

School funding arrangements 2022/23

CONSULTATION

1. Summary of key points

1.1. This consultation is on school funding arrangements for 2022/23.

The consultation covers:

- a) Transfer of 0.5% of funding from the schools block to the high needs block of the Dedicated Schools Grant (DSG), in order to provide funding to schools in relation to high needs pupils.
- b) The formula for allocating schools block funding to mainstream schools. The Education and Skills Funding Agency (ESFA) requires that the effect of the proposal above is modelled for schools to consider. Two options are provided for comment which both provide an increase in per-pupil funding to all mainstream schools. One of these options would still provide the 2% minimum funding increase per pupil included in the National Funding Formula.

For maintained mainstream schools only the following is included in the consultation:

- c) A contribution towards the severance costs of maintained school staff.

Additionally, for maintained schools only the following is also included in the consultation:

- d) A revision to the Leeds Scheme for Financing Schools which would lower the surplus balance % threshold.
- e) A revision to the Leeds Scheme for Financing Schools which would regulate the transfer of surplus balances in the case of directed academy conversions.

1.2. The consultation is open until the end of Wednesday 20th October 2021. Unfortunately, due to the need to meet ESFA deadlines we are unable to offer a longer period for comment.

1.3. Detailed school level figures for the formula options are attached as an appendix. These use the council's indicative funding allocation provided by the Education and Skills Funding Agency which is based on October 2020 data. Please note that these figures may differ from the provisional school level allocations published by the ESFA (see 2.6 for further details). The final funding for 2022/23 will be updated for October 2021 pupil data and confirmed by the ESFA in December 2021.

1.4. An online briefing session via Zoom has been arranged for schools and governors on Thursday 14th October 2021 between 2pm and 3pm. In this session we will talk through the proposals being made and there will be an opportunity to ask questions. The joining details for the session including the Zoom login can be found in the email that accompanied this document. If you have any queries regarding the online briefing please email education.finance@leeds.gov.uk.

- 1.5. If you have any queries during the consultation period please email education.finance@leeds.gov.uk, or contact us by telephone on 0113 3788245.
- 1.6. Responses to the consultation should be made online via this link: <https://surveys.leeds.gov.uk/s/Y8MUPG/>
- 1.7. We will report to Schools Forum on 18th November 2021 on the outcome of the consultation.

2. Background

- 2.1. The Dedicated Schools Grant (DSG) is allocated in four blocks: schools, high needs, early years and central schools services. The Education and Skills Funding Agency (ESFA) continues to use the national funding formula (NFF) to calculate the blocks within the DSG that are allocated to local authorities. Local authorities currently have some flexibility in how this funding is allocated to schools and to transfer funding between blocks, within the constraints set out by the ESFA.
- 2.2. There have been no changes to the local authority flexibility for 2022/23 although the ESFA have indicated that they will shortly be putting forward proposals to move further towards a hard NFF, where schools' budgets are set on the basis of a single national formula and local authorities are no longer involved in this decision. The DfE have recently conducted a consultation on how to transition away most effectively from local formulae in the years ahead.
- 2.3. A small number of the existing features of the formula have changed for 2022/23. The main one of these is the increase in the maximum amount of sparsity funding a school can attract (now £55k for primary and £80k for all other schools) and a change in the distance calculation from straight-line to road journey.
- 2.4. The indicative schools block allocation for Leeds in 2022/23 is £613.7m (excluding growth funding, which is not confirmed until December). This represents a total increase of £11.8m, compared to the equivalent allocation received for 2021/22.
- 2.5. The indicative high needs block allocation for Leeds in 2022/23 has increased by £11.06m. This block provides funding in relation to special educational needs and although funding has increased compared to 2021/22, it is still £1.9m less than would be due under the NFF as funding increases are currently capped. If the cap on gains had not been in place, Leeds would also have been allocated an additional £20.85m of high needs block funding between 2018/19 and 2021/22. Although the national cap on schools block funding was removed in 2020/21, in 2018/19 and 2019/20 Leeds was also subject to a cap on gains of £9.5m for this element of schools funding.
- 2.6. This consultation has been prepared using the ESFA's indicative allocation for Leeds, which uses the **October 2020** census. Please be aware that the school level figures that have been circulated recently by the ESFA are not necessarily what schools will receive in 2022/23, as they have been prepared by the ESFA on a different basis to the local authority level allocations and local authorities still have the ability to set a different formula in response to local need.

- 2.7. The actual schools block allocation for 2022/23 will not be provided to local authorities by the ESFA until December 2021. This will reflect any changes in pupil data from the October 2021 census for mainstream schools and academies.
- 2.8. We will report to Schools Forum on 18th November 2021 with the outcome of this consultation and draft proposals for funding arrangements in 2022/23. The final proposals for the funding arrangements will be taken to Schools Forum in January 2022, following the receipt of updated funding information from the ESFA in December 2021. Mainstream maintained schools will be advised of their final funding allocation by the council end of February 2022. Mainstream academies will be notified of their funding allocations directly by the ESFA.

3. Consultation

3.1. Transfers to the high needs block

- 3.1.1. We are consulting on a 0.5% transfer from the schools block to the high needs block.

Background

- 3.1.2. The schools block is mainly ring-fenced, but local authorities are able to transfer up to 0.5% of it with the agreement of their Schools Forum, and after consultation with schools. There is also the ability to submit a request to the ESFA to transfer more than 0.5%. The final value of the 0.5% is dependent on the final grant allocation which will not be received until December 2021. For Leeds, it is estimated that 0.5% equates to approximately £3.069m.
- 3.1.3. The ESFA expects that most proposals by local authorities to move funding from their schools block will arise as a result of pressures on their high needs budgets. The high needs block in Leeds, in common with many around the country, is under considerable pressure due to increasing demographic growth and complexity of children's needs. Spending on the high needs block is currently forecast to be £1.14m more than the funding available for 2021/22, with the overall general DSG deficit projected to be £5.49m by 31st March 2022.
- 3.1.4. Although funding on the high needs block has provisionally increased by £11.061m for Leeds in 2022/23, this is still subject to a cap on gains which equates to £1.903m. If the cap on gains had not been in place, Leeds would also have been allocated an additional £22.75m of high needs block funding between 2018/19 and 2022/23.
- 3.1.5. There continues to be a pressure on the statutory assessment process (new requests for an EHC needs assessment) and increases in the number of EHC plans maintained by Leeds (105% increase since 2016). The LA is currently responsible for approximately 5,000 EHC plans. The impact of COVID on EHC plans has not yet been realised and it is anticipated that there will continue to be pressure in this area. DFE national data shows that at the present time the capacity of LA SEND teams across the country remains stretched, with case work high, and expected to rise, both in terms of requests for new assessments and re-assessment of need. This is due to the fact that many children are returning with even greater difficulties and gaps in learning or presenting with significant social, emotional and mental health needs requiring support. It is too early to give clear projections of the impact of COVID on the rise in requests for new assessments; however, it still looks likely that Leeds will maintain nearly 7000 EHC plans by 2025.

Proposal

- 3.1.6. As set out above we are proposing transfers to the high needs block of 0.5% from the schools block. The ESFA allows us to transfer up to 0.5% (estimated to be approximately £3.069m) from the schools block with the agreement of Schools Forum.
- 3.1.7. As the increase in the provisional 2022/23 schools block allocation for Leeds is expected to be approximately £11.8m compared to 2021/22 (before any pupil growth which will be confirmed in December), the transfer of £3.069m out of the schools block in 2022/23 will still leave an increase in the schools formula. In addition, funding transferred to the high needs block is effectively redistributed to schools through the funding mechanisms associated with that block.
- 3.1.8. The impact on individual schools in the funding formula of the proposed £3.069m transfer will vary, depending on the formula adopted. Further details of the formula options under consultation are provided in section 3.2 below, and the impact on each school is shown in the appendix.
- 3.1.9. Following the consultation, we will take our proposal to Schools Forum on 18th November 2021 on any transfers from the schools block to the high needs block. Schools Forum will decide on whether to accept the council's proposal on the transfer from the schools block. In the event that Schools Forum does not agree, the DfE will adjudicate.
- 3.1.10. In future years a further request could also be made to transfer funds from the schools block to the high needs block. This would depend on the projections for the high needs block budget at the time. If a further transfer was required it would form part of a separate consultation during the next financial year.

3.2. Mainstream Schools funding formula

Background

- 3.2.1. The local authority is responsible for proposing the schools funding formula and for consulting on this with Schools Forum. The local authority retains the final decision on the formula to be used which will apply to all mainstream maintained schools and academies.
- 3.2.2. The council is proposing to continue to move as close as possible to the national funding formula for 2022/23 as has been the approach taken since 2018/19, which was then supported by the majority of schools that responded to the consultation and also Schools Forum.
- 3.3. The national funding formula for schools comprises various factors that provide basic per-pupil funding, additional needs funding (such as deprivation funding) and school-led funding (such as a lump sum payment). A summary is provided below.

Figure 1: Factors in the schools national funding formula

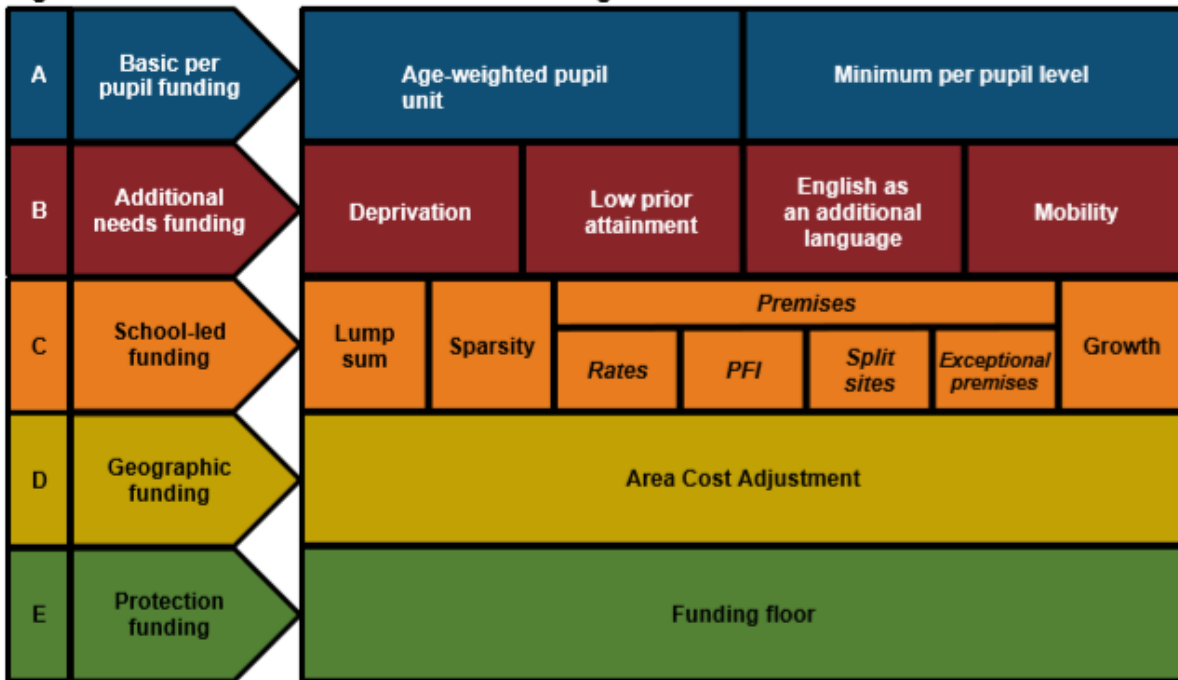


Figure 1: This illustrates the factors that will be taken into account when calculating schools block DSG funding allocations through the national funding formula. It is not to scale. Funding for factors in italics will be allocated to local authorities on the basis of historic spend.

- 3.4. A number of changes have been announced which provide increases in funding for local authorities in 2022/23. It should be noted that these form the basis on which the council is allocated the schools block funding for all Leeds mainstream schools and academies, however the council has the ability to set a different funding formula in response to local need.
- 3.4.1. If funding is transferred from the schools block to the high needs block, it will not be possible to fully move to the national funding formula as not enough funding will remain. However, there would still be over £8.73m additional funding available for schools in 2022/23 compared to 2021/22, due to increases in the council’s provisional schools block allocation.
- 3.4.2. Formula factor increases
- a) Funding allocated to the council: The core factors in the funding formula (basic per pupil funding, additional needs factors and the school lump sum) will be increased by 3%. The minimum per pupil levels and the NFF funding floor are increasing by 2%. The free school meals factor will also increase by 2%. Overall schools block factors have increased by 2.7%.
 - b) Premises based factor funding will be allocated based on actual spend in 2021/22, with an inflationary increase of 2.29% for the PFI factor only.
 - c) Schools funding formula: The council can decide to allocate these increases out differently to schools if needed, subject to any ESFA restrictions or requirements for minimum funding increases.

3.4.3. Minimum funding guarantee

- a) Funding allocated to the council: A minimum increase of 2% will be guaranteed per pupil compared to allocations under the 2021/22 NFF.
- b) Schools funding formula: As there is still some local discretion in the formula, local authorities will be able to set a minimum funding guarantee for schools between +0.5% and +2.0%. In 2021/22 Leeds set a minimum funding guarantee of +2%.

3.4.4. Cap on gains

- a) Funding allocated to the council: The schools NFF will not include a gains cap under the 2022/23 formula.
- b) Funding allocated to schools: There is still local discretion to set a cap in the formula if needed. The cap on gains for Leeds schools was set by the council at 3% 2021/22 to account for funding transferred from the Schools Block to the High Needs Block. To allow for the transfer to the High Needs Block a cap on gains would be necessary again in 2022/23. Any capping must not take schools below the minimum funding levels.

3.4.5. Minimum Funding Level increases

- a) Funding allocated to the council: Increases have been announced in the minimum funding levels for 2022/23 to £5,525 per pupil for secondary schools and £4,265 per pupil for primary schools. Schools that benefit from the minimum funding level are those that receive less targeted funding through the other formula factors. This generally means that schools that have lower funding provided through the additional needs factors are more likely to be below the minimum funding level and therefore receive an uplift to this amount.
- b) Funding allocated to schools: The government expects that the minimum funding levels will be provided to schools in 2022/23 and is intending to make this a mandatory requirement. There may be a route for local authorities to apply for permission to set lower levels if this is unaffordable locally, however we have been advised that it is unlikely that such a request would be granted.

Funding formula options

3.4.6. Although local authorities have some discretion to adjust the funding formula there are also many restrictions on what can be adjusted which limits the council's options for adjusting the formula.

3.4.7. We have provided details of two different funding formula options for consideration. As these proposals are based on the indicative funding allocations which use October 2020 pupil data, the affordability of these options may change once the October 2021 census details are available in December. These proposals are also only for 2022/23 only and we will consult again next year on the 2023/24 funding formula if this does not move to the NFF.

3.4.8. Using the principles established in previous years for the formula, we have modelled two options for 2022/23 which vary the minimum funding guarantee and cap on gains. However, for 2022/23 we are proposing to retain the minimum per-pupil funding level as the government has said this should be mandatory. Both options provide an increase in per pupil funding but distribute this differently.

3.4.9. **Option 1:** A cap on gains of 2.58%. All other factors are in line with the national funding formula (see table below), including the minimum funding guarantee of 2.0%.

3.4.10. **Option 2:** A reduced minimum funding guarantee of 1.0% and a cap on gains of 2.67%. All other factors are in line with the national funding formula (see table below).

Funding formula factor	2021/22 (for comparison)		2022/23		
	National Funding Formula	Leeds Funding Formula	National Funding Formula	Leeds Option 1	Leeds Option 2
Minimum funding guarantee ¹	2% per pupil	2% per pupil	2% per pupil	2% per pupil	1% per pupil
Cap on gains ^{1, 2}	No cap	3% per pupil	No cap	2.58%	2.67%
Minimum per pupil funding level ^{1, 2}	Secondary £5,415	Secondary £5,415	Secondary £5,525	Secondary £5,525	Secondary £5,525
	Primary £4,180	Primary £4,180	Primary £4,265	Primary £4,265	Primary £4,265

¹ Excluding premises-based funding

² The minimum per pupil funding level cannot be subject to the cap on gains

3.4.11. We have provided an appendix listing the details for schools by phase and in alphabetical order. As previously noted, both options provide an increase per pupil for all schools compared to 2021/22. When comparing the figures on the appendix please note that:

- a) The ESFA's final funding allocations in December 2021 may result in changes to the final school formula. Specifically, we have not yet been advised how much funding to expect for growth in the formula. If the amount allocated for growth is insufficient this will affect the affordability of the options proposed in this consultation.
- b) Changes in premises-led funding may affect the comparison between 2021/22 and 2022/23 total funding. Specifically:
 - We have reflected any changes in business rates costs in the 2022/23 funding figures. However, please note this is for illustrative purposes only as from 2022/23, rates will be paid by the ESFA directly to billing authorities on behalf of

all maintained schools and academies. Local authorities will no longer need to fund rates at the estimate of the actual cost through the formula and will no longer allocate rates payments to schools. In addition, local authorities also no longer need to adjust rates with additional allocation to schools during the financial year (outside of the funding formula).

- For PFI schools, the required amount of PFI affordability gap funding will be distributed through the formula in 2022/23. PFI schools should not expect to receive any additional PFI funding outside of the formula in 2022/23.
- c) All figures are based on financial years and the 2021/22 funding figures are those submitted by the council to the ESFA. However, for free schools and academies, the ESFA provides funding based on academic years. The 2021/22 formula allocation may therefore not agree to academy and free school General Annual Grant statements. However, the increases between the 2021/22 and 2022/23 figures are a correct reflection of the indicative gains resulting from the funding formula options.
- d) The figures are before contributions for de-delegation or severance cost contributions (which would only apply to maintained schools).

3.5. Contribution towards severance costs - maintained mainstream schools only

- 3.5.1. We are also consulting on a proposal for maintained schools to make contribution of £2.50 per maintained school pupil, based on forecast pupil numbers towards the severance costs of maintained school staff, which are charged to the council. This would equate to an estimated total of £150k
- 3.5.2. This is in line with 2021/22 when Schools Forum agreed that maintained schools would contribute £2.50 per maintained school pupil based on forecast numbers at the time.
- 3.5.3. The £2.50 per pupil contribution is being proposed for 2022/23 as the council continues to face a significant budget pressure from the reduction in the Education Services Grant (ESG) over a number of years. ESG has been used to fund a wide range of services for schools such as school improvement, asset management, education welfare services and other statutory and regulatory services as well as the severance costs of maintained school staff. As the grant has been reduced the council has sought to protect these services.
- 3.5.4. Current legislation states that premature retirement costs are chargeable to the school's delegated budget while redundancy costs are charged to the local authority's budget.
- 3.5.5. For 2022/23 we are proposing that maintained schools make a contribution towards severance costs as they are driven by school decisions, although we appreciate that this may be as a result of financial pressures. However, this approach is equitable with the treatment of academies, who no longer receive funding for severance costs and are responsible for meeting this cost themselves.
- 3.5.6. Following the consultation, we will take a proposal to Schools Forum on 18th November 2021 in relation to a contribution from maintained schools for severance costs for maintained schools staff. Maintained school members of Schools Forum will decide on whether to accept this proposal. In the event that the local authority proposes a contribution, but

Schools Forum does not agree, the DfE is able to adjudicate if the local authority still wishes to seek a contribution.

3.6 Revision to the Leeds Scheme for Financing Schools – excess surplus balances – maintained schools only

3.6.1 We are also consulting on a proposed revision to the Leeds Scheme for Financing Schools. This revision seeks to reduce the excess surplus balance percentage.

3.6.2 The Leeds Scheme for Financing Schools currently designates any sum over 15% of the current year's budget share as an excess balance. If a school's balance has remained greater than 15% over three successive years then the City Council may deduct from the current year's budget share an amount equal to the excess, where schools have built up significant excessive uncommitted balances and/or where some level of redistribution would support improved provision across the city.

3.6.3 Following a review of other local authorities' excess balance thresholds, and taking account of recent feedback from Schools Forum, the proposal is to reduce the Leeds limit down to 8% of budget share for maintained primary, secondary and special schools.

3.6.4 In a review of other local authorities' thresholds, the most common approach is 5% for secondary schools and 8% for primary, nursery and special schools. Please see table below for information:

Local Authority	Secondary threshold	Primary/Special threshold
Manchester	5%	8%
Birmingham	5%	8%
Liverpool	7%	10%
Bristol	5%	8%
Sheffield	5%	8%

3.6.5 However, in the latest Institute of School Business Leadership financial planning tool from the DfE the green threshold for surplus balances is 0-5%, amber is 5-7% and anything over 7% would be highlighted as red.

3.6.6 The rationale behind the reduction is to ensure that annual funding is being spent as far as possible on the children currently in school, whilst allowing some reserves to be built up as contingency.

3.6.7 The process that exists now for applying to keep anything over the surplus balance threshold after 3 successive years would remain in place with the lowered threshold. Therefore, clawback would not be done automatically; schools would continue to have the ability to apply to the authority to keep their excess and individual circumstances would be taken into consideration.

3.6.8 It is intended that the new threshold would apply from the financial year 2022/23 and the mechanism for the transition from the current threshold would be finalised should the decision be taken to implement the change.

3.6.9 Schools are asked to vote and give their comments on the proposed reduction and these will be collated and reported to Schools Forum in November.

3.7 Revision to the Leeds Scheme for Financing Schools – surplus balance transfer upon conversion – maintained schools only

- 3.7.1 We are also consulting on a revision to the Leeds Scheme for Financing Schools that would clarify the authority’s position on the transfer of surplus balances to schools that are directed to convert to academy status by the Secretary of State.
- 3.7.2 According to DfE regulations, under this conversion route, the surplus remains with the LA (though the surplus can be transferred to the academy trust and, in practice, some LAs including Leeds have agreed to this in the past).
- 3.7.3 Leeds has no formal policy in place regarding this set of circumstances and it is important that one is established so all schools are aware of what will happen if they are in this situation in the future. This change to the scheme would clearly state how directed conversion surpluses will be treated and allows the authority to retain funds to mitigate the effect of any deficit balances which, under DfE regulations, must be retained by the Local Authority.
- 3.7.4 Therefore, schools are asked to vote and comment on the following proposed paragraph, to be written into the Leeds Scheme for Financing Schools:

“Where a school is directed to convert to academy status under section 4 (1)(b) of the Academies Act 2010 the school may retain a proportion of the surplus (excluding specific grants) up to 8% of school budget share; any surplus amount over this percentage will revert to the LA.”

4. Consultation responses

- 4.1. Responses to the consultation should be made via the online survey <https://surveys.leeds.gov.uk/s/Y8MUPG/> by the end of Wednesday 20th October 2021.
- 4.2. We will report to Schools Forum on 18th November 2021 with the outcome of the consultation.
- 4.3. The final proposals for the funding formula will be taken to Schools Forum in January 2022, following receipt of updated funding information from the ESFA in December 2021. Mainstream maintained schools can expect to be advised of their final funding allocation by the council end of February 2022. Mainstream academies will be notified of their funding allocations directly by the ESFA.