



Purpose: For Decision

Cabinet Report

Date **12 JANUARY 2023**

Title **SCHOOL FUNDING FORMULA & BUDGET SETTING 2023/24**

Report of **CABINET MEMBER FOR CHILDRENS SERVICES, EDUCATION AND LIFELONG SKILLS**

EXECUTIVE SUMMARY

1. The Department for Education (DfE) publishes annual changes to school funding arrangements. There have been minor amendments to the national funding formula which allocates funding to the local authority, with a local formula continuing to be used to allocate funding to individual schools. The local authority must set the formula annually, alongside the wider Dedicated Schools Grant (DSG) budget.
2. This report sets out arrangements for the Isle of Wight pre-16 mainstream school revenue funding formula for the 2023/24 financial year, and the setting of the wider DSG budget for approval. The formula has been proposed following principles agreed by the Schools Forum during 2022/23 financial year, following consultation with individual schools, and replicates the national funding formula values used to allocate funding to the local authority.
3. The DfE must be notified of the proposed formula by 20 January 2023 and subsequent school budget allocations must be confirmed to individual schools by 28 February 2023, applicable from 1 April 2023. The proposed DSG budget is reported to the DfE as part of the Section 251 return submitted in April 2023.
4. While the council is required to consult with schools on the funding formula and budget setting, the final decision is for the local authority to take as the accountable body for the Dedicated Schools Grant.

RECOMMENDATION

5. That the 2023/24 school funding formula and wider Dedicated Schools Grant budget allocations detailed in Appendix 1 and 2 to this report be approved.

BACKGROUND

6. The DfE allocates funding to local authorities using a national funding formula and 2023/24 will be the sixth year of this mechanism. It has used this formula to calculate notional budgets for all schools and combined the budget for all schools on the Island to identify the amount per pupil to be allocated to the Isle of Wight in 2023/24. The October 2022 census pupil numbers and characteristics drives the eventual funding distributable to schools through budget shares.
7. Schools funding is provided through the Dedicated Schools Grant (DSG), which is made up of four funding blocks: schools, early years, high needs, and central school services, with restrictions on the use of funding allocated to each block. The funding formula specifically relates to the schools block and is a significant majority of the overall DSG budget also included in this report. The authority has a responsibility to set a balanced DSG budget.
8. The pre-16 school funding guidance for 2023/24 was released in summer 2022, updated to the final version in December 2022. There are a few minor changes in the expectations within the local formula. The DfE has reiterated its intention to move to a direct national funding formula, which allocates funding directly to schools by 2027/28 and further consultations on the speed and process for that move are expected over the coming year.

CORPORATE PRIORITIES AND STRATEGIC CONTEXT

Responding to climate change and enhancing the biosphere

9. There is minimal direct impact on climate change and enhancing the biosphere as a result of recommendations within this report. The funding provided to schools from the formula is devolved for individual schools to make their own spending decisions. Environmental improvements to the school estate tend to be capital funded in nature and therefore outside the scope of this report.

Economic Recovery and Reducing Poverty

10. There is minimal direct impact to economic recovery and reducing poverty as a result of recommendations within this report, although sufficiently funded schools are active employers across the Island employing many individuals and contributing to the local economies.

Impact on Young People and Future Generations

11. Revenue funding to schools is key in delivering sustainable education provision that will develop lifelong skills improving potential outcomes for young people. The increases in funding prescribed through the DfE in this report directly impact on the affordability of quality education in schools.

Corporate Aims

12. The 2021 to 2025 corporate plan emphasises the need for the local authority to work with and challenge schools in financial deficit to secure a more sustainable position for the schools and the council. The funding formula within the report results in increases in all funding formula factors, increasing funding for all schools mitigating risks of individual schools in deficit. This impacts on schools delivering on existing budget plans, and financially viable schools in turn contribute to ensuring pupils can develop their skills and fulfil their potential.

DEDICATED SCHOOLS GRANT BUDGET 2023/24

13. DSG allocations for 2023/24 were released by the DfE on 16 December 2022, including a breakdown by funding block, building on indicative allocations that were received in the summer of 2022. The actual allocations can be found on the DfE website <https://www.gov.uk/government/publications/dedicated-schools-grant-dsg-2023-to-2024>, summarised and compared to the current year baseline in the following table (pre-recoupment of funding passed to academies directly by the Education Skills & Funding Agency (ESFA)).

Block	2022/23 Allocation (Nov22) £000	2023/24 Allocation (Dec22) £000	Change £000
Early years	6,534	6,869	335
Schools Block	80,901	85,168	4,267
High needs	19,914	21,725	1,811
Central	593	598	5
Total DSG	107,942	114,360	6,418

14. When comparing between years note that the previously separate Supplementary Grant equivalent funding has been rolled into the schools block funding formula from 2023/24 in the region of £2.4million.
15. The remaining change between years is a culmination of some additional funding added to the early years hourly rates, additional funding added across national level school funding formula factors, additional high needs funding in the region of 9.8 per cent per head of population, and also the financial impact of changes in pupil numbers and characteristics following the October 2022 census.

EARLY YEARS BLOCK

16. The DfE has confirmed the funding rates which will be used to allocate funding to local authorities in 2023/24. For the Isle of Wight there is an increase in the national funding, adding ten pence per hour to two-year old and twenty-six pence to three and four-year old funding rates. The net result for the Isle of Wight, after being updated with January 2022 funded activity, is an increase of £335,621 in the early years block estimate for 2023/24 (in the region of 5.1% per cent increase compared to 2022/23).

17. Schools Forum is required annually to approve the level of central funding and at least 95 per cent of three- and four-year-old funding must be passed through to providers leaving the remaining 5 per cent towards central costs. The early years central costs support providers and administration of the early year's entitlement. Accounting for inflationary increases, the 2023/24 central budget proposed to Schools Forum is £328,070.
18. The Early Years team is engaging with providers between January and March on options for the distribution of the additional funding through some possible changes to the structure of rates paid. The budget included in appendix 1 is based on the funded level of activity. The outcome of the discussions will be confirmed in March 2023 and endorsed through Schools Forum and onward to providers, with required budget statement estimates issued before the end of the financial year.

SCHOOLS BLOCK

19. The vast majority of schools' block funding is managed through the local school funding formula in budget share allocations to schools. The proposed local funding formula for mainstream Isle of Wight maintained schools and academies is included in appendix 2, alongside 2022/23 values for comparison.
20. The Isle of Wight has a strong history of supporting the principle of working towards the national funding formula (NFF) values since the formula was introduced in 2018/19, and since 2021/22 with the overwhelming support of local schools and Schools Forum, has replicated the NFF formula factor values entirely. It is proposed to again determine the 2023/24 school funding formula using the increased national funding formula values exactly (adjusted for the local area cost adjustment, which for the Isle of Wight is 1.01421).
21. The approach will provide continued and future stability for schools, minimising future financial turbulence at an individual school level when the direct national funding formula is eventually implemented by 2027/28 whereby school budget shares are directly provided by government.
22. The formula is still significantly shaped through consultation with the Schools Forum and the wider schools' community, and the following key principles, assumptions and decisions are a culmination of meetings and engagement through 2022.
 - (a) The 2022/23 supplementary grant has been rolled into the national funding formula adding an amount representing the grant into school baselines across some key factors such as basic entitlement and lump sum.
 - (b) NFF values have been increased on top of the rolled in supplementary grant values) by in the region of 2.4% for basic entitlement, low prior

attainment, English as an additional language, mobility, sparsity and lump sum factors. 4.3% has been added to free school meals and deprivation factors representing a slight shift in funding to more deprived schools

- (c) Local authorities continue to be able to transfer up to 0.5 per cent to the high needs block in line with operational guidance limits with Schools Forum support, to contribute towards specific initiatives within the high needs area.
 - (d) Local authorities continue to be able to set a minimum per pupil funding guarantee (MFG) within the 2023/24 threshold being between +0.0 per cent and +0.5 per cent
 - (e) Schools Forum agreed in November 2022 the principle that the overall balancing of the formula is achieved through firstly prioritising meeting the NFF formula values and protections, then by establishing a growth fund, with any residual funding considered as a high needs transfer (up to the 0.5 per cent limit).
23. Other elements of the schools' block budget presented in appendix 1 are driven by specific decisions by the Schools Forum covering services that are de-delegated from maintained schools and contributions to central education functions.

HIGH NEEDS BLOCK

24. The December 2023/24 high needs block allocation has confirmed an increase in funding compared to this year of £908,000 similar to the value estimated by the DfE through indicative modelling in the summer. As a very historically better funded authority the Isle of Wight only receives the minimum level of increase experienced in national allocations across authorities. In addition to this core increase and as a result of the government's Autumn Statement, a further 2023/24 increase of £903,000 has been received, providing a total £1.8million (9.1 per cent) increase in funding.
25. Despite the increased funding, and a rolling very detailed review of the 4-year forecast position, a significant gap remains for 2023/24 with an underlying budget shortfall in the region of £2.08million as the funding formula does not fully account for the Isle of Wight's higher demand and incidence of special educational needs, alongside funding failings at a national level being experienced across many authorities. Demand, mix of provision, cost, and linkages to the SEN sufficiency strategy have been fully considered in drafting the high needs budget for 2023/24.

Safety Valve

26. The government has increased capacity in its Safety Valve programme which supports and challenges those local authorities with proportionate higher deficits within their dedicated schools grant (DSG) budgets. The Isle of Wight

accepted an invite to take part in the scheme during 2022/23 which has so far involved very detailed modelling and evidencing of strategies being undertaken across the period to the 2026/27 financial year to work towards achieving an in year balanced position by that date. A DSG management plan is currently being considered by government during the January to March 2023 period which if supported should result in financial support for the remaining 2023/24 budget setting gap.

27. Crucial to managing down the funding shortfall in the longer term is further implementation of the relevant strategies and continued engagement with the programme monitoring and delivery requirements.

CENTRAL BLOCK

28. The central block of DSG funding is the smallest element of the grant, and most budgets have already been agreed by the Schools Forum in November 2022. The DfE continues to work historic commitments out of the system by reducing the central block funding year on year, which has continued for 2023/24 but doesn't affect the Isle of Wight. The marginal increase contributed by a slight increase in the funding rate is expected to be absorbed within the statutory duties' element of the budget after meeting increased copyright license costs procured directly by the DfE.

OVERALL DSG BUDGET

29. Overall final proposed budget allocations are summarised from appendix 1 in the following table compared to the DSG allocations received in December. A transfer from the schools' block to the high needs block was not affordable in the 2023/24 formula as a result of rising costs of pupil characteristics within the formula.

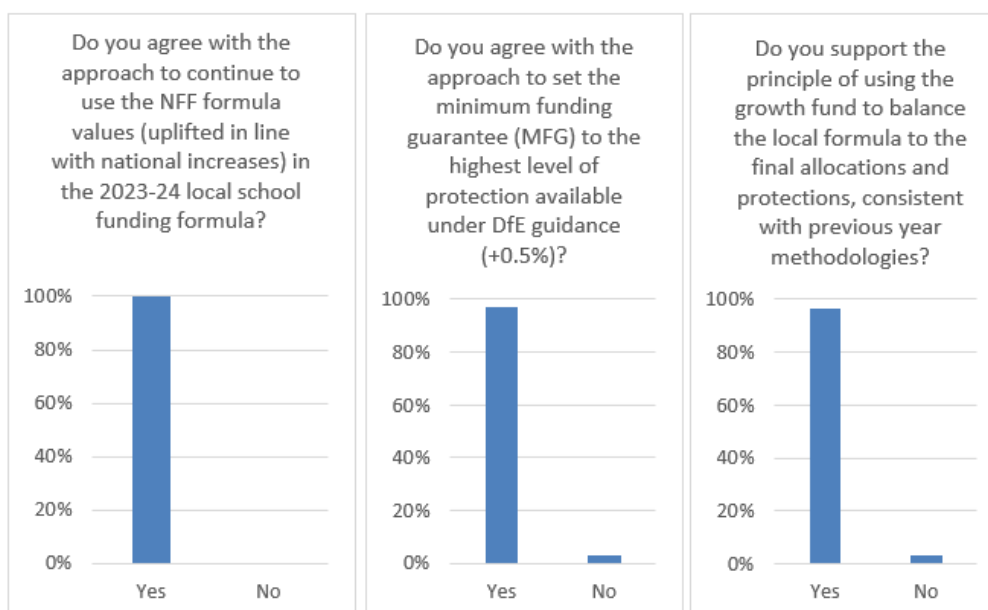
Block	DSG Allocation £'000	Budget Allocation £'000	Net Difference £'000
Early Years	6,869	6,869	0
Schools	85,168	85,168	0
High Needs	21,725	21,725	0
Central Services	598	598	0
TOTAL DSG	114,360	114,361	0
Recoupment	25,636	25,636	0
NET COUNCIL BUDGET	88,724	88,724	0

30. This total budget includes recoupment which will be deducted at source from the Isle of Wight DSG allocation and paid to academies and post 16 high needs providers directly by the Education Skills & Funding Agency (ESFA). The amount is £25.64 million which results in a net budget to be managed by the local authority of £88.72 million.

31. The government's November 2022 Autumn Statement announced additional funding of £2.4billion nationally from 2023/24 through a new specific grant which will contribute towards supporting school inflationary pressures in particular around pay and energy. The value of Mainstream Schools Additional Grant (MSAG) for Isle of Wight schools is expected to be in the region of £2.92 million and will be published in spring 2023. This grant is specific to be passported on to schools and outside of the Dedicated Schools Grant, and therefore outside the scope of this report.

CONSULTATION

32. The school funding regulations require that mainstream schools are consulted on any proposed changes to the funding formula. As no material changes are proposed a consultation was not required but was still completed following the release of indicative allocations and modelling tools by the DfE in the summer. The council education finance team met with headteachers in September 2022 to explain the updated position on the NFF for 2023/24 alongside other general finance updates, with the exercise repeated with school business managers on the 29 September 2022. This was followed up with a further headteacher engagement session on 9 November 2022. Finance attendance at the headteacher, and school business manager forums throughout the year is now a standing item and well received two-way conversations are had.
33. The formal consultation with schools on school funding proposals for 2023/24 was released on the 18 October 2022 and ran until the 9 November 2022. The short consultation asked key questions around the principles of setting the upcoming formula alongside wider questions around de-delegation, funding and included indicative modelling at individual school level. Despite a half term one week break during the period, the response rate was good with 32 (71%) of the 45 mainstream primary and secondary schools responding to the consultation. This outstanding level of engagement is up on the previous year (31 schools), despite any perceived reduced influence as more elements of the NFF become prescribed, and that proposals in the main are carrying on existing arrangements that have been overwhelmingly supported in recent years.
34. As in 2022/23 formula setting, the questionnaire asked three main questions in relation to 2023/24 school funding. The results were unanimous in support of the main proposed Isle of Wight Council approach and overwhelmingly agreed on other items.



35. Additional questions allowed narrative and although not relevant for the setting of the formula, many respondents expressed concerns about the overall quantum of school funding not being sufficient to meet increasing costs, in particular around pay and energy contracts. Since the consultation further financial support was announced through the Autumn Statement and the local authority continues to highlight pressures through engagement at DfE attended regional network groups.

FINANCIAL / BUDGET IMPLICATIONS

36. The Dedicated Schools Grant is a strictly ring-fenced grant for education purposes. The grant conditions require local authorities to utilise the grant for the purposes set out in the School and Early Years Finance (England) Regulations (included as a background document to this report).
37. DSG grant regulations were last updated in November 2022 and currently enforce the accountability of any overall DSG deficit being met from future DSG income and cannot therefore be charged against the Council's general fund. The outcome of a review on this statutory override was received from government recently, confirming a continuation of that arrangement for the next three years. The progress on achieving a Safety Valve agreement in early 2023 may impact the overall level of DSG deficit.
38. The local authority is responsible for setting the local school funding formula and presenting a balanced Dedicated Schools Grant budget, following significant consultation and shaping of the formula and budget by the Schools Forum and the wider schools' community.

LEGAL IMPLICATIONS

39. The School and Early Years Finance (England) Regulations set out the statutory arrangements for school and early years funding and they are updated each year following the release of grant allocations. The 2022 regulations are expected to be updated in early 2023, following on from operational guidance provided by the DfE in relation to 2023/24 in the summer of 2022.
40. The regulations prescribe the timescale for publishing school budgets, the formula factors which can be used to calculate school budgets and the costs which can or cannot be met by the local authority from the ring-fenced Dedicated Schools Grant funding.

EQUALITY AND DIVERSITY

41. The council as a public body is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
42. An equality impact stage 1 initial screening was completed on 27 November 2019 as part of the setting of the 2020/21 formula. This concluded no negative impact on those with protected characteristics as a result of changes by mirroring the national funding formula, particularly as schools are protected from losing per pupil funding through the minimum funding guarantee element of schools funding. This report is a continuation of that strategy for 2023/24 with increases in all funding formula factors and higher proportionate increases in some additional needs factors in particular related to deprivation.

PROPERTY IMPLICATIONS

43. There are no property implications as a result of these proposals as they relate purely to the distribution of Dedicated Schools Grant revenue funding. Individual schools pay for general property running costs from the devolved funding provided through the Dedicated Schools Grant.
44. The Children's Services asset management team is responsible for overseeing any landlord duties that impact on schools and also the strategic management of schools' capital funding, which is outside the scope of this report.

OPTIONS

45. Option 1 - To approve the 2023/24 school funding formula and wider Dedicated Schools Grant budget allocations detailed in appendix 1 and 2.
46. Option 2 - To require further formula options and alternative schools grant budgets to be developed, requiring a further period of consultation to be carried out with schools.

RISK MANAGEMENT

47. The recommendation within this report results in schools receiving increased funding using national formula factor values, mitigating a risk of financial turbulence for individual schools when the government moves to a direct national funding formula in the future (which it has reiterated its intention to do so over the last year by 2027/28 at the latest).
48. The local authority like many others is experiencing serious financial pressures from insufficient levels of high needs funding. Schools and Schools Forum have supported a continued high needs funding transfer where affordable to influence strategies to achieve a sustainable future budget, and the authority will continue to progress involvement in the Safety Valve programme of support and challenge.
49. Although funded through this formula, academy schools receive their funding and adhere to compliance directly through the Education Skills Funding Agency (ESFA). Isle of Wight maintained schools have fully devolved funding, finance systems and bank accounts and their budget monitoring is regularly reviewed by school senior leadership and governor teams. Budgets for maintained schools are supported and challenged by the Council Education Finance Team through mandatory submissions in May and November of each year pre-empting risk of schools going into deficit or deviating from agreed recovery plans.
50. Actions and mitigations around schools in deficits are jointly monitored through Financial Management service risks, and through annual review of individual school budget submissions by the Director of Childrens Services.

EVALUATION

51. The school funding formula is set following significant consultation with the Isle of Wight schools' community directly and through its consultative statutory group the Schools Forum over a period of months while detailed guidance and procedures are released by the DfE. The recommended option is in line with the views of those groups, with government intentions for a clear, transparent, affordable school funding formula, and robustly evidenced DSG budget for 2023/24.

APPENDICES ATTACHED

Appendix 1 - Isle of Wight Dedicated Schools Grant Budget 2023/24.

Appendix 2 - Isle of Wight School Funding Formula 2023/24.

BACKGROUND PAPERS

Schools Forum November 2022 Paper E – 2023/24 School Funding
<https://www.iow.gov.uk/azservices/documents/1584-Paper-E-2023-24-School-Funding-FINAL.pdf>

Department for Education – Pre-16 Schools Funding Operational Guidance
<https://www.gov.uk/government/publications/pre-16-schools-funding-local-authority-guidance-for-2023-to-2024/schools-operational-guide-2023-to-2024>

Schools & Early Years Finance (England) Regulations
<https://www.legislation.gov.uk/ukSI/2022/27/contents/made>

Contact Point: Barry Downer, Senior Finance Business Partner, ☎ 821000 e-mail
barry.downer@iow.gov.uk

STEVE CROCKER
Director of Childrens Services

CLLR DEBBIE ANDRE
*Cabinet Member for Childrens Services,
Education and Lifelong Learning*