



Cabinet report

Date	13 JANUARY 2022
Title	SCHOOL FUNDING FORMULA & BUDGET SETTING 2022/23
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 2022/23 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 2021/22 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 21 January 2022 and subsequent school budget allocations must be confirmed to individual schools by 28 February 2022, applicable from 1 April 2022. The proposed DSG budget is reported to the DfE as part of the Section 251 return submitted in April 2022.
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

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| <ol style="list-style-type: none">5. Cabinet approves the 2022/23 school funding formula and wider Dedicated Schools Grant budget allocations detailed in Appendix 1 and 2. |
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BACKGROUND

6. The DfE allocates funding to local authorities using a national funding formula and 2022/23 will be the fifth 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 2022/23. The October 2021 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 2022/23 was released in summer 2021, updated to the final version in December 2021. There are a few minor changes in the expectations within the local formula. The DfE has reiterated its intention to move to a 'hard' national funding formula, which allocates funding directly to schools in coming years and further consultations on the speed and process for that move are expected over the coming year.

STRATEGIC CONTEXT

9. 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.
10. The DSG budget presented for 2022/23 is financially balanced and contributing towards achieving a sustainable position in the medium term.

DEDICATED SCHOOLS GRANT BUDGET 2022/23

11. DSG allocations for 2022/23 were released by the DfE on 16 December 2021, including a breakdown by funding block, building on indicative allocations that were received in the summer of 2021. The actual allocations can be found on the DfE website <https://www.gov.uk/government/publications/dedicated-schools-grant-dsg-2022-to-2023>, summarised and compared to the current year in the following table (pre-recoupment of funding passed to academies directly by the Education Skills & Funding Agency (ESFA)).

Block	2021/22 (Nov21) £000	2022/23 (Dec21) £000	Change £000
Early years	6,467	6,429	-38
Schools Block	79,316	80,901	1,585
High needs	17,802	19,932	2,130
Central	613	593	-20
Total DSG	104,198	107,855	3,657

12. The 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 8 per cent, and also the financial impact of reductions in pupil numbers and characteristic changes following the October 2021 census.
13. In addition to the core DSG allocations, following the autumn 2021 spending review, a further allocation of £744,740 (included in the above table) was allocated to the Isle of Wight in recognition towards increased costs.

EARLY YEARS BLOCK

14. The DfE has confirmed the funding rates which will be used to allocate funding to local authorities in 2022/23. For the Isle of Wight there is an increase in the national funding, adding twenty-one pence per hour to two-year old and seventeen pence to three and four-year old funding rates. The net result for the Isle of Wight, after being updated with reduced January 2021 funded activity, is a reduced by £38,000 early years block estimate for 2022/23 (in the region of 0.6 per cent reduction compared to 2021/22).
15. 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 2022/21 central budget proposed to School Forum is £307,000.
16. The Early Years team is consulting 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 consultation will be confirmed in March 2022 and communicated through School Forum and onward to providers with required budget statement estimates.

SCHOOLS BLOCK

17. 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 schools and academies is included in appendix 2, alongside 2021/22 values for comparison.
18. 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 four years ago, and in 2021/22 with the overwhelming support of local schools and Schools Forum, made the step to replicate the NFF formula factor values entirely. It is proposed to again determine the 2022/23 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 1.01419).
19. The approach will provide continued and future stability for schools, minimising future financial turbulence at an individual school level when the hard national funding formula is eventually implemented whereby school budget shares are directly provided by government.

20. 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 2021.
- a) Increases in all factors, with most being in the region of 3 per cent added to 2021/22 values.
 - b) National minimum per pupil level protections applied and increased by 2 per cent (£4,265 per pupil for primary and £5,321 Key Stage 3 / £5,831 Key Stage 4 meeting DfE requirements).
 - c) Further increasing support for small and remote schools, by a proportionately higher increase of over £10,000 being applied to the sparsity factor value.
 - d) Minimum funding guarantee (MFG) has been set to the lowest level of protection, to work historic arrangements out of the system as quickly as possible ensuring all schools still receive a minimum increase per pupil (+0.5 per cent).
 - e) The continuation of a transfer of schools block funding of up to 0.5 per cent to high needs in line with operational guidance limits to contribute towards significant budget pressures in that area of the dedicated schools grant.
 - f) Schools Forum agreed the principle in November 2021 that the overall balancing of the formula is achieved through using the local growth fund. This fund is held towards assisting schools with any basic needs growth in pupils that may happen in 2022/23 and is only distributed if schools meet a defined School Forum agreed policy.
21. 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

22. The December 2022/23 high needs block allocation has confirmed an increase in funding compared to this year of £1.373million, similar to the value estimated by the DfE through indicative modelling in the autumn. 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, a further 2022/23 increase of £744,740 has been received, providing around a 12 per cent total increase in funding.
23. Despite the increased funding, and a rolling review of the 3-year forecast position, a significant gap remains for 2022/23 with an underlying budget shortfall in the region of £1.33million 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.
24. Schools Forum helpfully supported the continued transfer of up to the maximum permitted 0.5 per cent of schools block funding, resulting in a final budget transfer value of £210,555 (approximately 0.25 per cent) after meeting NFF funding formula commitments. The remaining high needs gap of £1.12million of savings to be identified will be reviewed continually through 2022 taking account of recent or upcoming changes in provision across the Island, such as additional special school

places, and new resource provision within mainstream schools avoiding the use of specialist on-Island and mainland provision placements where appropriate to do so.

25. Crucial to this managing down of the funding shortfall in the longer term, is the upcoming government SEND review publication which is expected during Spring 2022 and anticipated to have a far-reaching impact on funding methodologies and strategies around managing high needs.
26. An increasing number of local authorities are experiencing high needs deficits and the DfE are undertaking individual authority level conversations as their capacity permits. The proportionate Isle of Wight deficit has not yet met the threshold for the current discussions.

CENTRAL BLOCK

27. 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 2021. The DfE continues to work historic commitments out of the system by reducing the central block funding year on year, which has continued for 2022/23. The marginal reduction contributed by reducing pupil numbers is expected to be absorbed within the statutory duties' element of the budget.

OVERALL DSG BUDGET

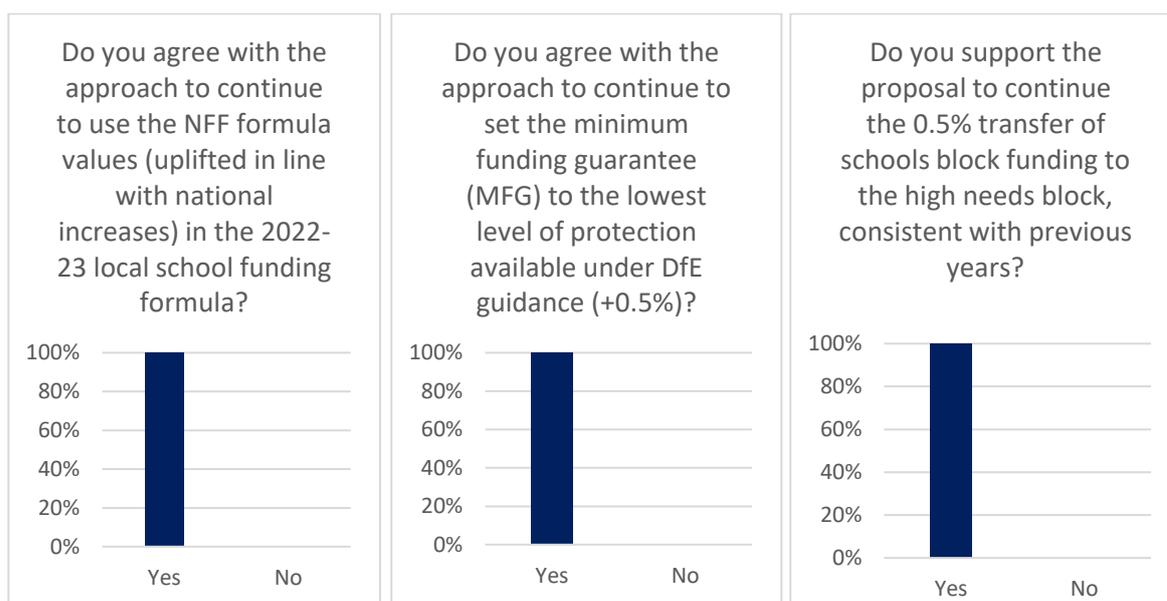
28. Overall final proposed budget allocations are summarised from appendix 1 in the following table compared to the DSG allocations received in December. The transfer from the schools' block to the high needs block is to be £0.211 million within the maximum agreed transfer level.

Block	DSG Allocation £'000	Budget Allocation £'000	Net Difference £'000
Early Years	6,429	6,429	0
Schools	80,901	80,691	-211
High Needs	19,932	20,142	211
Central Services	593	593	0
TOTAL DSG	107,855	107,855	0
Recoupment	23,728	23,728	0
NET IWC BUDGET	84,127	84,127	0

29. 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 £23.73 million which results in a net budget to be managed by the local authority of £84.13 million.
30. The autumn 2021 spending review also announced a new specific grant for schools in 2022/23 which will contribute towards supporting school health and social care levy and wider inflationary costs. The amount for the Isle of Wight schools is expected to be in the region of £2.39 million and will be published in spring 2022. This grant is specific and outside of the Dedicated Schools Grant, and therefore outside the scope of this report.

CONSULTATION

31. The school funding regulations require that mainstream schools are consulted on any proposed changes to the funding formula, but it was acknowledged by the DfE again this year that some consultation limitations might result from other COVID19 related priorities.
32. 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 2021 to explain the updated position on the national funding formula for 2022/23 alongside other general finance updates, with the exercise repeated with school business managers on the 6 October 2021 in conjunction with releasing the consultation on the 5 October 2021.
33. Despite a two week half term for most schools, the response rate was good with 31 (70 per cent) of the 44 mainstream primary and secondary schools responding to the consultation. Although down on the 96 per cent last year, this was partly expected as the proposals in the main are carrying on existing arrangements that were overwhelmingly supported last year.
34. As in 2021/22, the questionnaire asked three main questions in relation to 2022/23 school funding. The results were unanimous in support of the proposed Isle of Wight Council approach on each item.



35. Additional comments were generally supportive observations, with a couple specifics on high needs deficits and premises related factors. Schools Forum met in November 2021 considering the outcome of the consultation and unanimously supported the approach consistent with the wider all school's responses.

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 July 2021 and continue to 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.
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.

IMPACT ON YOUNG PEOPLE AND FUTURE GENERATIONS

39. This proposal will have a positive impact on both the short-term and long-term future for children and young people and future generations on the Isle of Wight. With the increased funding across all mainstream pre-16 schools this will directly contribute to ensuring local schools continue to be financially viable and continuity and quality of provision is maintained. This will help ensure children and young people achieve good educational outcomes, that helps to prepare them for their future. Any surplus balances achieved in schools are ring fenced to the individual school for the benefit of future pupils.

CLIMATE, ENVIRONMENT & UNESCO BIOSPHERE IMPACT

40. This report focusses on the school funding formula, which is a schools' main source of revenue funding. Increases in funding mean cost areas such as school recycling, heating, hot water and vehicle running costs should remain affordable at current levels. Changes in the school estate for heating and lighting systems for example, tend to be of a capital nature which is outside of the scope of this report. There are no direct implications on greenhouse gas emissions as a result of the proposal.
41. The IW UNESCO Biosphere's purpose is to use the interaction between areas of the highest environmental protection, areas of less constrained environmental protections and areas of human population and infrastructure to enhance sustainable social, economic, environmental, and cultural development. The proposals set out within this document support the sustainable development principles of providing Quality Education, Reduced Inequalities and Sustainable Communities.

LEGAL IMPLICATIONS

42. The School and Early Years Finance (England) Regulations set out the statutory arrangements for school and early years funding.
43. 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

44. 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.

45. 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 as closely as possible, 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 2022/23 with increases in all funding formula factors.

PROPERTY IMPLICATIONS

46. 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.
47. 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

48. Option 1 – To approve the 2022/23 school funding formula and wider Dedicated Schools Grant budget allocations detailed in Appendix 1 and 2.
49. 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

50. 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 hard national funding formula in the future (which it has reiterated its intention to do so in recent months).
51. 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 funding transfer to mitigate the budget shortfall, and the authority will continue close contact with the DfE through regional networks to ascertain the impact of an upcoming special educational needs review that will include the funding mechanism.

52. 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.

EVALUATION

53. 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 2022/23.

APPENDICES ATTACHED

54. Appendix 1 – Isle of Wight Dedicated Schools Grant Budget 2022/23.
55. Appendix 2 – Isle of Wight School Funding Formula 2022/23.

BACKGROUND PAPERS

56. Schools Forum November 2021 Paper F – 2022/23 School Funding
<https://www.iow.gov.uk/azservices/documents/1584-Paper-F-2022-23-School-Funding.pdf>
57. Department for Education – Pre-16 Schools Funding Operational Guidance
<https://www.gov.uk/government/publications/pre-16-schools-funding-local-authority-guidance-for-2022-to-2023>
58. Schools and Early Years Finance (England) Regulations
<https://www.legislation.gov.uk/uksi/2020/83/contents/made>

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