

SURREY COUNTY COUNCIL**CABINET****DATE: 21 OCTOBER 2014****REPORT OF: MRS LINDA KEMENY, CABINET MEMBER FOR SCHOOLS AND LEARNING****LEAD OFFICER: NICK WILSON, STRATEGIC DIRECTOR, CHILDREN, SCHOOLS & FAMILIES****SUBJECT: SCHOOLS' FORMULA FUNDING 2015-16****SUMMARY OF ISSUE:**

Schools are funded on the basis of a formula determined by each local authority within parameters set by the Department for Education (DfE). This paper sets out the recommended formula for the funding of Surrey schools in 2015/16. It follows the annual consultation with all schools during September and the Schools Forum on 1 October 2014.

Schools and many school support services are funded by Dedicated Schools Grant (DSG). This report is limited to consideration of the schools' funding formula in order to meet deadlines for the submission of the council's formula to the DfE by 31 October 2014. Other services funded by DSG will be considered as part of the council's budget planning process.

This is necessarily a technical report as it seeks Cabinet approval for the proposed funding mechanisms and values of key formula factors through which Surrey schools will be funded in 2015/16. This detail is essential for the continued education of Surrey children.

RECOMMENDATIONS:

It is recommended that:

1. The funding formula for Surrey schools be prepared on the basis of a £10m transfer within Dedicated Schools Grant from Schools to High Needs - principally to children with special educational needs and disabilities (SEND).
2. The commitment to a long term resolution of funding pressures in special educational needs and disabilities (SEND) be noted, with the Cabinet to receive a report on progress in February 2015.
3. The revisions to the schools' funding formula, as recommended by the Schools Forum and set out in paragraph 21, are introduced.
4. The proposed Surrey formula factors as set out in Annex 2 are approved for submission to the DfE by the 31 October deadline.
5. Authority is delegated to the Assistant Director, Schools & Learning, in conjunction with the Leader and the Cabinet Member for Schools & Learning,

to update and amend the formula as appropriate following receipt of the DSG settlement and DfE pupil data in December 2014. This is to ensure that total allocations to schools under this formula remain affordable within the council's DSG settlement to be announced during December.

REASON FOR RECOMMENDATIONS

To comply with DfE regulations requiring notification of the council's funding formula for schools by 31 October 2014.

DETAILS:

Funding of Surrey's schools

- 1 Surrey primary and secondary schools' revenue budgets are funded from Dedicated Schools Grant (DSG) and distributed via a formula devised by the local authority. Academy funding is based on the local authority's schools' formula. Academies receive their funding notifications from the DfE's Education Funding Agency, adjusted to an academic year basis and with additional funding to meet the costs of services for which responsibility has now transferred from the local authority to the academy.
- 2 In line with DfE requirements, this report proposes the formula factors and values to be used in 2015/16 for primary and secondary schools. It does not address:
 - The funding of special schools and nursery provision, as these are subject to different funding mechanisms
 - The pupil premium or sixth form formula funding as these are central government allocations, distributed via a mechanism determined by the DfE.

Dedicated Schools Grant (DSG)

- 3 Schools are funded from Dedicated Schools Grant (DSG), provided to the council by the Department for Education (DfE). The total DSG is split into three categories of educational provision, with notional funding allocated to each block. 2014/15 funding is shown below. DfE Funding for 2015/16 will be announced in December 2014:
 - Schools £548m

All primary and secondary schools are funded from this block, including those which have converted to academy status. The council allocates funding to individual schools based on a local formula, following an annual consultation with all schools.
 - High Needs £125m

The High Needs block caters for pupils with special educational needs and disabilities (SEND). It funds Surrey special schools, SEN centres in mainstream schools, pupil referral units (PRUs) and the provision of education to those pupils with complex or severe needs requiring support in

a non-maintained or independent special school. It provides additional funding to primary and secondary schools for pupils with SEN statements or Education Health Care Plans. It also funds specialist support services (eg physical and sensory support, speech & language therapies).

- Early Years £51m

The Early Years block funds nursery education for 2-4 year olds in maintained schools, maintained nurseries, academies and private, voluntary and independent (PVI) settings.

- 4 The DSG received by the council is a ring-fenced grant and can only be used to fund the services set out above. However the funding notionally allocated to each block can be switched between blocks at the council's discretion, to address local needs. Pressures in the High Needs block in recent years have necessitated transfers from Early Years, where the DfE has funded capacity building and growth at levels which exceeded actual need.

Schools Forum

- 5 The Schools Forum is a statutory body which must be consulted on the allocation of Dedicated Schools Grant (DSG). It comprises headteachers, governors, academy representatives and 'non-school' representatives from early years providers, diocesan bodies, teaching unions, post-16 providers and Partnership with Parents (SEND). The Forum has a largely consultative role but with decision making powers in specific areas, relating largely to funding within the Schools block. Decisions relating to the allocation of total DSG funding between the three DSG blocks are the responsibility of the local authority.

DfE - Fairer Schools Funding in 2015-16

- 6 Surrey is a relatively lowly funded authority and the council has consistently sought increases in Government funding for education. In July 2014, the DfE announced the outcome of its Fairer Schools Funding proposals, and its intention to allocate an additional £390m in Dedicated Schools Grant to those authorities with the lowest funded Schools block. Surrey's provisional allocation of additional funds is £28.4m, (subject to confirmation during December 2014, following updated pupil data). This funding will be added by the DfE to the Schools block. The government sees this as an interim measure pending the introduction of a national funding formula at some point in the future. There is no corresponding increase in funding in other blocks for pupils with high levels of SEN in special schools or for early years pupils in nurseries.
- 7 In 2014/15, Surrey's individual schools' budgets were supported by an additional one-off contribution of £5.6m brought forward from underspends in DSG in previous years and the Forum's decision to hold fewer central contingencies. As one-off funds, these are unavailable in 2015/16 and therefore, in the absence of the DfE's additional funding, a reduction of £5.6m in schools' budgets would have occurred in 2015/16. The additional DfE funding of £28.4m therefore reduces to a net impact of £22.8m on schools' funding when compared to 2014/15.
- 8 Although the DfE is allocating the additional funding to the Schools block, the council is allowed to move funding between the Schools block, High Needs block and Early Years block, to address local needs. Local authorities must consult with their Schools Forums but the final decision rests with councils.

High Needs SEN Pressures within DSG

- 9 There are ongoing pressures on the High Needs SEN block within DSG and in 2014/15, expenditure has been supported by a transfer of £6.5m from Early Years funding. This was possible as the take-up of the free early education entitlement for two year olds has been lower than the government anticipated and funded. Thus Surrey needs to find £6.5m in 2015/16 just to maintain the current level of high needs SEN provision, before allowing for any increases in costs or in pupil numbers.
- 10 Additionally, it is currently estimated that a further £3.5m will be required to meet the costs of inflation and demographic growth, making a total shortfall of £10m projected in 2015/16.
- 11 The funding gap has a number of causes:
- Growth is expected in the number of learners requiring support with SEN following recent legal changes which increase entitlement to funding up to the age of 25
 - In 2013/14 and 2014/15, government funding for high needs pupils has not increased automatically in line with increasing pupil numbers, whereas funding for pupils in “mainstream” primary and secondary schools increases as pupil numbers rise.
 - There are increasing demands for therapy services, which the National Health Service do not fund.
 - Special schools report an increase in the proportion of high need pupils with multiple and complex needs
- 12 In recent years, High Needs expenditure has been subsidised by underspends in other areas of DSG, particularly in the growth funding provided for early years to allow expansion of the free entitlement. From 2015/16, funding for the early years block will be based strictly on actual pupil numbers. Thus there is unlikely to be any surplus early years funding in 2015/16 and thereafter.

Addressing SEN Pressures

- 13 Historically Surrey has placed a relatively high proportion of pupils with SEN in non-maintained and independent special schools. If the level of high cost SEN expenditure is to be reduced, it is essential to develop provision to meet the needs of more children with high levels of SEN in maintained schools and academies in Surrey. This is a long term process, involving development of new and changed provision in local special schools and centres in order to meet higher levels of pupil need, and increasing the capacity of schools to provide for pupils with high levels of SEN. Steps are already being taken in this direction including those outlined in the “Learning Difficulties Review” and the commissioning of specialist centres for autism in four Surrey mainstream secondary schools.
- 14 The council has discussed these issues with schools at the last two meetings of Schools Forum and the Forum has indicated a willingness to consider a joint approach to managing the necessary changes whereby schools can not merely help resource but agree, oversee and help implement the programme of necessary changes. We hope the new Special Educational Needs and Disabilities Governance Board will be the vehicle through which schools can exercise shared direction of this major project.

Funding transfer

- 15 In the absence of alternative sources of funding within DSG, schools have been advised of the authority's proposal to use £10m of the additional Schools block DSG in 2015/16 to meet the spending pressures in the High Needs budget. It is anticipated that a level of support may be needed for up to three years. This will allow time to develop and start to implement, a strategy for developing local provision in order to meet higher levels of need, and to reduce the need for high cost out county placements. The strategy will address challenges including the following:
- new and changed provision takes time to develop and often incurs transitional costs
 - in general, pupils in specialist placements only move between placements at specific transition points, such as ages 11 and 16
 - short term reductions in support services (some largely supporting mainstream schools) could be counterproductive at a time when we need to increase SEN capacity in mainstream schools

Schools' views

- 16 The council consults all Surrey schools on proposed formula changes on an annual basis. As part of the autumn 2014 funding consultation, all schools were invited to contribute to the discussion, expressing their views on measures to manage the High Needs budget, including the need for a £10m transfer from the funding of primary and secondary schools in 2015/16.
- 17 A total of 170 (48% schools) responded to the funding consultation, with the majority of schools commenting on this particular proposal. Annex 1 categorises responses - the most prevalent theme being one of reluctant acceptance of the need for the £10m transfer, but concerns over the robustness of governance and the need for a clear plan to ensure the additional contribution to high needs is not permanent.

Schools Forum's view

- 18 The outcome of the consultation with schools was discussed with Schools Forum on 1 October 2014. The Forum supported the council's proposal to fund pressures in the High Needs block by a transfer of £10m from the Schools block within DSG. However, the Forum stipulated the following caveats:
- that the SEND Governance Board provide clear strategic direction to reduce High Needs expenditure, including options for further consultation with all schools
 - that all options assume a reducing level of contributions from the Schools block from 2016/17 onwards
 - should an unexpected increase in the DSG settlement be advised in December 2014, that scope to reduce the £10m transfer for 2015/16 be assessed under the council's fine-tuning arrangements
- 19 The recognition by schools of the increasing pressures in supporting special educational needs and their support for the £10m transfer has given the authority

time to develop a long term strategy to address these issues. This has a clear commitment from the council and a SEND Governance Board has been established with representation from officers, headteachers, NHS colleagues and parents. A report to Cabinet is scheduled for February 2015.

Proposed Changes to Surrey's Schools Funding Formula

20 Funding at individual school level is based largely on pupil numbers, with a 'basic entitlement' paid per pupil on roll. Schools then receive additional funding to reflect the varying needs of pupils attending that school – for example, special educational needs and social deprivation.

21 In 2014/15, total schools' funding was allocated on the following basis:

	% of total funding allocated on this basis
Basic Entitlement per pupil	73.57
Lump sum (flat rate) per school	9.11
Social deprivation funding	11.39
Low prior attainment (SEN indicator)	3.82
Rates, rent and other premises factors	1.38
English as an Additional Language	0.42
Post-16 Assimilated Grants	0.24
Looked after children	0.05
Pupil mobility	0.02
Total	100.00

22 During September 2014, schools were consulted on the following changes to the funding formula, to take effect in April 2015.

1 The allocation basis to be used for the additional funding expected from the DfE in April 2015.

In line with the DfE's Fairer Schools Funding proposals, additional funding will be available to schools in 2015/16. A Schools Forum working group recommended this be allocated on the following principles and schools were consulted on this approach.

- the additional funding should be allocated using pupil numbers (basic entitlement)
- the funding should be divided between primary and secondary sectors in such a way as to maintain the present ratio of average funding per pupil between secondary and primary schools
- the ceiling on schools which gain funding per pupil should be retained.

Schools views : Schools responding to the annual funding consultation and the Schools Forum overwhelmingly supported the working group's proposals as set out above. Accordingly, the proposals are recommended for implementation by the council.

2 A proposed increase in funding for schools with a high incidence of high cost (or needs) pupils

Schools are required by the DfE to provide, from their core funding, the first £6,000 of support for pupils with SEN. The council's formula provides additional funding to those schools with a high incidence of SEN pupils in the October count. However a small number of primary schools have argued they face unmanageable increases in SEN costs from high needs SEN pupils arriving during the year after the October count. A proposal to fund primary schools on a termly average where this is higher than the October count was consulted upon. This would be funded from within total primary schools' funding within DSG and would have allocated a further £200,000 to schools in 2014/15.

Schools views: Schools strongly supported the above proposal and the Schools Forum recommends that the council approves this change.

Impact on the Funding Formula 2015/16

- 23 Annex 2 lists the current formula factors, their current values in 2014/15 and their proposed values in 2015/16, assuming that the proposed net increase in schools' funding (£22m) is reduced by a transfer of £10m to meet High Needs SEN pressures. It is a DfE requirement that these formula factors be submitted to the DfE by 31 October 2014.

Fine-tuning following DSG settlement

- 24 At this stage, these formula values can only be provisional as DSG funding will be based on pupil numbers and characteristics collected in the October 2014 pupil census – data which is unavailable to local authorities until December 2014. The DfE therefore enables local authorities to fine-tune these values by 20 January 2015, to ensure that the formula is affordable within the funding settlement.
- 25 Fine-tuning of the formula at that time will be considered by the Assistant Director, Schools and Learning, in consultation with the Cabinet Member for Schools and Learning, the Leader of the County Council and where appropriate, the Schools Forum.

Minimum Funding Guarantee (MFG)

- 26 The DfE requires local authorities to deliver a Minimum Funding Guarantee (MFG) to schools. This places a limit on any funding reductions incurred by schools to a maximum of 1.5% per pupil. This is funded by a ceiling placed on the gains of other schools. The precise impact of the recommended changes in the formula for 2014/15 cannot be accurately estimated to individual school level until December 2014 when updated pupil data is available. The DfE's additional funding for schools in 2015/16 should result in fewer schools requiring the protection of the MFG, although many schools are on long-term transitional arrangements which reduce their funding, following the DfE's introduction of limited formula factors in 2013.

CONSULTATION:

- 27 The council consulted on the proposed changes in this report with all Surrey primary schools, secondary schools and academies during September 2014. Schools were given budget illustrations of the impacts of the various options based on the latest published pupil data (October 2013).
- 28 A total of 170 schools submitted responses before the deadline, representing 48% of Surrey's primary and secondary schools. Schools' collective responses were discussed at the Surrey Schools Forum on 1 October 2014. The recommendations in this report reflect the views of the Schools Forum and the majority of those schools responding to the consultation.

RISK MANAGEMENT AND IMPLICATIONS:

- 29 Schools are expected to operate within the funding provided. Where an individual school faces financial problems the local authority can approve a licensed deficit and will develop a recovery plan for repayment in a specified term – usually within three years.
- 30 In exceptional circumstances, a school may require additional funding intended to reflect unique financial difficulties. This is usually accompanied by a local authority review of the school's management and/or other issues including the potential advantages of federated/partnership arrangements with other schools.
- 31 In the event that a school became financially unviable then the council would be required to step in to address issues. This could involve a review of wider educational provision in the area or by providing additional financial support to a school. Schools are subject to regular monitoring and the local funding formula is reviewed on an annual basis to assess scope for potential amendments within DfE controls.
- 32 As at 1 October 2014, a total of 70 schools have converted to academy status (39 primary, 29 secondary and 2 special). Responsibility for the financial viability of academies lies with the Government's Education Funding Agency rather than the county council.

Financial and Value for Money Implications

- 33 Schools are funded by Dedicated Schools Grant (DSG). Primary and Secondary schools are funded from within the notional Schools block, with High Needs DSG funding special schools. The proposals in this report recognise and address continuing demographic and inflationary pressures in the High Needs block via a transfer of £10m from the Schools block. Schools are to work with the authority and its partners to provide options for future savings, to be consulted on with all schools during 2015/16. The proposals in this report therefore have no direct impact on council tax.

Section 151 Officer Commentary

- 34 The Section 151 Officer confirms that all material, financial and business issues and risks have been considered in this report. The Schools Forum has agreed a joint approach to addressing SEN pressures, with a transfer of £10m from schools

to high needs in 2015/16. This will enable SEN needs to be addressed and costs contained within Dedicated Schools Grant funding.

Legal Implications – Monitoring Officer

- 35 The proposals comply with the DfE requirements and legislation, and have been arrived at following consultation with schools and the Schools Forum.

Equalities and Diversity

- 36 An Equality Impact Assessment has been completed and is attached as Annex 3. Within the limited flexibility available, the proposals aim to assist schools with a high incidence of special needs, which will overlap with disabilities. It is not expected that the proposals will directly affect any other priority groups although ultimately this will be an issue for schools, which make the final spending decisions.

Corporate Parenting/Looked After Children implications

- 37 Additional funding is provided to all schools with looked after children. Funding levels will be maintained and no changes are proposed to unit rates.

Safeguarding responsibilities for vulnerable children and adults implications

- 38 There are no implications for safeguarding responsibilities arising from this report.

Public Health implications

- 39 There are no implications for public health arising from this report.

Climate change/carbon emissions implications

- 40 The recommendations in this report have no implications for climate change or carbon emissions.

WHAT HAPPENS NEXT:

- 41 The next steps are as follows:
- The local authority must submit to the DfE a template indicating its revised funding formula for schools by 31 October 2014.
 - The DfE will provide local authorities with updated pupil data at school level by mid-late December 2014 and an indication of likely DSG funding. The council may then make fine-tuning adjustments for submission to the DfE by 20 January 2015.
 - Surrey maintained schools will receive their individual schools budget from the council by 27 February 2015. Academies will be notified of their funding separately by the Education Funding Agency (EFA). This will be based on the council's funding formula.
 - The SEND Governance Board will develop a strategy for wider consultation with schools, to address the increasing pressures on the special educational needs budget.

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The Surrey Schools Forum

Surrey schools – via the Schools Funding Reform Consultation, issued Sep 2014

Annexes:

Annex 1 Proposed transfer of £10m from notional Schools Budget to High Needs

Annex 2 Proposed Surrey formula factors for 2015/16

Sources/background papers:

- School Funding Reform: Next Steps Towards a Fairer System, Department for Education (DfE), March 2012
 - 2015/16 Schools revenue funding 2015 to 2016. Operational Guide Version 2. DfE August 2014.
 - The School & Early Years Finance (England) Regulations 2014 (draft)
 - The Education Acts 2002 and 2011
 - The Schools Standards & Framework Act 1998
 - Schools Forum – Minutes of meeting on 1 October 2014
 - Schools' Funding Consultation– Surrey County Council, Sept 2014
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Annex 1

Proposed transfer of £10m from notional Schools Budget to High Needs

As part of the council's wider consultation on schools' funding, schools were invited to contribute their views on measures to manage High Needs SEND pressures and on the proposal to transfer £10m from the notional Schools Budget within DSG to High Needs* funding.

Total responses received: 170

Not all schools expressed a view on this particular proposal, but where views were articulated they can be broadly categorised as follows:

	No. of responses
Agree with the proposals to transfer £10m to high needs (with no caveats)	7
Agree transfer of £10m is necessary to meet demands on high needs block - but most responses express concerns over the robustness of governance and seek reassurance that a clear plan is developed to ensure the additional contribution to high needs is not permanent	104
Sum should be lower than £10m and phased out over three years. 10 respondents considered part of this amount should be found by reducing funding to schools with high deprivation. Amounts proposed vary.	17
Comments don't indicate clear agreement or disagreement <i>Responses typically refer to the need to educate SEN pupils in appropriate provision, but made no comments on the proposed transfer from Schools block Or responses sought clarity on the extent of commitments in future years with no clear view for 2015/16.</i>	12
If Schools Forum don't support a transfer and LA goes ahead anyway then the LA should publish its justifications to governing bodies	2
Disagree with any transfer from Schools block-suggest we should lobby DFE instead	1
Agree £10m is needed for High Needs but other areas apart from schools should contribute	1
Total	144

* The High Needs block funds special schools, SEN centres, PRUs, SEN in non-maintained and independent (NMI) provision. It also funds SEN support in mainstream schools and therapies (including speech & language therapy).

Annex 2

Proposed Surrey formula factors for 2015/16

The table below lists the provisional values of the formula factors which Surrey proposes to use to fund its schools in 2015/16. These formula factors must be reported to the DfE by 31 October 2014.

In line with the recommendations of schools in paragraph 21, the proposed increase in funding is to be allocated to basic entitlement, rather than across all formula factors.

	2015 / 16 Provisional values		2014/15	
	Primary £	Secondary £	Primary £	Secondary £
Basic entitlement per pupil				
• Key stages 1 & 2	2,622.62	-	2,537.86	-
• Key stage 3	-	3,510.73	-	3,418.83
• Key stage 4	-	4,335.19	-	4,221.71
Lump sum per school	135,000	175,000	135,000	175,000
Social Deprivation:				
Per pupil on free schl meals	5,093.57	3,588.05	5,093.57	3,588.05
Per pupil in IDACI band 1		886.59		886.59
Per pupil in IDACI band 2-6		1,599.02		1,599.02
Low attainment:				
Per low attainer based on Foundation Stage Profile	857.89		857.89	
Per secondary pupil scoring below level 4 in either maths or English at key stage 2		1080.12		1080.12
English as an Additional Language:				
Per pupil with EAL in school system for fewer than 3years	275.95	672.95	275.95	672.95
Per looked after child	796.17	796.17	796.17	796.17
Pupil mobility:				
Per mobile child above 10% of roll	629.00	774.00	629.00	774.00
Per post 16 learner		181.43		181.43

* IDACI Income deprivation affecting children index

The above values are estimated based on latest DfE data (from October 2013) and will be subject to amendment following receipt of 2014 data from the DfE in December 2014.

Other funding provided to schools is as follows:

- Business rates are funded at cost
- Rents on rented property at cost where over 0.9% of budget (where applicable)
- Split site allowance
- Additional funding for schools admitting bulge classes or increasing admissions number from September 2015
- Funding for individual statemented pupils, nursery classes and SEN centres (where applicable)

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