

**SURREY COUNTY COUNCIL**

**CABINET**

**DATE: 23 OCTOBER 2012**

**REPORT OF: MRS LINDA KEMENY, CABINET MEMBER FOR CHILDREN AND LEARNING**

**LEAD OFFICER: NICK WILSON, STRATEGIC DIRECTOR, CHILDREN, SCHOOLS & FAMILIES**

**SUBJECT: SCHOOLS FUNDING REFORM: IMPLEMENTATION OF NEW FUNDING FORMULA FOR SURREY SCHOOLS**



**SUMMARY OF ISSUE:**

New regulations require local authorities to re-design their schools' funding formula on a more simplistic basis, the aim being greater national consistency. Surrey is a relatively low funded authority and in order to target funds effectively, has a relatively complex funding formula. This report recommends amendments to the council's schools funding formula necessary to comply with the regulations and also to mitigate unavoidable turbulence at individual school level. The council is required to submit its proposed schools' funding formula to the Education Funding Agency by 31 October 2012.

**RECOMMENDATIONS:**

It is recommended that the Cabinet:

1. approves the proposed revisions to the schools' formula funding factors and transitional arrangements, in order to comply with new legislation
2. approves the transfer of £27m of Dedicated School Grant funding from core to deprivation funding to mitigate adverse impacts on schools catering for disadvantaged groups, as supported by the Schools Forum
3. delegates authority to the Assistant Director, Schools & Learning, in consultation with the Cabinet Member for Children and Learning to update and amend the formula as appropriate following receipt of DfE autumn term pupil data in December 2012, to ensure that total allocations under the formula are affordable within current resources.

**REASON FOR RECOMMENDATIONS:**

To ensure that the council's funding formula for schools complies with new regulations and that turbulence of funding at individual school level is minimised.

## **DETAILS:**

### **Schools' Funding Process**

1. Schools are funded by Dedicated Schools Grant (DSG). In 2012/13 Surrey's DSG totalled £695m of which £553m was delegated to individual primary schools, secondary schools and academies - the remainder largely supporting pupils with special educational needs in special schools and early years education. Funding is allocated to schools on the basis of a locally determined formula, developed by the county council in partnership with its schools. Surrey schools are consulted annually on recommended amendments to the formula, thereby ensuring it continues to meet local needs and has their support.
2. Government funding to local authorities for their schools varies considerably, ranging from £4,428 per pupil to £9,372 per pupil in 2012/13. Surrey is comparatively poorly funded at £4,803 per pupil and consequently its funding formula is relatively complex in order to target funding to address specific pupil needs.
3. Formula changes each year are consulted upon with all schools and the Schools Forum. The Schools Forum is a statutory body comprising representatives of headteachers, governors, academies, diocesan councils, partnerships (early years and 14-19) and special educational needs. The current Surrey formula has the strong support of the Schools Forum and the wider schools community.

### **New DfE Requirements**

4. In March 2012 the Department for Education (DfE) published, 'School Funding Reform: Next Steps Towards a Fairer System' which proposed the simplification of local authorities' schools' funding formula in order to reduce variations between areas. Fewer formula factors will be permitted and their precise use will be closely defined.
5. It is accepted by the DfE that some turbulence may occur at individual school level and local authorities must therefore develop transitional protection mechanisms from within the total available Dedicated Schools Grant to ensure that no school loses more than 1.5% per pupil in 2013/14 and 2014/15. This will necessitate top-slicing the funding from schools which might have gained from the proposals. No DfE announcements have yet been made on funding guarantees after 2014/15 as that is within the next Spending Review period.
6. Local authorities have traditionally been expected to devise a schools funding formula which demonstrably targets funding to meeting local needs. Surrey schools are currently funded on a formula which involves 37 formula factors in targeting funds to the following:
  - A basic per pupil entitlement (£380m)
  - Deprivation funding (£28m)
  - Special educational needs funding (£33m)
  - A separate flat rate entitlement to primary and secondary schools (£48m)
  - Upper Pay Scale (UPS) payments for teachers (£16m)

- Other factors - including funding small schools subsidy, Key Stage 1 class sizes, Underachieving ethnic minority funding, Specialist schools, Pupil mobility, Admissions & Appeals, Early Years, Floor areas, Split-sites, rates, (£48m)
7. The Coalition Government is now seeking greater simplification and standardisation in funding and has limited the number of formula factors to 11 (of which only 9 apply in Surrey).

### **Potential Impact in Surrey**

8. The requirement to simplify the formula and remove many funding factors will cause significant turbulence at individual school level but most notably in the following areas:

a) Deprivation Funding

Surrey's formula recognises that schools with high concentrations of disadvantaged pupils often face additional challenges, including for example, low expectations in the community. Surrey has chosen to fund disadvantaged pupils in its most deprived schools at a higher unit rate – thereby supporting schools in particularly vulnerable communities. This differentiation is considered important to schools in an area like Surrey where significant pockets of high deprivation are scattered across a county where the general level of deprivation is relatively low and where that low level of deprivation is reflected in the low average level of funding received.

Under the new regulations, this current funding mechanism is no longer permitted. Moving to the DfE's required funding method will mean a significant loss in funding for schools catering for Surrey's more disadvantaged pupils. The losses of the most deprived schools will far exceed the sums which they are likely to receive through increases in the pupil premium.

b) Flat rate allocations

Each school receives a basic flat rate allocation. Surrey currently allocates between £110,000 - £125,000 to primary schools (depending on age range) and £237,000 to secondary schools. However, the Department now requires the council's flat rate to be the same for primary and secondary schools. This will cause turbulence at individual school level.

c) Small school subsidies

Small schools have historically received additional funding towards fixed costs via a Small School subsidy. This varies from up to £17,000 in small primary schools and up to £159,000 in secondary schools. The payment of a small school subsidy is no longer permitted.

### **Key Concerns**

9. The combined effect of the required changes to the council's formula present following concerns:

a) Within Surrey, the adverse impact is concentrated on:

- schools serving the most disadvantaged communities
  - small secondary schools
  - undersubscribed schools (including schools in rural areas)
- b) The main gainers are large schools with low – medium levels of deprivation
- c) Although many schools gain from these proposals, their gains are relatively small, whereas some schools face significant losses sufficient to threaten their long-term financial viability.
- d) Surrey’s current formula is strongly supported by schools and highly effective in targeting needs. The latest published comparative data (March 2011) indicates that only 2% of Surrey schools were in deficit – compared to a national average of 8%. Compliance with the new simplified formula is likely to increase the numbers of schools with deficits.
- e) Some schools at risk are currently undersubscribed secondary schools earmarked to take more children in future years as the current increased numbers of primary aged pupils progress through the system
- f) The prescriptive nature of the DfE’s proposals provides local authorities with only limited flexibilities within the formula with which to support schools at risk.
- g) Transitional protections which limit losses in 2013/14 and 2014/15 provide little reassurance to schools. Schools have highlighted that such arrangements merely slow down the rate of decline but provide no assurances of longer term viability.
- h) The Leader of the County Council, Surrey MPs, council officers and headteachers have alerted the DfE of their concerns and sought to protect funding flexibilities. DfE officials have attended meetings including the Surrey Schools Forum. However no amendments of any significance to Surrey have been approved for 2013/14.

### **Mitigating Actions Proposed in Surrey**

- 10 The implementation of the DfE’s proposals will require the development of:
- a new schools’ funding formula followed by
  - the development the transitional protection mechanisms for 2013/14 and 2014/15 to ensure no school loses in excess of 1.5% per pupil. These protections will be funded by top-slicing the gains of other schools – potentially limiting gains to a maximum of 1% or less.
- 11 In developing a new funding formula for introduction in April 2013, a working group has been established comprising headteachers, governors, Schools Forum members and council finance specialists to develop a formula for schools which complies with legislation and adopts the following aims:
- to minimise instability

- to minimise large losses for vulnerable schools to the extent that it does not produce wholly perverse results elsewhere
  - to avoid large-scale transfers of funding between sectors (primary and secondary) at this stage – as the DfE is proposing to specify a permitted range within which the primary:secondary funding ratio must fall in future. This means that any suggested transfers between sectors in 2013/14 might have to be reversed in future years.
- 12 During September 2012 the council consulted all Surrey primary, secondary schools and academies. (Special schools have different arrangements and are subject to a separate consultation.) Schools were asked to comment on a number of proposed changes emanating directly from the working group or from subsequent analysis by council finance officers. A total of 204 schools responded to the consultation, 58% of all primary and secondary schools.
- 13 The Schools Forum considered the outcome of the schools' consultation at its meeting on 1 October 2012 and has made recommendations to the Cabinet in line with schools' views. **Annex 1** lists the recommendations of the Schools Forum. **Annex 2** lists the proposed new Surrey formula factors, in line with those recommendations and in compliance with new DfE requirements.

### Key issues of note

#### New Deprivation funding proposals

- 14 Although the mechanisms for distributing the deprivation 'pot' must be simplified such that targeting to specific high needs schools is no longer permitted, the council can influence the overall size of the pot. To mitigate the heavy losses to those schools relying on substantial deprivation funding, the council could increase the totality of deprivation funding, however this necessarily requires a transfer of resources from core funding – i.e. funding removed from all schools. The main losers from this proposal would be those schools with relatively low deprivation, which would lose core funding but not gain from the subsequent increase in deprivation allocations.
- 15 Schools in each sector were asked for views on three options involving a transfer from core to deprivation funding of varying amounts in each sector.
- 16 Proposed Increase in deprivation funding (percentage increase):

	Primary	Secondary	Total Increase in Deprivation Funding*
Option 1	£2.0m (12%)	£4.2m (39%)	£6.2m (22%)
Option 2	£6.9m (40%)	£9.2m (85%)	£16.1m (57%)
Option 3	£12.9m (75%)	£14.2m (131%)	£27.1m (97%)

\* The variations between sectors reflects differing base levels of deprivation funding and the loss of funding for practical & applied learning in the secondary sector (from which schools in disadvantaged areas had benefitted) and the transfer of £2m from SEN to deprivation in the primary sector (in respect of behaviour needs linked to deprivation).

- 17 The formula working group of headteachers, governors and Schools Forum representatives advised that any request to transfer very high levels of core funding to deprivation would be strongly resisted by schools. Schools with low deprivation still face considerable challenges and in a year of zero growth this should be recognised. These proposals reduce current levels of funding for many schools with low levels of deprivation.
- 18 All schools were provided with an estimate of the impact of each option on their long-term funding based on currently published pupil data. (Note actual funding in 2013/14 will be based on data, as yet unavailable, to be collected by the DfE during October 2012.)
- 19 The results of the consultation with all schools indicated majority support for Option 3 from 68% of primary schools and 71% of secondary schools. This reduces losses to more challenged schools but does not remove the problem and further approaches will be made to the DfE to seek their protection in the longer term.

### **Flat Rate**

- 20 The DfE permits a single flat rate of up to £200,000 per school, which must be the same for primary and secondary schools. The council's consultation recommended a flat rate per school of £135,000 and this was supported by 99% of primary schools and 93% of secondaries. Schools acknowledged that this reduced the funding for secondaries (currently funded at £237,000) but that the maximum rate of £200,000 would be wholly disproportionate funding for many small primary schools – where total budgets can be as little as £300,000. Approaches to the DfE to enable councils to have a differential flat rate for primary and secondary sectors will continue.

### **Special Educational Needs & Looked-after-children**

- 21 The council has maintained the total funding for Special Educational Needs (SEN), Looked After Children and English as an Additional Language at current levels, although the DfE's prescribed indicators may change the distribution between individual schools.

### **Impact of Mitigating Actions**

- 22 The transfer of £27m from core to deprivation funding (Option 3) reduces the level of losses in vulnerable schools but does not remove the problem. **Annex 3** shows the impact of the proposals once fully implemented. In 2013/14 and 2014/14, schools will be protected by the 1.5% per pupil minimum funding guarantee. During this period the council is aiming to seek additional formula flexibilities to enable it to protect vulnerable schools and ensure their longer term viability.

### **Updating of formula prior to distribution**

- 23 Modelling the impact of formula changes in Surrey schools has been undertaken on the latest available DfE data from October 2011. Schools' funding for 2013/14 will be based on data to be collected by the DfE during October 2012 to be supplied to local authorities in mid-December. Some amendment to the proposed formula may then be necessary in order to ensure that the application of the formula is in line with intentions and that

total allocations under the formula are affordable within Dedicated Schools Grant. The Cabinet is therefore asked to approve the delegation of any formula changes required following the receipt of updated data to the Assistant Director, Schools & Learning, in consultation with the Cabinet Member for Children and Learning.

#### **CONSULTATION:**

- 24 The council consulted on the proposed changes to the local funding formula with all Surrey schools and academies during September 2012. A total of 204 schools submitted responses, (58%) of all primary and secondary schools. Schools' responses were discussed at the Forum on 1 October 2012 and the recommendations of the Forum set out in this report reflect schools' views.

#### **RISK MANAGEMENT AND IMPLICATIONS:**

- 25 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.
- 26 In exceptional circumstances, a school may receive 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.
- 27 The new funding restrictions could present a number of schools with financial challenges. 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 funding formula will be reviewed on an annual basis to seek to protect the financial viability of schools where possible within the new tighter DfE controls.
- 28 To date, 25 primary and secondary schools have converted to academy status (7% of schools). 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**

- 29 Schools are funded by Dedicated Schools Grant (DSG) and the total cost of the formula allocation of schools' budgets will be contained within the total available grant. The implementation of DfE proposals outlined in this report have no direct impact on centrally managed services funded by DSG. The proposals also have no direct impact on expenditure funded by council tax. However, the council is ultimately responsible for ensuring the financial viability of maintained schools and this may necessitate closer monitoring and potential intervention in schools at risk.

### **Section 151 Officer Commentary**

- 30 The Section 151 Officer confirms that all material, financial and business issues and risks have been considered in this report.

### **Legal Implications – Monitoring Officer**

- 31 The proposals comply with the DfE requirements and legislation, and have been arrived at following consultation with schools and the Schools Forum. The potential impact for pupils from disadvantaged groups or with some protected characteristics has been highlighted below and mitigated as far as possible, and will be kept under review.

### **Equalities and Diversity**

- 32 The funding formula for Surrey schools has been revised in order to comply with the requirements specified by the Department for Education (DfE) as set out in the publication, 'School Funding Reform: Next Steps Towards a Fairer System'. The DfE has undertaken an Equality Impact Assessment of its proposals and maintains that an adverse impact is unlikely, although the DfE also states that 'there is insufficient evidence, however for this analysis to be made with full confidence'.
- 33 Schools losing funding are protected during 2013/14 and 2014/15 by the Government's minimum funding guarantee which limits losses to 1.5% per pupil. However, the council has raised concerns with the DfE that once fully implemented, Surrey schools catering for more deprived communities could see significant reductions in their funding which might adversely affect educational outcomes for pupils from disadvantaged groups and / or some pupils with protected characteristics under the Equalities Act. This follows the removal of the right to differentially target deprivation funding to high need schools – a key factor in the Surrey schools' formula.
- 34 To mitigate the impact of DfE requirements on disadvantaged groups, the council has proposed and - via a consultation with all schools - gained support for the transfer of an additional £27m for support to deprived pupils from all schools' core funding. This is an increase of 97% on current levels of deprivation funding. It is considered that this is the maximum amount which the schools community can bear at this time – as it reduces current funding levels in many schools with relatively low deprivation. The council will continue to seek more freedoms to target funding more selectively and will review annually the impact on vulnerable groups.

### **Corporate Parenting/Looked After Children implications**

- 35 The totality of funding for looked after children has been maintained at current levels, although the new DfE permitted factors may change the distribution of funding between schools, due to the introduction of an annual count instead of Surrey's present termly count.

### **WHAT HAPPENS NEXT:**

- 36 The next steps are as follows:



- The local authority must submit to the Education Funding Agency (EFA), a template indicating its revised funding formula for schools by 31 October.
  - The DfE will provide local authorities with updated pupil data at school level by mid-December.
  - Based on the updated DfE data, the council will submit its amended, updated formula to the EFA by 18 January
  - Surrey maintained schools will receive their individual schools budget from the council by mid-March 2013. Academies will be notified on their funding, based on the council's formula, by the EFA.
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The Surrey Schools Forum

Teaching Associations & Trades Unions Local Management in Schools (LMS)

Funding Group

Surrey schools – via the Schools Funding Reform Consultation, issued Sep 2012

**Annexes:**

Annex 1 - Recommendations of the Schools Forum to the Cabinet

Annex 2 - Proposed formula factors for 2013/14

Annex 3 - Impact of Funding Changes on schools

**Sources/background papers:**

- School Funding Reform: Next Steps Towards a Fairer System, Department for Education (DfE), March 2012
  - The School & Early Years Finance (England) Regulations 2013(draft)
  - The Education Act 2002
  - The Schools Standards & Framework Act 1998
  - Schools Forum – Minutes of meeting on 1 October 2012
  - Consultation on Schools Funding Reform – Surrey County Council, Sep 2012
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