

Children and Families Committee

Date of Meeting: 14 February 2022

Report Title: Schools Funding Formula and Early Years Funding Formula 2022/23

Report of: Deborah Woodcock, Executive Director of Children's Services

Report Reference No: CF/24/21-22

Ward(s) Affected: All

Corporate Plan Priorities			
	Open	An open and enabling organisation	X
	Fair	A council which empowers and cares about people	X
	Green	A thriving and sustainable place	

1. Purpose of Report

- 1.1.** This is an annual report to Committee to request approval of the schools funding formula and early years funding formula following recommendations from the Schools Forum.
- 1.2.** This supports the council's Corporate Plan objectives as follows:

An open and enabling organisation	Ensure that there is transparency in all aspects of council decision making.
A council which empowers and cares about people	Support all children to have the best start in life. Ensure all children have a high quality, enjoyable education that enables them to achieve their full potential.

2. Executive Summary

2.1. The report sets out the process to:

- 2.1.1.** Determine the schools funding formula for 2022/23, and requests approval of the formula by the Children and Families Committee.
- 2.1.2.** Determine the early years funding formula for 2022/23, and requests approval of the formula by the Children and Families Committee.

2.2. It is a requirement for the Children and Families Committee to agree the schools funding formula following a recommendation from Schools Forum.

2.3. It is a requirement for the Children and Families Committee to agree the early years funding formula following agreement with Schools Forum.

3. Recommendations

3.1. That the Committee approves the following for the adoption of the schools funding formula 2022/23:

3.2. The use of a local funding formula that uses the national funding formula factors, uplifted for the Cheshire East area cost adjustment, and with any additional funding being allocated via the basic entitlement factor.

3.3. A transfer from the schools block to the high needs block of up to 0.5%. This is subject to approval by the Department for Education (DfE).

3.4. The use of +0.5% as the minimum funding guarantee percentage. This means that individual school funding levels should increase by +0.5% compared to the 2021/22 levels (subject to the items included in minimum funding guarantee protection) and excluding pupil number changes.

3.5. The Growth Fund at £0.8m.

3.6. That the Committee approves the following for the adoption of the early years funding formula 2022/23:

3.7. The continued use of the current funding formula and agrees to increase the hourly rates by the same percentage increase as the increased funding from the Department for Education.

3.8. The new funding rates. The rates for 2021/22 are shown at **Appendix 4** and the proposed rates for 2022/23 are set out at **Appendix 5**.

3.9. The revised classifications for rurality are introduced from 1 April 2022. Three childcare providers would cease to be classified as Rural and should cease to receive funding for rurality from 1 April 2022.

3.10. Delegated authority to the Director of Prevention and Support to enter into revised contracts with providers in accordance with the Department for Education funding increase.

4. Reasons for Recommendations

4.1. The local authority is required to review the schools funding formula on an annual basis and consult with schools. The formula needs to be considered and approved each year by the Children and Families Committee.

4.2. Under the revised dedicated schools grant (DSG) funding arrangements introduced from 2018/19 there is an option to transfer funding between the DSG blocks. Such transfers must be agreed locally with the Schools Forum where they do not exceed 0.5% of funding. Where a higher percentage transfer is required or the Schools Forum do not agree with the transfer the council has the option of applying to the DfE to reverse that decision.

4.3. Given the rising pressures against the high needs block from additional numbers of children requiring support with an education, health and care plan the council has asked the forum each year for permission to transfer 0.5% from the schools block to the high needs block.

4.4. The forum agreed to the transfer in 2018/19 and 2019/20 but has not accepted it since then.

4.5. In recognition of the pressures the council applied to the DfE to reverse that decision in 2020/21 and for 2021/22. The applications were not accepted by the DfE as funding for high needs had been increased and therefore schools should not lose any funding as a result.

4.6. It is acknowledged that the council has received above inflation increases in high needs funding for the last few years and that has also happened for 2022/23. That is welcome news but it is not enough to keep pace with demand pressures which are forecast to increase each year.

4.7. The Schools Forum did not recommend the transfer for 2022/23 and the council has once again applied to the DfE to reverse that decision. If the application is successful a transfer will go ahead. The council will ensure that all the necessary minimum levels of funding can still be achieved for schools when determining the amount to be transferred. The outcome of the application is expected to be known before the committee meeting.

- 4.8.** The shortfall in high needs funding is a national issue and as such many schools forums are no longer agreeing to transfers to high needs as they do not feel that funding intended for schools should be used for that purpose.
- 4.9.** The DfE has funded local authorities under the Early Years National Funding Formula (EYNFF) since April 2017 when the current formula was introduced on a phased basis during 2017/18 and 2018/19.
- 4.10.** The recommended formula continues to be in line with the national guidance, ensures sustainability of the childcare market and continues to target funds to 'narrow the gap' between children from disadvantaged areas and their peers.
- 4.11.** Local authorities may retain a maximum of 5% of the allocation from the DfE. Cheshire East retains 5%. Therefore, a minimum of 95% of any increase in the funding from the DfE must be passed through to providers. Increasing the hourly rates paid by Cheshire East to providers by the same percentage increase as the hourly rates allocated by the DfE to Cheshire East ensures that the statutory 95% pass through to providers is maintained.
- 4.12.** Eligibility for rurality is determined by a sixfold classification of rural/urban wards produced by Cheshire County Council. Given the changes that have occurred in the borough, the rural/urban classification requires updating. Cheshire East Council updated the classifications in 2015 using the same methodology as previously.
- 4.13.** Seven providers not currently receiving rurality would become classified as rural. Three providers would cease to be eligible and lose 2% of their funding but this would be more than off-set by the 3.8% increase in the base rate. The proportion of the total funding allocated to rurality would remain largely the same.

5. Other Options Considered

The Schools Funding Formula:

- 5.1.** The process to consider and consult on particular options for the schools funding formula was undertaken by a subgroup of the Schools Forum.
- 5.2.** Given the local circumstances of being close to the national funding formula at school level and the expectation that the DfE will make that compulsory in the next few years then the options were intentionally restricted to different levels of minimum funding guarantee (MFG) percentage.
- 5.3.** Full details of the different levels were provided to schools as part of the consultation and they preferred the +0.5% option which is being recommended.
- 5.4.** Higher levels of MFG were considered as a further step towards the national funding formula (NFF) which uses +2% but without capping or scaling. That

cannot be achieved in Cheshire East at present due to affordability constraints.

- 5.5. The option to transfer funding from the schools block to the high needs block of up to 0.5% would require recalculations by finance leads depending upon the decision made. If not approved via DfE then this funding would remain within the schools block and distributed accordingly to schools based upon national formulas.

Early Years Funding Formula:

- 5.6. A range of factors for the funding formula were considered when it was introduced. These are set out within **Appendix 3**. The objectives have not changed, and the formula continues to be appropriate.

6. Background

Schools Funding Formula:

- 6.1. The Council receives dedicated schools grant (DSG) funding as a ring-fenced grant to pay for education. The grant is received in four blocks and local decisions are made on overuse of the blocks, transfers between them and the basis for allocation to schools.
- 6.2. The national funding formula (NFF) announcements mean that each DSG block is determined by a different national funding formula.
- 6.3. The Schools Forum continues to have the ability to recommend the formula funding to the Children and Families Committee. The forum follows a process of evaluation, consultation and debate to arrive at the final recommendation.
- 6.4. The final funding figures for 2022/23 were released on 16 December 2021. Further information is provided at **Appendix 1**. The recommended schools formula factors and values are set out at **Appendix 2**.
- 6.5. The outcome of the Children and Families Committee meeting will be reported to the Schools Forum on 17 February 2022. School funding levels have to be issued to schools by 28 February 2022.

Early Years Funding Formula:

- 6.6. From 1 April 2017, local authorities have been funded via the Early Years National Funding Formula (EYNFF).
- 6.7. Following detailed modelling of the formula and consultation, a formula was implemented on 1 April 2017 that met a number of criteria and objectives.
- 6.8. Further details of the EYNFF are set out at **Appendix 3**. The current funding formula to providers is set out in **Appendix 4**.

6.9. The table summarises the hourly rates of funding from the DfE:

	2 year olds	3 and 4 year olds
2021/22	£5.44	£4.44
2022/23	£5.65	£4.61
Increase (£)	£0.21	£0.17
Increase (%)	3.860%	3.829%

6.10. Retaining the formula and increasing the hourly rates paid to providers by the same percentage increase as the rate paid by the DfE will ensure that the minimum 95% pass through rate is maintained and the objectives set by the formula continue to be met. The proposed funding to providers, effective from 1 April 2022, is set out in **Appendix 5**.

6.11. The proposal was presented to the Schools Forum on 9 December 2021 and was unanimously supported.

7. Consultation and Engagement

7.1. Details of the local schools funding consultation are included at **Appendix 1**.

7.2. The Early Years Reference Group (EYRG), a sub-group of the Schools Forum which consists of nine members from across the early years sector, was consulted on 11 and 26 November 2021. Attendees of the meeting supported the proposed approach. The proposal was presented to the Schools Forum on 9 December 2021 and was unanimously supported.

8. Implications

8.1. Legal

8.1.1. The local authority currently receives funding for schools through the dedicated schools grant. The local authority has the statutory responsibility under the Schools and Early Years Finance Regulations for allocating this funding to schools and must consult with the Schools Forum to determine the individual schools budget for all schools in the area and must have regard to DfE guidance: The national funding formulae for schools and high needs 2022 -2023 and early years funding 2022-2023.

8.1.2. The local authority must also determine a local funding formula, which is used to distribute the individual schools budget between local schools. The national funding formula for schools will determine how much each local authority in England receives and the local authority will still have the statutory responsibility for distributing this to individual schools in consultation with the Schools Forum.

8.1.3. The EYNFF funds the free entitlement to early years provision for disadvantaged two year olds as well as three and four year olds across all sectors, which is the authority's statutory duty under Section 7 of the

Childcare Act 2006. It also assists with the authority's delivery of its duty to secure sufficient childcare under Section 6 of the Childcare Act 2006. The authority funds providers under the terms of contracts approved by the head of legal services. This is based on a model contract issued by the Department for Education.

8.2. Finance

- 8.2.1.** The schools funding formula is the mechanism through which the dedicated schools grant schools block is provided to schools. The NFF arrangements mean that all schools block funding will be delegated, except for the transfer to the high needs block of 0.5%, which will only go ahead if the council's application is accepted by the DfE.
- 8.2.2.** The schools funding formula has no impact on the council's Medium Term Financial Strategy.
- 8.2.3.** The EYNFF is funded through the dedicated schools grant. Mid-year adjustments are made to reflect January census data. All providers of the free entitlement will receive an increase in funding based on the proposed formula, including the three providers that will cease to be eligible for rurality. Centrally retained levels will continue to not exceed 5% in line with the guidance.

8.3. Policy

- 8.3.1.** The council is supporting the priorities in the Corporate Plan:

An open and enabling organisation	Ensure that there is transparency in all aspects of council decision making.
A council which empowers and cares about people	Support all children to have the best start in life. Ensure all children have a high quality, enjoyable education that enables them to achieve their full potential.

- 8.3.2.** One of the aims of the EYNFF was to create greater parity between the sectors in the payment systems via a higher and universal base rate.
- 8.3.3.** Policy implications relate to the proportion of the base rate in relation to any supplements and how the supplements are targeted. The implemented supplements focus on 'narrowing the gap' between children from disadvantaged areas and their peers and sustaining provision in rural areas. Increasing the funding rate within the existing formula would continue to meet the policy objectives.

8.4. Equality

- 8.4.1.** The government NFF announcements include an equality statement. The local schools funding formula applies to all schools based on pupil characteristics. The NFF provides more funding to such characteristics so will help more vulnerable groups in due course.

8.5. Human Resources

- 8.5.1.** Changes to school funding levels may result in staffing changes at schools requiring HR support. Each school will need to consider the impact of using the existing local formula as opposed to NFF on their three-year financial plans and review their staffing establishment accordingly.

8.6. Risk Management

- 8.6.1.** Prompt agreement of the schools funding formula allows schools to receive their budget allocations in advance of the financial year. They can ensure their expenditure plans are in line with their available budget. 28 February 2022 is the date by which school block funding levels must be notified to schools.
- 8.6.2.** Given that a positive MFG is being used all primary and secondary schools will see an increase in funding (unless pupil numbers have reduced).
- 8.6.3.** Application of the EYNFF can result in spend being more than the allocated budget should participation increase beyond that forecast. However, the DfE adjusts funding in the following year to take account of fluctuating take up. Therefore, the risk is cash flow rather than overspend. Take up and spend is monitored closely on a twice termly basis by Early Years and Childcare Team and Accountancy Services. Any emerging issues are reported immediately to directors / senior managers.

8.7. Rural Communities

Schools Funding Formula:

- 8.7.1.** All maintained and academy schools in the borough are affected by decisions over total funding levels and the local formula used to allocate it to schools.
- 8.7.2.** The NFF contains a relatively small element of sparsity funding for remote schools meeting certain criteria.

Early Years Funding Formula:

- 8.7.3.** The current formula provides additional funding for provision in rural areas in recognition of their limited ability to attract the numbers of children

required to cover operating costs. The additional funding is paid to provision determined by a sixfold classification of rural/urban wards produced by Cheshire County Council. Given the changes that have occurred in the borough, the rural/urban classification requires updating. Cheshire East Council updated the classifications in 2015 using the same methodology as previously. The proportion of the total funding allocated to rurality would remain largely the same.

- 8.7.4.** Funding should continue to be awarded to rural areas. Removal of this additional funding may undermine the sustainability of provision and lead to the authority failing to meet its sufficiency duty.

	PVI	Nursery classes (MNU/Academy)	Total
Rural using latest classification	22	3	25
Currently receiving rurality	19	3	22
Currently receiving rurality and still classed as rural on the latest classification	15	3	18
Currently receiving rurality but not now classified as rural	3	0	3
Not currently receiving rurality but now classified as rural	7	0	7

8.8. Children and Young People/Cared for Children

- 8.8.1.** All maintained and academy schools in the borough are affected by decisions over funding levels and the formula to allocate funding.
- 8.8.2.** In addition to DSG schools block funding, schools continue to receive other grant funding such as pupil premium allocations for cared for children where they are eligible and universal infant free school meals funding.
- 8.8.3.** Adequate and equitable funding contributes towards sustaining sufficient levels of early years provision across the borough for children to access their free early education entitlement. This is a statutory duty for the local authority.
- 8.8.4.** Failure to distribute the funding allocation in an equitable way across all sectors could impact on delivery of the extended free entitlement for working families. Childcare providers nationally have voiced concern that

30 hours free childcare limits their ability to charge for additional hours; the Government becomes the primary “customer” at a prescribed rate.

8.9. Public Health

8.9.1. There are no direct implications for public health.

8.10. Climate Change

8.10.1. There are no direct implications for climate change.

Access to Information	
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Appendices:	Appendix 1: Setting the Schools Funding Formula 2022/23 Appendix 2: Recommended Formula – Factors and Values 2022/23 Appendix 3: Further Details of the Early Years NFF April 2017 Appendix 4: Hourly rates payable to providers of the Free Early Education Entitlements. Appendix 5: Proposed hourly rates payable to providers of the Free Early Education Entitlements.
Background Papers:	Schools Forum papers for 2021 are held at http://www.cheshireeast.gov.uk/schoolsforum The DFE released funding information for 2022/23 at this link