

# Schools Forum

Item No.5

<b>Report title:</b>	<b>Fair Funding Consultation / National Funding Formula: Part B</b>
<b>Date of meeting:</b>	<b>22 November 2023</b>

## Executive summary

This report summarises the responses to the autumn 2023 consultation with Norfolk schools specifically in relation to survey responses relating to the continuation or alternative to a hard funding cap, a Falling Rolls fund and consideration of charges relating to maintained schools' audits. These proposed changes relate to the funding distribution formula of the Schools Block of the Dedicated Schools Grant (DSG) from April 2024.

It should be noted that this report follows on from the Fair Funding Consultation / National Funding Formula: Part A paper that contains 'general' survey responses for references purposes. Additionally, the Part A paper contains the decision required of Schools Forum in relation to the Schools Block to High Needs Block transfer that potentially necessitates the need for the capping of gains for some schools.

### Schools Forum are asked to:

- **Make a recommendation for how gains should be capped, if necessary, for 2024-25 to ensure that the funding formula is affordable within the Schools Block resources available, including the consideration of feedback from the autumn 2023 Fair Funding Consultation;**
- **Make a recommendation for whether or not a Falling Rolls fund is part of the 2024-25 Norfolk funding formula;**
- **Make a recommendation for whether or not Maintained Schools' Audits should be charged to maintained schools' budget shares in 2024-25, considering feedback from the autumn 2023 Fair Funding Consultation.**

## **1. Context**

This paper follows on from the Fair Funding Consultation / National Funding Formula: Part A elsewhere on this agenda, which should be read for context. This includes a summary of the responses received to the consultation, including who was represented and any general questions.

## **2. Consultation Responses**

The relevant completed consultation responses are included in the relevant sections below in relation to the capping of funding in the formula and maintained schools audits.

Relevant specific comments made by respondents are provided within appendix A (Funding Cap / Sparsity Funding), appendix B (Maintained Schools Audits), and relevant information from partial consultation responses is available in appendix C for reference.

## **3. Funding Cap / Sparsity Funding**

The LA is reviewing the use of a funding cap on gains again for 2024-25, due to the significant impact highlighted by some small schools following the implementation of the 2022-23 and 2023-24 formulae.

The sparsity factor changed in 2022-23, to be based on road distances instead of straight-line distances, as well as adding a distance taper calculation. This brought a number of small schools into the sparsity allocation for the first time.

The DfE's Minimum Funding Guarantee (MFG) / Cap calculation excludes the sparsity amount for the new year budget from the previous year's baseline, i.e., the 2024-25 sparsity value will be excluded from the 2023-24 funding baseline. This is intended to protect schools against significant changes in sparsity value between years. However, this also means that a school becoming eligible for sparsity for the first time has the sparsity amount deducted from its protected baseline, even though it didn't receive sparsity in the prior year, and, therefore, the remaining increase is large and likely to be capped under the current hard cap arrangements. This initial cap of the gain continues to affect schools' future years' budgets, even once sparsity has been established, as part of their budget share, producing significant caps on gains for the affected schools.

In previous years, a funding cap has been used in order to enable the LA to mirror the NFF unit values and methodologies whilst making a Schools Block to High Needs Block transfer. As explained above, the caps in recent years have particularly impacted on small rural schools receiving the significant sparsity allocations that they may have been expecting following changes to the sparsity factor calculation as part of the NFF. Per-pupil funding in the local formula was capped at increases of +2.4% for schools in 2023-24 (beyond which no further increase was received by the schools). This means that the large gains expected by those schools have, effectively, become delayed and, potentially, will be spread over a number of years.

A similar issue could apply to other factors if/when there are changes in the methodology within the NFF that target additional amounts to specific school types, although sparsity is thought to be the most notable example of this because of the impact of its deduction from the prior year’s protected funding baseline.

To resolve this issue for 2024-25 and future years, the LA consulted schools on alternatives to the use of a hard funding cap in Norfolk. The alternative options had also been previously consulted on by the LA as part of the 2023-24 Fair Funding process, but the response rate from schools was extremely low and primarily split between being in favour of making a change from those schools affected, with less support from other schools. The low level of response in turn meant that the Schools Forum did not have clear input from both a significant number and wide range of schools/trusts in order to enable them to make a recommendation on behalf of all mainstream schools and to be able to understand the consequences to schools of their decision. In turn, this meant that the LA concluded that they had no mandate to make a change from the status quo of a hard cap for 2023-24.

Given the significant feedback received from affected schools (both within and outside of formal consultation processes), and the likely ongoing impact of future capping due to potential Block Transfers that may be agreed as part of the DSG recovery plan, the LA has revisited this part of the formula afresh for 2024-25. As part of this, the LA wishes to re-iterate the significant impact that the current cap arrangements particularly has had on small rural schools.

The LA is seeking a recommendation from Schools Forum members, following the consultation with all schools, before making a final decision on arrangements for 2024-25.

The identified options for capping of gains are detailed in **Appendix D**, as provided as part of the consultation. All options presume that a Block Transfer of 1.5% from the Schools Block to the High Needs Block is agreed.

### Consultation responses

The rankings given by responses to the survey were:

Option	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	No Ranking*
Option 1- Hard Cap on gains	1	5	4	15	3
Option 2 - MFG Adjustments	9	4	12	0	3
Option 3 - Scaling/Capping	8	10	7	0	3
Option 4 - Reduce unit values	7	6	2	10	3
<b>Total responses</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>3</b>

\*3 of the 28 responses to the survey did not rank any of the capping options

Allocating weightings (4 points to the most preferred, 1 point to the least preferred) to the rankings to produce a survey score, as follows:

Option	Survey Score	Ranking
3 – Scaling/Capping	76	1 <sup>st</sup>
2 – MFG Adjustments	72	2 <sup>nd</sup>
4 – Reduce Unit Values	60	3 <sup>rd</sup>
1 – Hard Cap	42	4 <sup>th</sup>

Overall, option 3, a combination of capping and scaling of gains was ranked 1<sup>st</sup> preference due to a higher number of combined 1<sup>st</sup> and 2<sup>nd</sup> rankings (which receive more weighting) than for any other option. Also, it was never chosen as 4<sup>th</sup> ranking by schools (so was never chosen as the least preferred option).

Following closely was option 2, MFG baseline adjustments, ranked 2<sup>nd</sup> amongst those that responded. As with option 3, it was never ranked 4<sup>th</sup> in any of the responses (so was never chosen as the least preferred option).

Option 1, the current hard cap methodology, was the least favourable option ranked 4<sup>th</sup>, suggesting that the responses received understood the impact of the sparsity/cap issue within small rural schools and support a change to the current methodology.

An alternative ranking from the responses, based on the number of schools represented (111 schools plus 1 response from Chair of Schools Forum) by each response would give:

Option	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	No Ranking*
Option 1- Hard Cap on gains	1	6	14	84	7
Option 2 - MFG Adjustments	78	9	18	0	7
Option 3 - Scaling/Capping	9	40	56	0	7
Option 4 - Reduce unit values	17	50	17	21	7
<b>Total schools represented</b>	<b>105</b>	<b>105</b>	<b>105</b>	<b>105</b>	<b>7</b>

\*7 schools were not represented with a ranking for this question

With the same weightings applied this would give:

Option	Survey Score	Ranking
2 – MFG Adjustments	375	1 <sup>st</sup>
4 – Reduce Unit Values	273	2 <sup>nd</sup>
3 – Scaling/Capping	268	3 <sup>rd</sup>
1 – Hard Cap	134	4 <sup>th</sup>

Based on number of pupils represented (33,064 pupils) the responses were:

Option	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	No Ranking*
Option 1- Hard Cap on gains	120	2,666	5,413	21,673	3,192
Option 2 - MFG Adjustments	23,179	1,375	5,318	0	3,192
Option 3 - Scaling/Capping	3,308	13,863	12,701	0	3,192
Option 4 - Reduce unit values	3,265	11,968	6,440	8,199	3,192
<b>Total pupils represented</b>	<b>29,872</b>	<b>29,872</b>	<b>29,872</b>	<b>29,872</b>	<b>3,192</b>

\*no ranking for this question for 3,192 of pupils represented in the survey responses

Applying the weighted score to the results based on pupils represented gives:

Option	Survey Score	Ranking
2 – MFG Adjustments	107,477	1 <sup>st</sup>
3 – Scaling/Capping	80,223	2 <sup>nd</sup>
4 – Reduce Unit Values	70,043	3 <sup>rd</sup>
1 – Hard Cap	40,977	4 <sup>th</sup>

Schools were asked to provide a rationale for their rankings. The comments are provided in **Appendix A**.

### Analysis of survey responses

Of the responses received, 24 schools (22% out of 111 represented in responses) are affected by the sparsity/cap issue caused by changes to the sparsity methodology with the National Funding Formula by DfE since 2022/23. Of these, 19 schools (the majority) were represented with MFG adjustments as the 1<sup>st</sup> ranked option. However, 17 of those 19 schools' responses were provided by trusts that represent 73 schools between them, so the total of 78 schools represented overall in the responses for MFG adjustments as the 1<sup>st</sup> ranked option is heavily weighted by those trusts' responses.

Overall, based on the number of schools represented MFG adjustments was ranked 1<sup>st</sup> and reducing unit values (to remove the cap completely whilst still mirroring the NFF) was ranked 2<sup>nd</sup>. Based on the number of pupils being represented in schools this changes the rankings to MFG adjustment ranked 1<sup>st</sup> and scaling/capping ranked 2<sup>nd</sup>.

The continued use of a hard cap is ranked 4<sup>th</sup> whichever way the data is analysed (by number of responses, by number of schools represented, or by the number of pupils represented).

### Analysis of impact upon schools

All schools gain funding under all options, compared to their 2023-24 budget shares. Modelling was provided for all schools within technical papers that were issued with the survey and it is available to help members understand the implications of the different cap options modelled for all schools at: [Fair funding consultation - Schools \(norfolk.gov.uk\)](https://www.norfolk.gov.uk)

In summary, based on the technical papers provided for consultation, the estimated % change to the 400 mainstream school budgets compared to 2023-24 (including MSAG) would be:

Option	Increase in Budget Share (MSAG included)			
	0-5%	>5-10%	>10-20%	>20-30%*
	<b>Number of Schools</b>			
Option 1 Hard Cap	400	0	0	0

Option 2 MFG Adjustments	344	17	36	3
Option 3 Scaling/Capping	343	50	7	0
Option 4 Reduce NFF Unit Values by an estimated 0.88% (still mirroring NFF)	306	54	36	4

\*The largest increase is 26.1%

The number of schools with 0-5% can be broken down as follows:

	<b>Increase in Budget Share (MSAG included)</b>				
	<b>0.3%* to 1%</b>	<b>&gt;1% to 2%</b>	<b>&gt;2% to 3%</b>	<b>&gt;3% to 4%</b>	<b>&gt;4% to 5%</b>
<b>Number of Schools</b>					
Option 1 Hard Cap	28	149	169	54	0
Option 2 MFG Adjustments	33	258	45	5	3
Option 3 Scaling/Capping	23	168	93	35	24
Option 4 Reduce NFF Unit Values by an estimated 0.88% (still mirroring NFF)	95	111	50	34	16

\*Less than +0.5% on total budget share is possible due to funding factors that are outside of the per-pupil MFG calculation

## **LA view and recommendation**

The interaction of sparsity factor with the funding cap is not something that will apply to all schools, so it is important for Schools Forum to also consider the impact on those schools that might be adversely affected, particularly small rural schools, when making their recommendation.

When considering the mainstream school system as a whole, the LA and Forum members should also consider the risk that not all schools are fully represented by the responses and so the result could be skewed in the favour of those schools directly affected and other schools may not have understood the potential impact upon their budgets and so may not have responded.

Based upon the survey results, the LA is of the view that continuing with the status quo should be discounted as, of the four options, the Hard Cap was the least preferred and will perpetuate the difficulties for those schools who should benefit from the revised sparsity funding criteria under the NFF.

This leaves MFG adjustments (Option 2), Scaling and Capping (Option 3), and Reducing NFF values (Option 4). A different preferred outcome of the survey can be viewed depending upon which lens the results are viewed through (responses, schools or pupils), including differences in the 'strength' of preference. Each of the options results in different 'winners' and 'losers', although it should be borne in mind that all schools will still gain under any option on a like-for-like basis due to the Minimum Funding Guarantee (MFG).

Whilst MFG adjustments are considered as an option for dealing with the specific issue of sparsity funding, it should be noted that this would be recognising a very specific set of circumstances as detailed in the consultation relating to the changes to sparsity from 2022-23. The LA does not wish it to be considered as setting a precedent for the use of MFG adjustments as a way of resolving issues on other funding factor changes in the future. This is because it potentially undermines the fundamental purpose of the MFG and limiting of gains for affordability of the whole formula, and there have been many schools in the past who have not been in receipt of full gains when there have been past formula changes.

The table below aims to compare the remaining 3 options focussing upon what the data tells us for all schools and the potential impact:

	<b>What the data tells us</b>	<b>What impact this has on the system</b>
<p><b>Option 2</b> MFG Adjustments</p> <p>Cap on remaining gains estimated to be 2.21%</p>	<p>56 schools (c. 14%) will gain more than 5%, including 39 schools gaining more than 10%. This results in most schools (258, c. 65%) gaining between 1% to 2%, with 33 schools (c. 8%) gaining less than 1%. Of the remaining schools, 45 schools (c. 11%) will gain 2% to 3%, 5 schools (c. 1%) will gain 3% to 4%, and 3 schools (c. 1%) will gain 4% to 5%.</p> <p>Compared to a hard cap, this option sees a significant shift from schools in the 2% to 3% category to gains of 1% to 2% to shift the funding to cover those schools with previously unrealised sparsity-related gains.</p>	<p>A small number of schools will receive very significant gains relating to sparsity funding but this is, effectively, reducing the gains that other schools would have been due to receive under a hard cap for other formula changes. I.e., sparsity gains this year will be, effectively, prioritised.</p> <p>The effect of this option would be that the impact of the Schools Block to High Needs Block transfer would be shared across all schools with non-sparsity related gains, but sparsity related gains would be protected.</p> <p>One option to minimise this effect and to promote gains through other funding factors, would be to introduce capping &amp; scaling as well as MFG adjustments. This modelling hasn't been provided and, of course, is influenced by the size the % scale chosen, but could be expected to see a 'hybrid' impact of the modelling of the two options, perhaps with greater numbers with gains &gt;2% but with a reduction in the 5-10% capacity. Further modelling would need to be carried out to test this.</p>
<p><b>Option 3</b> Scaling/Capping</p> <p>Estimated cap of 1.62% for scaling of 50% for gains above the cap</p>	<p>Similar to the MFG option, 57 schools (c.14%) will gain more than 5%. The significant difference is those gaining more than 5% are primarily restricted to the 5-10% bracket due to the impact of scaling upon gains, and that those gaining less than 5% are more spread across the 1-5% funding brackets due to schools who have other potential gains seeing the benefits of them</p>	<p>This option treats all gains equivalently, regardless of the type of factor, in the same way, which is why the proportion gaining over 10% is significantly small than options 2 &amp; 4.</p> <p>Those schools awaiting gains from sparsity factor will see these gains coming through quicker than under a hard cap, but others will see more gains relating to</p>



	<p>because the MFG adjustments only targets sparsity related gains.</p> <p>The number of schools with gains under 2% is similar to a hard cap option (191, 48% vs 177, 44% for a hard cap), the increase being the limit in gains for some schools who wouldn't have previously been capped, but now will have scaling to their gains applied.</p> <p>This option has the least number of schools gaining less than 1% (23, c. 6%). No school will receive greater than 20% increase in budget shares and very few schools (7, c. 2%) within the 10% to 20% bracket. This differs to options 2 and 4 where c. 10% (39/40 schools) are in those brackets.</p>	<p>other factors than would be seen via an MFG adjustment approach.</p> <p>Also, any schools that meet the sparsity funding requirements for the first time for 2024-25 will receive some benefit but would not do so under the MFG adjustments as they would not be known in time for disapplication requests.</p> <p>The effect of this option would be that the impact of the Schools Block to High Needs Block transfer would be shared across all schools with those with the highest gains, primarily sparsity related ones (and, therefore, small, rural schools), still bearing a greater proportion (though not as high as a hard cap and shared across other schools as well).</p>
<p><b>Option 4</b> Reduce NFF Unit Values</p> <p>Estimated - 0.88% (still mirroring NFF) with no funding cap</p>	<p>94 (c. 24%) schools will gain more than 5%, the highest of all the options. This results in 62 more schools than option 2 receiving less than 1% increase (95, c. 24% of total schools), with the shift particularly coming from the 1% to 2% grouping.</p> <p>The picture is similar compared to option 3 (scaling / capping) with a similar number of schools overall gaining less than 2% (slightly less for option 3 than option 4).</p> <p>However, compared to the hard cap option, this option (like option 3) has more schools gaining under 2% (206, c. 52% vs 177, c. 44% for a hard cap).</p> <p>This option has the most spread of gains across the higher % brackets (c. 49%, 194 schools, gaining more</p>	<p>More schools will gain significantly, but the 'cost' of that is borne by a greater number of schools receiving very small increases.</p> <p>The greater spread of gains reflects the 'rebased' of all formula factors and removal of all capping, regardless of whether the reason for a gain being capped was sparsity or something else.</p> <p>This option most closely reflects the NFF and has the effect of 'resetting' the formula (with MFG protection) with all schools bearing the impact of the Schools Block transfer through all unit values being reduced, which is why a greater number of schools would receive less than 1%. Previous decisions by Forum have been to aim to mirror NFF as closely as possible,</p>

	<p>than 2%), which (potentially) reflects the loss across all schools against each funding factor but with this being outweighed by those due significant gains for any factor that has previously been capped.</p>	<p>and this has been done in years when there has been no cap (e.g., 2021/22).</p> <p>The effect of this option is that all schools will experience the impact of the Schools Block to High Needs Block, rather than the impact being weighted towards those that would gain more than the level of the cap % in all other options.</p>
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Reducing NFF Unit Values (option 4) could be perceived to be the 'fairest' option for all schools because it is the option that most closely mirrors the National Funding Formula. Mirroring the DfE's unit values and methodologies is a principle agreed to by Schools Forum for the local formula for the last few years, and the DfE counts any unit values within 2.5% of the published values as being mirroring of the NFF. Norfolk argued for the principle that sparsity funding factor definition should be amended to the current definition to recognise the challenges of rural schools that where travel distances can significantly exceed 'crows flies' distances, and to introduce a 'taper' effect rather than a binary award. However, to date, many schools have not benefited from the change in the NFF recognising these elements.

It is estimated that a reduction of -0.88% would be required to all factor values in order to afford the removal of the capping arrangements altogether whilst still making a block transfer. All schools would still see an uplift to their overall funding in 2024-25 (based on like-for-like data), whilst any school currently with a cap, or needing one in 2024-25 under the other capping options, would have the cap removed and their allocation would closely mirror the National Funding Formula allocations which are also not based on schools having a cap. In summary, the benefits of this approach are:

- Mirrors the National Funding Formula; effectively a 'reset'
- All gains are treated equally, whilst also correcting the current sparsity/cap issue for small rural schools
- All schools' budget shares experience a proportionate impact of the Schools Block to High Needs Block transfer
- Prevents the sparsity/cap problem, and problems from similar future changes to the National Funding Formula, from reoccurring
- As with all options, all schools would receive per-pupil uplifts in 2024-25 with MFG in place for all schools
- It is simple to understand

However, it needs to be acknowledged that the MFG adjustment (option 2) was preferred in the survey responses based upon the total schools and total pupils represented, whilst option 3, Scaling / Capping adjustment, was preferred based upon the weighted rankings of individual responses. The significant weighting towards MFG adjustment through pupil and school data will be that those responses (although small in number) reflected the preferences of trusts with multiple schools, potentially including many rural schools that have missed out on sparsity funding.

Overall, response rates were higher than the 2022-23 survey, with c. 25% of schools and c. 31% of pupils were represented, but this does still leave a lot of schools and pupils unrepresented who may, despite attempts to draw attention to the issue by the LA, not have understood the potential impacts to their budgets of the options. It is, therefore, imperative that the LA and Schools Forum consider the impact on the system of implementing options 2 or 3 prior to doing so. In summary, these are:

MFG Adjustment (option 2)	Scaling / Capping (option 3)
<ul style="list-style-type: none"> <li>- Gains from the sparsity factor are treated preferentially to all other gains</li> <li>- Schools becoming newly eligible for sparsity funding from 2024-25 would not receive the benefit</li> <li>- The impact of the Schools Block to High Needs Block transfer will be absorbed by non-sparsity gains only</li> </ul>	<ul style="list-style-type: none"> <li>- All gains are fairly treated</li> <li>- Schools newly eligible for sparsity funding from 2024-25 will receive a proportion of the benefit</li> <li>- The impact of the block transfer is not spread equally (proportionally) across all schools; those with bigger gains due to factor changes will absorb more of the impact</li> </ul>

Careful consideration has been given by the LA to the data available, the impact reported by affected schools in 2022-23 and 2023-24, the anticipated move towards a hard NFF, the adverse and beneficial impact of each option, and consideration of the principles of fairness to all schools, including how the block transfer is impacting upon school budgets.

**On this basis, the LA suggests that Schools Forum recommends option 4: Reducing the NFF Values (estimated at -0.88%) with no funding cap.**

#### **4. Falling Rolls Fund Consultation**

For the first time in 2024-25, LA's will receive funding for Falling Rolls as part of the DSG based on changes between the October 2022 and October 2023 censuses within 'Middle Layer Super Output Areas' (MSOA) which are areas used by the ONS based on population data that enable the DfE to capture falling rolls in small geographical areas within local authorities. LAs will be awarded £140k for each MSOA which sees a 10% or greater reduction in the number of pupils between the October censuses. Using estimated data and the DfE's Growth and Falling Rolls calculator tool for 2024-25, the LA has estimated that Norfolk may receive £560k, although this will not be confirmed until final DSG allocations are published in December.

The DfE guidance for 2024-25 states that LAs will continue to have discretion over whether to operate a Falling Rolls fund (it is not mandatory to have one), but if a fund is required, Schools Forum should agree the total value and the criteria for allocation. For 2024-25, the DfE have made changes to the requirements for Falling Rolls funds. Falling Rolls fund can only be used to provide funding where school capacity data 2022 (SCAP) shows that school places will be required in the subsequent three to five years, replacing previous guidance that funding may only be used where local planning data shows that the surplus places will be needed within the next 3 financial years.

Norfolk County Council's place planning team have reviewed the current SCAP data and no schools would currently meet this mandatory requirement to enable falling rolls funds to be allocated.

**On this basis, the LA does not recommend that Norfolk's 2024-25 funding formula operates a Falling Rolls fund, but that this is reviewed annually by the LA and Schools Forum.**

## 5. Maintained Schools' Audits - Consultation

The LA has consulted with schools to consider a top-slice of funding for internal audits for maintained schools, to ensure all schools undertake audits as part of good financial management. Although schools may buy this audit from a provider of their choosing, an option to charge maintained schools' budgets for LA audits was included as an option within the autumn consultation.

Maintained schools are required to have a traded audit at least once every 5 years as well as a financial health check. If not, they will be automatically red RAG rated. However, they can buy this audit from a provider of their choosing. The cost over 5 years is c. £1,100 in audit costs and £400 in health check cost per school. The overall cost per year works out to £300 per school.

As a comparison, academies are audited every year and pay directly for these.

Internal audits come under 'responsibilities held by local authorities for maintained schools' and can be funded from maintained schools' budgets with agreement of the maintained schools' members of Schools Forums.

Following feedback from maintained schools, if a decision is taken to top-slice funding for internal audits for maintained schools then the LA will need to review the resource available to ensure that revised demand can be met.

Maintained schools were asked to vote on the following options as part of the consultation:

- No charge to maintained schools for audits (no change to current arrangements)
- Charge maintained schools' budgets to cover the cost of audits

The responses from LA maintained schools (and Chair of Schools Forum) only:

Option	Number of Responses
Yes (charge for audits)	4
No (do not charge for audits)	11

Based on the number of LA maintained schools represented (Chair response included as 1), the responses were:

Option	Number of Schools Represented*
Yes (charge for audits)	6
No (do not charge for audits)	20

\*Includes 1 response from Chair of Schools Forum

Based on the number of pupils represented in LA maintained schools, the responses were:

Option	Number of Pupils Represented
Yes (charge for audits)	2,357
No (do not charge for audits)	3,011

Comments from responses received for this question are provided in **appendix D**.

On the basis of the responses received, **the LA does not recommend that maintained schools budgets are top-sliced in 2024-25 for school audits.**

## **6. Recommendations**

Schools Forum are asked to:

- **Make a recommendation for how gains should be capped, if necessary, for 2024-25 to ensure that the funding formula is affordable within the Schools Block resources available, including the consideration of feedback from the autumn 2023 Fair Funding Consultation;**
- **Make a recommendation for whether or not a Falling Rolls fund is part of the 2024-25 Norfolk funding formula;**
- **Make a recommendation for whether or not Maintained Schools' Audits should be charged to maintained schools' budget shares in 2024-25, considering feedback from the autumn 2023 Fair Funding Consultation.**

### **Officer Contact**

If you have any questions about matters contained in this paper, please get in touch with:

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If you need this report in large print, audio, Braille, alternative format or in a different language please contact 0344 800 8020 or 0344 800 8011 (textphone) and we will do our best to help.

## **Appendix A – Funding Cap/Sparsity**

Comments verbatim as submitted through the survey, including if there appear to be errors in understanding of the factual data provided.

### **In support of Option 1 as preferred option – Hard Cap**

No comments received.

### **In support of Option 2 as preferred option – MFG Baseline Adjustments**

*‘The previous approach was fundamentally unfair to small rural schools within Norfolk as it resulted in sparsity funding for these schools not being received. This funding was specifically provided to Norfolk for these schools and diverting it to other purposes does not reflect the principles of the fair funding formula.*

*The approach taken has impacted 70 rural schools, equivalent of 1 in 6 schools across Norfolk. 69 out of 70 of the schools are primary schools with an average size of 80 pupils. These schools already face significant challenges to ensure their sustainability and not receiving this funding further jeopardises their future. Without a resolution to this issue it is inevitable that schools will have to consider increasing class sizes, reducing provision to pupils, and in some cases total closure of the school.*

*Using the data in this consultation it shows that the 70 schools impacted have missed out on annual funding of £2.4m (6.4% of total school funding). This is equal to £382 per pupil (based on Oct-22 census figures of 6,197 pupils in affected schools) and results in these schools paying a higher contribution to LFI than some of the largest schools in the county. Given the important role these small rural schools serve in our education system education and their communities it is essential that this change is rectified in the 2024/25 funding formula to ensure fairness across Norfolk.*

*Option 2 is our preferred option as it resolves the issue for the 70 schools in full and minimises the impact on other schools to ensure fairness in the funding of LFI.’*

*‘Small schools (the majority) are disproportionately impacted by option 1 and option 3 presents a system that will again disproportionately impact the majority of schools by slowing the fair and equitable distribution of sparsity funding’*

*‘Option 2 is our preferred option as it resolves the issue for the 70 schools in full and minimises the impact on other schools to ensure fairness in the funding of LFI.’ The failure to pass on sparsity funding has cost 2 of our primary schools circa £180k in the last 2 years - circa 10% of their budgets. Option 4 is second choice as capping, in combination with lagged funding, disadvantages growing schools with higher percentages of socially disadvantaged pupils within their cohorts.’*

*‘I believe it is appropriate that if we are to move to reflecting the NFF, then we should be accepting the revised sparsity funding formula that is a part of this. To remove the cap completely at this stage would appear to affect some schools very significantly so option 2 and 3 are preferable at this point. Option 1 should not be considered, even if there is no consensus on the other three options.’*



*'Schools allocated sparsity funding should receive this funding. These rural schools are struggling and under the current system this sparsity funding is in essence being diverted to LFI which is not the intended purpose of this funding.'*

### **In support of Option 3 as preferred option – Scaling/Capping**

*'Option 3 seems the fairest across the board.'*

*'With falling rolls within the Federation, I suspect that it will be losing money rather than gaining from having no cap at all.*

*It is easier to administrate a hard cap, but if this is disadvantaging smaller schools, then it should be looked at.'*

*'The preference for Option 3 is to have a model that can better meet the needs of the variety of schools in Norfolk, whilst taking into consideration the balance between individual school needs and educational provision across the county.'*

### **In support of Option 4 as preferred option – Reduce unit values, no cap on gains**

*'Thinking about our four small schools, we'd potentially benefit more if there was no gap on the gains and this would allow us to continue to provide the best education possible for our pupils.'*

*'If the LA is aiming to adopt the national funding formula, it is appropriate for the schools identified to receive sparsity funding to actually receive it.'*

*'We are impacted financially by the sparsity capping and would like this removed.'*

### **No ranking chosen:**

*'My preference would be to implement the option which brings the formula as close to the NFF as possible.'*

## **Appendix B – Maintained Schools’ Audits**

Comments verbatim as submitted through the survey, including if there appear to be errors in understanding of the factual data provided.

### **‘YES’ - in support of charges for audits to maintained schools’ budgets**

*‘Yes if we have requested them but otherwise no.’*

*‘However, yes is subject to a proportionate federation charge (not 3 for three schools that share one budget) and the cost being split over 5 years not charged in full every year. We have concerns that audit services cannot deliver to this level of programme so monies could be collect but schools may not see an audit in the time frame required.’*

*‘Yes BUT not the way it is tendered out to private organisations to undertake currently but where the LA source a contractor that can be bought in at better value as the cost of the audits currently vary and are very expensive.’*

### **‘NO’ – supporting status quo, i.e charges for audits to maintained schools’ budgets**

*‘Absolutely not - it just takes more out of our budget when we can afford it the least.’*

*‘Norfolk Audit Services DO NOT have the capacity to support this happening. Instead I believe Schools should be more informed about how they can procure their own independent audits assessed to a NCC approved framework.’*

*‘This is unacceptable to us. This is a traded service and it should therefore not be assumed that the LA will be the chosen provider. Furthermore, due to serious consistent errors particularly payroll charges following the implementation of myOracle, these are not highlighted as audit requirements and cause serious concern and financial impact on the majoriy of the budget in school. These errors still require independent audit.’*

*‘The cost is over £1000 and this impacts significantly on our budget. We feel that these costs should be met centrally to make it fairer for all schools.’*

*‘£1500 every 5 years may not seem a lot from a budget, but currently with the bill for salaries rising it is a large amount to pay for most small schools. It is a legal requirement of the LA that they audit maintained schools then the onus of providing the audit must rest on the shoulders of the LA. If this doesn’t happen then it is a risk to school’s budgets if there is a change of personnel and leadership, that the financial audit does not take place or is not requested. There must be resources at the LA to audit a fifth of mainstream schools every year, otherwise this isn’t going to work. Schools could be charged for a requested audit within the 5 year period if there is suspected fraud or other issue that Governors would like investigated.’*

*'There is not enough information about actual costs in the consultation document. This is the first time that I have been made aware that schools could choose to use an independent auditor rather than NCC. Why has this not been made clear to schools in the past?*

*I would need much more information before I could support this.'*

*'Even though I have championed this for some time, I do not feel there is sufficient clarity and detail to support this change at this time and we should revisit this in the future when more detail is available. In addition to this, this is the first occasion that any maintained schools have been informed that they are able to choose an auditor outside of NCC. This new information proposes other questions around whether such a charging would be appropriate as it would remove the freedom from individual schools to choose their audit provider.'*

## Appendix C – Partial Responses and Online Sessions Feedback

Further details about the partial responses and online sessions feedback is available within the Part A paper.

### Capping

Only 1 school had answered this question, ranking the capping options as follows:

Option	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
Option 1- Hard Cap on gains	1			
Option 2 - MFG Adjustments		1		
Option 3 - Scaling/Capping				1
Option 4 - Reduce unit values			1	

### Maintained Schools' Audits

Survey question: Do you agree that maintained schools' budgets should be charged for audits by the LA?

Option	Number of Responses
Yes (charge for audits)	0
No (do not charge for audits)	2

## **Appendix D – Alternatives to a Hard Funding Cap**

The identified options for the capping of gains are detailed below, as provided as part of the consultation. All options presume that a Block Transfer of 1.5% from the Schools Block to the High Needs Block is agreed.

- **Hard Cap (No change to current arrangements)**

Suggested MFG of +0.5% (the maximum allowable for 2024-25) and an estimated cap for all gains of +3.76%. This would maintain the current principles used within the funding formula that limits gains to a fixed percentage per-pupil with no further gains beyond that. The sparsity issue for affected small rural schools would remain significant and it could take a very long time for the expected sparsity gains to be passed through to those schools in the way intended by the National Funding Formula.

- **MFG baseline adjustments to affected schools**

The LA could request disapplications from the Secretary of State to enable MFG adjustments to the 2023-24 MFG baselines of affected schools so that sparsity funding, where previously capped, could be adjusted upwards in their baselines by the amount of their 2023-24 sparsity figure as technical MFG adjustments (reducing the calculated gains between years that are then being capped) and then protected from 2024-25 onwards.

On its own, this may not prevent the same problem from occurring again in future, although it would be less likely now that the revised sparsity arrangements have been in place for 2 years. Even so, any school that became eligible for sparsity based on pupil data for the first time in 2024-25 would not be picked up in disapplication requests which are due for submission in November 2023, and would therefore be subject to the same capping issue when final budgets are set in February 2024 as other schools affected by the issue have been in the past.

To implement MFG adjustments, if approved by Secretary of State, a tighter overall cap percentage, currently estimated at +2.21%, would be required to enable those schools affected to have their baselines adjusted within the overall funding envelope available.

- **Scaling in addition to the capping of gains**

Scaling allows for a proportion of gains above the cap level to be allocated. Whilst the hard cap that has historically been used to prevent any gains above the level of the cap, which was set at +2.4% per-pupil in 2023-24, scaling allows for a proportion of the gain above the cap to be allocated in addition. It is possible to add scaling of between 0% and 100% to the cap calculation. For example, a cap of 2% and scaling of 80% would allow all per-pupil gains up to 2% to flow through to schools, with any gains above 2% scaled back by 80%. For schools with very large percentage gains due to methodology or data changes, e.g., for sparsity factor in small schools, this option could allow for them to receive a larger proportion of the gain which would speed up their transition to the new formula.

A tighter overall cap percentage, currently estimated at +1.62%, would be required in order to implement 50% scaling for those schools with large gains above the cap. Capping and scaling must be applied on an equal basis to all schools. This option does not require approval of any MFG baseline adjustments from the DfE as it can be decided locally. This option could be used in conjunction with approved MFG baseline adjustments to more quickly increase those schools that have been affected by the sparsity issue, and to mitigate against similar effects of hard caps on large NFF gains that may occur in the future.

- **Reduction to unit values, removal of the funding cap**

The transition to a direct national funding formula, and the DfE's publication of an allowable range of factor values for Norfolk for 2024-25, provides for continued 'mirroring' of the NFF within the DfE's definition (within 2.5% of the NFF formula values) without having to exactly replicate the national unit values.

This means that it should be possible to continue to mirror the NFF, working within the range of Norfolk's allowable unit values for 2024-25, and be able to remove the need for any funding cap on gains, depending on the final DSG available and the final census data used.

Removal of the funding cap would ensure that all schools eligible for gains from the sparsity factor, or any other factor, would no longer be capped in 2024-25 irrespective of whether they were eligible for sparsity and capped in the past, or become eligible for the factor for the first time in 2024-25.

This option removes the need for approval of MFG baseline adjustments for specific schools from the DfE but would reduce the factor unit values in 2024-25 for all schools by an equal percentage (but not by more than 2.5% as that would be outside of the allowable range for Norfolk's factor values). This would affect all schools as it would change the value of the funding factors used but would be the option closest to mirroring the DfE's National Funding Formula outputs - which do not apply a cap to schools' gains. It is estimated that a reduction of -0.88% to the NFF factor values would allow for the removal of the funding cap.