixed costs that do not vary with pupil numbers or FSM rates, for example the basic costs of a headteacher, an SBM or a SENCO.

26. The maximum permissible lump-sum rate will increase in the 2024/25 financial year. This is a consequence of adding in the Mainstream Schools Additional Grant (MSAG). It is proposed that the formula rate be increased to match the new higher limit. This will:

Increase the formula allocation for all schools,

Reflect the MSAG addition,

Assist small schools, where the impact will be proportionately larger, and

Assist schools struggling with pupil recruitment, whilst Keeping Education Strong strategy work is ongoing.

Ensure No Formula Rates Fall Out Of The NFF Matching Zone

27. The DfE considers LA's schools funding formulas to match the NFF if their rates are within 2.5% of the NFF rates. It is proposed that no formula rates that are currently within or above the matching zone are allowed to fall out of that zone. This prevents rates that are currently matching the NFF from becoming problems that need to be dealt with in future years.

Distribution of any remaining funding.

28. In the table at the end of this report, members will see the 2023/24 formula factors and how they compared to the NFF funding rate. The factors that are furthest below the NFF in percentage terms were Low Prior Attainment, EAL, primary Income Deprivation Affecting Children Index (IDACI) and FSM. In a similar approach to that taken for the current year, we propose using any remaining funds to minimise the shortfall between our rates and the NFF rates.

Low prior attainment

29. This funding is for

- primary pupils identified as not achieving the expected level of development in the early years foundation stage profile (EYFSP)
- secondary pupils not reaching the expected standard in KS2 at either reading or writing or maths

Pupil deprivation

30. The NFF allocates 10.2% of its funding to deprived pupils. Pupil deprivation is based on three deprivation measures – current Free School Meal (FSM) eligibility, FSM eligibility at any time 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).

English as an additional language (EAL)

31. The EAL factor provides funding based on the number of pupils identified as having a first language other than English in the October census. These pupils will attract funding for the 3 years following their entry into the statutory school system.

Summary

32. In summary, in building next year’s formula we are proposing to adopt the following priorities

- Set the schools block transfer at £1.2m
- To set the minimum funding guarantee (MFG) at the maximum affordable level (within the 0% to 0.5% permissible range)
- Ensure formula rates that are at or above the National Funding Formula (NFF) rates do not fall below the DfE range for matching the NFF
- Set FSM formula rate to £2.65 to match Mayor of London’s KS2 funding rate
- Set lump-sum formula rate to the maximum
- To apply any remaining resources to those formula factor rates furthest below NFF rates.

Schools in Financial Difficulty Grant

33. In July 2023 the DfE announced that it is providing up to £40 million of once-off additional funding in 2023/24 to support individual schools in financial difficulties. Of the £40 million £20m was allocated to go to 35 LAs with the most significant maintained school deficits, of which Southwark is one. The remaining £20m is used to top up the existing financial support that is available to academies. Southwark’s allocation of the funding is £516k.

34. LA's are able to determine the best use of the funds, but the grant must be spent by the end of the 2023-24 financial year. It is not expected that this funding will reoccur in future years.

35. In line with the DfE requirement, we are sharing with forum that we intend to distribute the funding based to those schools with a forecast deficit balance for 2023-24 greater than 10% of their revenue funding. This method would distribute funding to 5 schools.

36. As part of the funding, we are also able to set conditions on this funding, and so each of those schools will be contacted and notified of the conditions of their grant in December. Payment will be made before the end of the financial year.

Teacher's Pension Scheme

37. The DfE has published the outcome of the valuation of the Teachers' Pension Scheme based upon 2020 data. The outcome confirms a need to increase the employer contribution rate by 5 percentage points from 1 April 2024 to ensure that the Scheme continues to meet present and future obligations

38. The DfE has said it will provide additional funding to cover the increase in the employer contribution rate for directly funded scheme employers for the financial year 2024/25. This includes mainstream 5-16 schools; high needs settings; post 16 and further education settings; and eligible early years providers. The subsequent costs for directly funded scheme employers for future years will be looked at as part of subsequent spending review rounds.

39. The DfE have not yet made any announcements on how this funding will be distributed to schools.

Appendix A

| Factor | 2023/24 Southwark Rate of Funding | Difference between Southwark 23/24 and 23/24 NFF | 2024/25 NFF including Area Cost Adjustment | 2024/25 minimum Allowed | 2024/25 maximum Allowed |
|--------------------------|-----------------------------------|--|--|-------------------------|-------------------------|
| KS1/2 basic entitlement | £4,626.36 | £591.97 | £4,226.88 | £4,121.21 | £4,758.93 |
| KS3 basic entitlement | £6,628.09 | £939.11 | £5,959.41 | £5,810.42 | £6,804.60 |
| KS4 basic entitlement | £6,649.45 | £237.60 | £6,717.68 | £6,549.74 | £6,931.53 |
| Primary FSM | £469.05 | -£101.63 | £581.46 | £489.99 | £596.00 |
| Secondary FSM | £469.05 | -£101.63 | £581.46 | £489.99 | £596.00 |
| Primary FSM6 | £846.99 | £8.80 | £973.06 | £948.73 | £997.39 |
| Secondary FSM6 | £1,213.26 | -£11.33 | £1,423.99 | £1,388.39 | £1,459.59 |
| Primary IDACI F | £187.75 | -£85.70 | £278.87 | £201.73 | £285.84 |
| Primary IDACI E | £200.21 | -£132.69 | £338.20 | £218.78 | £346.65 |
| Primary IDACI D | £371.96 | -£151.16 | £528.06 | £392.02 | £541.27 |
| Primary IDACI C | £556.41 | -£14.27 | £575.53 | £561.14 | £589.92 |
| Primary IDACI B | £597.07 | -£9.28 | £611.13 | £595.85 | £626.41 |
| Primary IDACI A | £654.38 | -£142.20 | £806.93 | £678.95 | £827.10 |
| Secondary IDACI F | £184.53 | -£213.76 | £403.46 | £211.08 | £413.55 |
| Secondary IDACI E | £250.24 | -£278.83 | £534.00 | £283.05 | £547.35 |
| Secondary IDACI D | £711.14 | -£25.99 | £747.60 | £724.20 | £766.29 |
| Secondary IDACI C | £1,073.68 | £265.21 | £818.80 | £798.33 | £1,057.49 |
| Secondary IDACI B | £1,232.81 | £364.90 | £878.13 | £856.18 | £1,206.51 |
| Secondary IDACI A | £1,549.13 | £443.43 | £1,121.39 | £1,093.36 | £1,520.48 |
| Primary EAL3 | £458.65 | -£230.92 | £700.13 | £492.31 | £717.63 |
| Secondary EAL3 | £1,590.96 | -£269.70 | £1,880.86 | £1,638.13 | £1,927.88 |
| Primary Low Prior Attain | £913.30 | -£459.90 | £1,388.39 | £974.48 | £1,423.10 |
| Secondary Low Prior Att | £1,828.45 | -£252.16 | £2,106.32 | £1,879.38 | £2,158.98 |
| Primary mobility | £1,097.26 | -£26.27 | £1,139.19 | £1,110.71 | £1,167.67 |
| Secondary mobility | £1,577.69 | -£39.24 | £1,637.59 | £1,596.65 | £1,678.53 |
| Primary lump sum | £175,000.00 | £22,818.24 | £159,487.10 | £155,499.93 | £180,023.52 |
| Secondary lump sum | £175,000.00 | £22,818.24 | £159,487.10 | £155,499.93 | £180,023.52 |