

From: Sarah Hammond, Corporate Director of Children, Young People and Education

To: Rory Love, Cabinet Member for Education and Skills

Decision: 23/00125 - Changes to the KCC local funding formula for schools

Key decision:

- It affects more than 2 Electoral Divisions
- It involves expenditure or savings of maximum £1m

Classification: Unrestricted

Past Pathway of report: Children's and Young People's Cabinet Committee – 16th January 2024

Future Pathway of report: Executive Decision

Electoral Division: ALL

Summary:

The Government has confirmed the funding allocations for schools' funding including primary & secondary schools, early years and high needs (Special Educational Needs) for 2024-25. Kent County Council will receive an additional £33m of Schools Block Dedicated Schools Grant in 2024-25 to distribute to Kent primary and secondary schools (and academies via the Education and Skills Funding Agency). Along with nearly £12m for high needs. Local Authorities remain responsibility for agreeing the distribution of funding to schools and educational establishments in accordance with the Government guidance.

The distribution of funding to primary & secondary schools is calculated through the operation of a Local Funding Formula (LFF) and this paper predominately advises Members about the recommendations to change to the LFF which was contained within the School Funding Formula Consultation to schools. The consultation was completed in November. This paper is an opportunity for Members of this Committee to comment on these proposals ahead of a key decision being taken by the Cabinet Member in February.

Recommendation(s):

The Cabinet Member for Education & Skills in conjunction with the Cabinet Member for Integrated children's Services is asked to agree to the proposed decision to implement the proposals set out in the proposed record of decision.

1. Introduction

- 1.1 Since 2010, the Government has been reforming the school funding system so that it is fairer, simpler and more transparent. Their aim has been to create a system where schools and local authorities will be funded on up-to-date assessment of need that reflects the characteristics of their pupils. Since 2018-19, the *soft* National Funding Formula (NFF) was introduced, whereby Local Authorities were able to distribute the total funding they received from the Department of Education (DFE) for primary and secondary schools in their area through a Local Funding Formula (LFF) using a prescribed list of factors set by the DFE.
- 1.2 Local Authorities are also responsible for setting the payment rates to early years providers for Free Entitlement Rates for both two-, three- and four-year olds along with the funding rates to support Special Educational Needs across early years, schools and post 16 providers.
- 1.3 The 2024-25 planned spending levels for schools' will be the final year of a rolling commitment from Government, first agreed in 2019, and subsequently increased and extended to increase total school funding nationally from £44.4 billion in 2019-20 to £58.8 billion in 2024-25. This is used to fund primary & secondary school core budgets, high needs and central services for schools.
- 1.4 On the 19th December, the Government also announced the intention to increase the overall funding available for Early Years Entitlements by a total of £2.2 billion by 2024-25 (to £6billion), of which approximately £1.6 billion relates to the expansion of entitlements for working age parents; approximately £0.2b was new funding for inflationary increases (equivalent to 3.6% increase); and £0.4b was funding previously received as a separate grant.
- 1.5 The Council must now decide how the Kent's LFF for schools, early years providers and special educational needs payments should change from 1 April 2024 taking into account views from both the schools & early years sector and the Schools Funding Forum. Due to the scale of changes to the early years' entitlement offer, a separate report has been produced for Cabinet Committee.
- 1.6 The Schools Funding Forum is a statutory body made up of a representative group of headteachers, governors or other senior members of staff (i.e. school finance manager) within Kent schools including academy trusts, maintained schools, primary, secondary and special schools. Along with Post 16 and Early Years providers.

2. Background

- 2.1 The Dedicated Schools Grant (DSG) funding is allocated through 4 separate blocks, with each block calculated using their own nationally set formula (known as a National Funding Formula). Each block has its own rules and Local Authorities cannot transfer funding between blocks without seeking permission from either the Schools Funding Forum or the Secretary of State. The estimated block allocations for Kent for 2024-25 announced in December are set out in table 1 below:

Table 1: Indicative Dedicated Schools Grant Block Amounts (estimated in Dec 23)

Schools Block (SB)	High Needs Block (HNB)	Early Years Block (EYB)	Central Schools Services Block (CSSB)
£1,263.488m	£322.586m	£154.193m	£12.184m

- 2.2 The School Block allocation is the funding available for primary and secondary school core budgets. The 2024-25 allocation has recently been updated to reflect the latest pupil numbers as recorded on the October 2023 school census confirming a total increase of £33m compared to 23-24 comparative level of which £8m reflects increases in pupil numbers and £25m relating to general increases in funding rates (equivalent to approximately 2% per pupil increase).
- 2.3 This paper and the associated consultation with schools focused on the distribution of the additional £25m through the Local Funding Formula in 2024-25.
- 2.4 Over the past year the Government has confirmed its intention to complete its ambition whereby schools' budgets (for primary and secondary schools) will be set based on a single, national formula rather than each Local Authority being responsible for setting their own Local Funding Formula (LFF) to distribute School funding in their area. This is expected to be completed by 2027-28 and, to ensure a smooth transition for schools, the Government will increasingly tighten the restrictions on Local Authorities when setting their Local Funding Formula from 2024-25. For example: in 2024-25, all local Authorities must include all NFF factors in their local formulae (except the locally determined premises factors) and must also move closer to the NFF rates. The consultation document includes a list of NFF factors that must be used in the schools funding formula for 2024-25 (<https://letstalk.kent.gov.uk/kent-school-funding-formula-2024-25>).
- 2.5 Following the 2023 Autumn spending review and subsequent announcements just before Christmas, the High Needs Funding allocation for Kent is expected to increase by a total of £12m in 24-25 to £323m (an increase of 3.7%).

3. Schools (Primary & Secondary) Funding Formula Consultation Proposals for 2024-25

- 3.1 The Kent Schools' Local Funding Formula 2024-25 consultation was launched during November to coincide with the wider Headteacher briefings that took place during this time. The consultation document, an illustration tool showing the impact of the proposals on individual school budget, an on-line response form and an equality impact assessment could be accessed via the following link: <https://letstalk.kent.gov.uk/kent-school-funding-formula-2024-25>
- 3.2 The consultation document contains full details of the proposals.
- 3.3 The consultation contained proposals focused on:

a) The Falling Rolls Fund: whether the fund should continue and whether the fund should be supplemented by a transfer from the Primary & Secondary Schools Budgets.

b) Transfer of the Funding from the Schools Block to the High Needs Block: whether there was support to transfer funding which would be equivalent to 1.2% transfer from the primary & secondary schools budgets to the High Needs block to help to fund SEN Support services in mainstream schools.

c) Changes to funding factor factors and funding rates: In 2023-24 it was agreed the schools funding formula for primary & secondary schools would mirror the factors and rates of the National Funding Formula, with an equal reduction made to all factor rates to fund the High Needs transfer except the Minimum Per Pupil Level factor which would be reduced by a lower amount (0.5%). The consultation asked whether this principle should continue or whether the MPPL reduction should be increased to 0.9% so that schools are more equally contributing to the transfer.

d) Views on the SEN notional budget calculation: the DfE have issued guidance on the setting of the SEN notional budget and have set an expectation that all local authorities should review the calculation each year (see section 5.3).

3.4 The consultation results were shared with the School Funding Forum on 1st December where their views and recommendations were also sought.

4. Schools Funding Formula Consultation Results 2024-25

4.1 Appendix A provides details of the responses. The consultation results were taken into consideration when the Schools Funding Forum put forward their recommendations to the proposals. In total there were 1,260 visitors to the website with 206 unique responses, with 148 out of 459 primary schools responding, 54 out of 101 secondary & all-through schools and 5 out of 26 special schools. The response rate was slightly lower than last year but higher than historical years.

4.2 There were 15 members present at the Schools Funding Forum meeting on 6th December. The meeting was quorum.

Falling Roll Fund and future funding

4.3 The first section of the consultation was in relation to whether schools wanted to continue to support the principle of a Falling Roll Fund, and whether a top-slice should continue to be made from the Primary & Secondary Schools Budget to help pay for this fund. 77% of respondents agreed with retaining the Falling Roll Fund, which provides financial support to schools who suffer a significant but temporary fall in pupil numbers, where local planning data expect the surplus places to recover within five years. 15 members of Schools' Funding Forum agreed with the proposal.

4.4 87% of respondents also agreed the Fund should be paid from the new DfE calculated allocation for Falling Rolls, and should no longer be supplemented by

an additional top-slice from the primary & secondary school budgets in 2024-25 and future years. All members of the Schools' Funding Forum present at the meeting agreed with this proposal.

- 4.5 With both the Schools and Schools Funding Forum support it is proposed to retain the Falling Roll Fund and to use the new DfE grant to pay for this Fund.

1.2% Transfer from Schools to High Needs Block

- 4.6 A summary of the results are provided below:

Question	Schools Consultation	Schools Funding Forum Recommendation
Do you agree with the transfer from the Schools budgets to the High Needs Block to support services for mainstream schools?	83% agreed	15 agreed
Do you agree to transfer 1.2%?	79% agreed	14 agreed, 1 disagreed
Do you agree to transfer 1.5%?	78% disagreed	15 disagreed

- 4.7 The Department of Education require all block transfer requests to be consulted with schools and to ensure the Council provides schools with full background details of the request. This is outlined in the consultation document (Appendix 6). Block transfers cannot be automatically repeated each year therefore schools must be consulted on an annual basis and where the transfer is greater than 0.5%, the Secretary of State must also agree, in addition to a formal Cabinet Member decision. At the time of writing, we are awaiting a response to our request from the Secretary of State.
- 4.8 The consultation document, along with section 10 of the Cabinet financial monitoring reports outlines both the latest financial position and proposed principles to addressing the in-year deficit in the DSG. In 2023-24, the forecast grant shortfall is £42m (equivalent to 13% overspend on the High Needs Block). This transfer request forms part of a wider approach to managing the Dedicated Schools Grant deficit recovery alongside reviewing the council's local policies and process in relation to supporting children with SEN. This approach forms part of the Local Authority's plan to move to a balanced in-year position on the High Needs Block as agreed with the DfE as part of the Safety Valve Programme. This programme is for those Councils with the highest deficits to support the development of a sustainable plan for recovery; including further funding from the DfE to pay off part of the deficit. The Council has also agreed to fund part of the historic debt.
- 4.9 The transfer requested is 0.2 percentage points higher than previous requests. It is expected the transfer request of 1.2% will be asked annually over the next 4 years whilst the High Needs budget returns to a more sustainable position. The transfer helps to support future financial sustainability and avoids cuts to SEN services.

- 4.10 With both the Schools and Schools Funding Forum support and subject to the agreement of the Secretary of State, it is proposed to transfer 1.2% from the Schools block to the High Needs Block in 2024-25.

Local Funding Formula Factor and Rate Changes for 2024-25

- 4.11 The next section focused on proposed changes to the formula factors in Kent's Local Funding Formula for primary and secondary schools (LFF) if there was support for the 1.2% transfer. The views from the schools were less conclusive than other questions with a more equal split across the 2 options proposed. 84 (41%) of respondents favoured continuing with the current formula used in 23-24, whilst 123 (59%) of the respondents favoured reducing the minimum per pupil funding level further than the reduction made in 23-24 (increasing the reduction from 0.5% to 0.9% in comparison to the nationally set rate) and so supporting an approach whereby all schools would contribute more equally towards the transfer (in comparison to the budget a school would receive under the National Funding Formula).
- 4.12 10 of 15 members of the Schools Funding Forum supported the approach to set the Minimum Per Pupil Factor at 0.9% less than the NFF valve, whilst the remaining 5 members supported maintaining the reduction at 0.5%. By increasing the reduction to MPPL factor would mean the reduction to all other factors in the LFF would be slightly less.
- 4.13 If the transfer is ultimately not supported, the proposal would have defaulted to mirroring of the National Funding Formula rates as closely as possible. This is in line with the overall guiding principle agreed by the schools and the Schools Funding Forum in previous years.
- 4.14 Last year the Local Authority took the decision to mirror the National Funding Formula more closely to ensure all schools would contribute towards the High Needs transfer, when compared to the budget allocation they would receive through the NFF. The funding formula includes a protection factor to ensure all schools receive a minimum amount of funding per pupil (MPPL). This protection factor will "top-up" a school budget when the budget calculated on the characteristics of a school is lower than the protection threshold. By including a reduction to this protection factor, in the same way as the other factor valves, ensures all school budgets contribute towards the funding of the High Needs Transfer. The reduction to the MPPL is subject to Secretary of State approval.
- 4.15 If the same formula was used as 2023-24, all schools would see a similar level of increase in 2024-25 (c1.4% subject to other population changes) with schools receiving funding from the protection being approximately 0.5% below the NFF budget, whilst other schools would be c1.5% below the NFF budget. If the MPPL was set at 0.9%, those schools impacted would receive a slightly lower increase in 2024-25 of around 1%, whilst all other schools would see a slightly higher increase of around 1.6%.
- 4.16 With the Schools Funding Forum support, and subject to the agreement of the Secretary of State, it is proposed that if the 1.2% transfer is agreed the Local Funding Formula for primary and secondary school budgets will be set by reducing all NFF factor values equally except the Minimum Per Pupil Level rate which would be set at 0.9% lower than the NFF rate in 2024-25.

5 Other Formula Rate Proposals 2024-25

- 5.1 Further consultations with the Schools Funding Forum will take place in January, ahead of Cabinet Member taking Key Decision. Key considerations will include:

High Needs Funding Formula Rates 2024-25

- 5.3 The total value of High Needs funding is expected to increase by £12m from £311m in 23-24 to £323m in 2024-25, an increase of under 4%. This increase is significantly lower than recent years whereby the High Needs Budget has received annual increases of around 10%. The increase is insufficient to meet the current in-year deficit on the High Needs block which is forecast to be £45m in 2023-24. The High Needs budget is used to fund payments for top up funding to mainstream schools & post 16 providers for individual children with SEN, Specialist Resource Provisions, Special Schools and Alternative Provision Funding. Any standard funding rate increases for educational providers have to be balanced between adding further pressure to the High Needs block and recognising inflationary pressures that SEN education providers are facing including the rise in teachers' and support staff salaries along with wider inflationary changes.

SEN Notional Budget 2024-25

- 5.3 The final section of the consultation sought views from schools on the current factors included with the calculation of the SEN notional budget. The notional SEN budget is not a separate budget but is a notional amount identified within a maintained schools' delegated budget share or an academy's general annual grant. It is intended to support mainstream schools to understand the amount of funding within their school budget that helps them to comply with their duty in relation to supporting children with SEN. This will be reviewed by the Schools Funding Forum and their High Needs Funding Subgroup to confirm proposals and consider the implications of any changes.

6 Financial Implications

- 6.1 All funding proposals associated with the Schools' Local Funding Formula proposals (primary & secondary schools) are made within the total school block available for distribution in 2024-25. The Government requires the full school block to be distributed to schools, except where a block transfer has been agreed.
- 6.2 The High Needs Block is significantly overspent and therefore all proposals must consider the financial impact and subsequent savings that will need to be achieved to meet any commitments to increase funding rates to support children with Special Educational Needs.
- 6.2 The final rate values may vary for affordability purposes as all proposals in the consultation document are based on modelled data.

7 Legal implications

- 7.1 There are no legal implications, but the Council is required to set the schools budget in accordance with Education Act 2002 and the Conditions of DSG Grant 2024-25. School Budgets must be published by 28th February of each year and the Early Years funding rates must be published by 31st March for the forthcoming financial year.
- 7.2 The Schools Funding Forum generally have a consultative role whose composition, constitution and procedures of schools forums are set out in the Schools Forums (England) Regulations 2012 (S.I. 2012/2261) (as amended).

8 Equalities implications

- 8.1 An equalities impact assessment has been completed and is included as part of the consultation documentation. There were no adverse impacts identified.

9 Other corporate implications

- 9.1 This does not have an impact on other areas of the Council.
- 9.2 The proposed decision would fall under Objective 1 of Framing Kent's Future: maintaining KCC's strategic role in supporting schools in Kent to deliver accessible, high quality education provision for all families, through the setting the annual school budget.
- 9.3 The proposed decision will support Objective 2 of Securing Kent's Future: by securing additional income to the High Needs Block from the Schools Block will support financial sustainability of the 2024-25 Dedicated Schools Grant High Needs Budget.

10 Governance

- 10.1 Corporate Director for Children, Young People and Education will be delegated responsibility to enact the decision and to make any further necessary changes to funding rates in light of any final affordability issues.

11 Alternatives considered

- 11.1 The alternatives to the recommendations within this paper are set out as part of the consultation and have been referenced in the body of this report.

12 Conclusions

- 12.1 The Government requires schools to be consulted on an annual basis regarding any proposed changes to Local Funding Formula and the request to transfer funding from the school's block to high needs block. The consultation sought

views as to whether to replicate the methodology used in setting school budgets in 2023-24 and continue to recognise and address areas of local concern or move further towards the National Funding Formula and therefore no longer reflect the local circumstances in Kent. It is recognised the request to transfer 1.2% from the schools to high needs block to fund SEN support services in schools is particularly sensitive, but if we did not it would mean we are not exploiting all options open to us to do all that we can to help manage this significant high needs budget challenge.

12.2 The Schools Funding Forum considered the feedback from the schools' consultation in reaching their position on the principles of the schools' budgets for 2024-25 and this has been reflected in the recommendations put forward in this paper when setting the Local Funding Formula for 2024-25 and seeking approval from the Secretary of State for both the 1.2% transfer and to reduce the minimum per pupil funding level.

12.3 The Schools Funding Forum will be consulted on the principles for setting Early Years Funding Formula and any standard inflationary increases for rates paid from the High Needs Block. The Cabinet Member for Education & Skills will be asked to make this decision in early February in readiness for formal publication at the end of February 2024.

13.0 Further Updates

13.1. Since the presentation at Cabinet Committee on 16th January, additional information on schools budgets have been confirmed and recommendations discussed with the Schools Funding Forum on 18th January and 2nd February 2024. The Schools Funding Forum comments and proposals have been reflected in sections 13.2.

SEN Notional Budget 2024-25

13.2 Background is provided in section 5.3. The SEN Notional Budget is intended to reflect the estimated proportion of a main schools delegated budget (or General Annual Grant) attributable towards SEN. The Forum reviewed the consultation results (appendix A) and supported the proposals to update the SEN Notional Budget calculation in line with the table below to better reflect the formula factors linked to SEN. By including the basic entitlement promotes the assumption that every school has a minimum amount of funding within their core budget attributable to SEN regardless of the characteristics of their school or pupil cohort. Further work will be undertaken during the year to further strengthen the basis of this calculation, in line with national requirements.

Budget Factors	23-24 Notional SEN Budget Calculation % of factor included	24-25 Proposed Notional Budget Calculation % of factor included
Basic Entitlement	Not included	5%
Free School Meals	Not included	Not included
Ever 6 FSM	100%	70%
Deprivation (IDACI)	100%	70%

EAL	100%	Not included
Low Prior Attainment	100%	100%
Lump Sum	4.9%	Not included
Mobility	Not included	70%
Sparsity	Not included	Not Included
Split Site Funding	Not included	Not Included
Other Premises Factors (incl Rates & PFI)	Not included	Not Included
Minimum Per Pupil Funding Level (MPPFL) & Minimum Funding Guarantee (MFG)	100%	43%

High Needs Funding Formula Rates 2024-25

13.3 Background is provided in sections 2.5 & 5.3 and following discussions with the Schools Funding Forum on the principles and considerations, the Cabinet Member decision includes providing 2% uplift to SEN Inclusion Fund, Mainstream Top Up Funding, Specialist Resource Provisions in mainstream schools, Special Schools, Alternative Provision, FE colleges and Specialist Post 16 Provisions. To contribute towards the recently agreed teachers' pay settlement a 2% uplift will also be applied to the Specialist Teaching Service.

13.4 The threshold for access to the additional mainstream top up funding (also known as the SEN Notional Budget top up) is aligned to the DfE expected criteria and is based on a fixed budget of £2.5m. For 2024-25, the proposal is to have variable threshold based on the size of the school rather than a single threshold for all schools (in 2023-24 this was set at 40%):

- Primary school (school roll up to 175): 40% schools notional SEN budget
- Primary school (school roll between 176 and 315): 45% of schools notional SEN budget
- Primary school (school roll over 315): 50% of schools notional SEN budget
- Secondary schools: 50% of schools notional SEN budget

Primary & Secondary Schools Funding Formula 2024-25

13.5 Following support from both the Schools and Schools Funding Forum the dis-applications outlined in Section 4 have been agreed by the Secretary of State.

14 Recommendation(s):

14.1 The Cabinet Member for Education & Skills in conjunction with the Cabinet Member for Integrated children's Services is asked to agree to the proposed decision to implement the proposals set out in the proposed record of decision.

14 Background Documents

- 14.1 The Kent Schools' Local Funding Formula 2024-25 Consultation documentation can be found in the link below:

<https://letstalk.kent.gov.uk/kent-school-funding-formula-2023-24>.

15 Contact details

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