SCHOOLS' FUNDING FORUM

SUBJECT:	Secondary Schools Vulnerable to Financial Difficulty

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DATE:	20 November 2015

SUMMARY OF REPORT:

To update Forum members on developments with the Department for Education (DfE), Education Funding Agency (EFA) and Regional Schools Commissioner (RSC) on the Local Authority's concerns about a number of Secondary schools that are vulnerable to financial difficulty and our desire to find a locally agreed solution.

FOR:	Information and Comment

1. Background

1.1 The Forum will be aware from discussions at previous meetings that the Local Authority has concerns over a number of Secondary schools that appear financially vulnerable over the current and next two financial years from the effects of falling rolls. Some of these schools are also showing a declining trend in performance.

1.2 The Local Authority has recently completed its annual revision of its Education Commissioning Plan which provides us with a detailed view on future school place requirements within each planning District, taking into consideration not only the shift of current Primary school pupils into the Secondary sector but also the inward migration of families with children into Kent. What is clear from the Plan is that the Secondary school aged population in Kent is going to grow very significantly over the next few years and we will need to increase capacity significantly . The Local Authority needs additional school places and cannot afford for Secondary schools or academies to close due to short term financial difficulty and potential serious deficit as a result of low numbers at present.

1.3 It is the LA's view that this financial vulnerability has been compounded by the simplification of the funding formula following the School Funding Reform changes introduced in April 2013 by the previous government. These reforms have placed additional restrictions on the LA which prevent us from offering a local and flexible solution to assist with this problem. Over 90% of the schools' budget is now distributed on pupil led factors, with the result that a reduction in pupil numbers, as some of our Secondary schools have

experienced, has had a significant and immediate impact upon a school's annual funding.

2. DfE/EFA/RSC View

2.1 On 28 September 2015, LA officers met with representatives from the Department for Education (DfE), the Education Funding Agency (EFA) and the Regional Schools Commissioner (RSC). The EFA and RSC were invited as a number of affected Secondary schools are academies. The purpose of the meeting was to raise awareness of the issue and to explore possible solutions. The LA's preference is to discuss and agree, with the Schools' Funding Forum, a time limited additional formula factor that would target additional funding to support some of these Secondary schools. The exact amount which would be required has not been calculated so the discussion was more about the principle rather than the quantum. Forum members should note that the solution we have proposed is currently not permitted by the DfE School Finance regulations.

2.2 The view of the DfE School Funding representative at that meeting is that Kent is not currently taking full advantage of the flexibility that already exists within the simplified national formula budget. The flexibility that he referred to is as follows:

a) We could increase the lump sum from £120k for each Secondary school to £175k.
b) Most of the Secondary schools facing financial difficulty are located in areas of high deprivation. We should look to increase the amount of funding we distribute through IDACI/FSM so that we are in line with the national average as a minimum.
c) We could introduce a sparsity factor for our Secondary schools – currently only three schools would qualify and the maximum value we are allowed to pay through this factor is £100k
d) We could also introduce a falling roll factor which can only be provided to schools that have been judged by Ofsted at their most recent inspection to be either Good or Outstanding.

2.3 One of the actions agreed at the meeting was that the Local Authority would model the potential impact of increasing our factors alongside introducing these additional factors. We were clear at the meeting that introducing all of these changes, which would introduce significant turbulence in Secondary school budgets, would not solve the issue.

3. Results of modelling

3.1 Attached at Appendix 1 is a spreadsheet with the results of this modelling and we would like to draw your attention to the following specific points:

a) Our interpretation of the School Funding Operational Guidance is that the lump sum could be increased to a maximum of £175k including London Weighting. As Kent has two Districts which attract London fringe allowance, the maximum increase to the lump sum could be£172k, an increase of £52k per school, as reflected in column H. The total cost of increasing all Secondary school lump sums to this higher level is £5,252k.
b) We have reflected an increase to IDACI/FSMs so that Kent's rates are in line with the average national percentages, as reflected in column I. The total cost of increasing the Secondary school deprivation rates to this higher level is £4,374k.
c) The introduction of the sparsity factor, based on the current DfE criteria would benefit three schools as shown in column J, resulting in a total cost of £300k.
d) We have shown in columns K and L the results of introducing a falling roll factor. The DfE guidance does not set a maximum limit and therefore we interpret that this is one area where we have local discretion in conjunction with the Schools' Funding Forum. For the purpose of this model we have set this at £100k per school.
e) We have assumed in this model that the sparsity and falling roll factors, if introduced, could be funded from DSG headroom. However, the size of the changes to the lump sum and deprivation factors are too great and therefore the only way we could fund this is by reducing the funding rates in some of our existing formula factors. This model assumes the lump sum funding will be found from reducing the Secondary AWPU rates, and the deprivation funding will be found from reducing the prior attainment factor so as to maintain the notional SEN overall percentage.

3.2 Forum members will see from looking at the net effect of the model (column P) that there are some interesting results. Of the 19 vulnerable Secondary schools, 12 schools gain funding and 7 lose funding. The maximum gain is £185k (School N) and the average gain is £87k. The maximum loss is £42k (School G) and the average loss is nearly £22k.

3.3 It is clear from our model that the changes proposed following the meeting on 28 September will not provide the appropriate level of funding to support these vulnerable Secondary schools. We have estimated two scenarios for each school, a budget problem of £300k per annum and a budget problem of £500k per annum. We accept that these are hypothetical examples but from the work we have done with a particular Academy and others we believe this offers a realistic illustration for this purpose. You will see in columns Qa and Qb the remaining scale of the problem after introducing these proposed

changes. None of the 19 vulnerable Secondary schools' problems have been resolved. In fact the difficulty for some schools problems have increased. If all schools required £300k, 84% of this would not be resolved by the formula budget changes, and this increases to 91% using £500k per school.

3.4 It is also reasonable to assume that the changes proposed would introduce a significant level of turbulence to Secondary school budgets and we are unable to model the impact that these changes will have on the Minimum Funding Guarantee (MFG). In reality our experience of similar moves in the past have resulted in an additional MFG pressure which would need to be funded from the total DSG budget.

3.5 The modelling has been sent to the Regional Schools Commissioner and will be discussed at a meeting with him in the near future.

4. Conclusion

4.1 The LA does not believe that the direction suggested by DfE officials will resolve the problem and is committed to continuing to raise the need for a flexible local factor with officials at every opportunity.

4.2 We are aware from talking to other Local Authorities that this is not just a Kent issue.

4.3 Whilst this remains the LA view, we are keen to hear the view of the Funding Forum on this issue.

5. Recommendation

5.1 Members of the Forum are asked to **COMMENT** on whether the LA should consider the changes suggested in paragraph 2.2 above.

Background Papers
None