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SUPPORT FOR SECONDARY SCHOOLS IN CHALLENGING CIRCUMSTANCES

Report of the Operations Director, Education

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1. Purpose

- 1.1 To update Forum on the continuing strategy to support smaller secondary schools in challenging circumstances.
- 1.2 To seek the support of Forum for a Local Authority request to dis-apply school funding regulations to enable the creation of a £3.5m central budget funded from DSG carry-forward to support the forecast lagged growth anticipated in a set of secondary schools working in particularly challenging circumstances.

2. Background

The financial challenges facing small secondary schools

- 2.1 The National Audit Office Report “Financial Sustainability of Schools” published in December 2016 noted that “small schools face particular financial challenges and are less likely to be able to benefit from economies of scale.....smaller maintained schools are more likely to be in deficit: 21% of maintained secondary schools with fewer than 630 pupils were in deficit in 2014-15 compared with only 9% of schools with more than 1,178 pupils”.
- 2.2 This analysis accords with papers considered by Forum over the past two years. However, the issue in Hertfordshire is more acute among smaller secondary schools than primary schools. The budget returns of small maintained secondary schools evidence that reserves have been exhausted and extensive restructuring undertaken to balance budgets. This is not the case in smaller primary schools where reserves have been preserved at a reasonable level; this is in the main because a

proportionately larger lump-sum is received by the primary phase as evidenced in Annex B.

- 2.3 In addition to the challenges of diseconomy of scale, many of the smallest secondary schools in Hertfordshire have disproportionately high numbers of students with SEN, low prior attainment, EAL, Free School Meal eligibility and receive high numbers of in-year admissions. The cumulative impact of all of these factors places significant additional resource pressure on these schools. This pressure, coupled with their diseconomy of scale, is driving significant financial pressures. A number of these smaller schools are twice rated 'Requires Improvement' or 'Inadequate' and face the added challenge of needing to drive significant and sustained school improvement.

Current Mechanisms of Support

- 2.4 It is apparent now that schools under 550 pupils and smaller secondary schools needing to make rapid and sustained improvement in standards can no longer manage on their formula allocation alone, and require some level of financial support to avoid operating at an absolute deficit.
- 2.5 The national school funding system provides three forms of additional financial support which may be available to certain smaller secondary schools.
1. Falling Rolls Funding. Eligibility criteria for this fund have been set within the DfE's stipulated parameters which include that schools must be rated as 'Good' or better by Ofsted.
 2. Minimum Funding Guarantee. Some schools are locked into MFG exceptions as a result of historical revenue streams. Given that MFG limits revenue loss to 1.5% per pupil per year, schools can benefit from MFG arrangements for significant periods.
 3. De-delegated contingency. Maintained schools de-delegate £2 per pupil into a contingency fund. In addition to payments to individual maintained schools, regulations currently enable deficits of schools converting to Academy Status to be written off against de-delegated contingency. It should be noted that permission of Schools Forum is now required to charge any overspend on the contingency to DSG.
- 2.6 The eligibility of small schools to these forms of support and their extent differs considerably. These differences are driven by an increasingly inequitable national school funding system. Forum has been sighted for some time on the inequity in Falling Rolls Funding with only 'Good' or 'Outstanding' schools being eligible under DfE rules.

2.7 Table 1 details a list of the ten smallest secondary schools in Hertfordshire (in size order) and the support they received in 2016/17 through these three mechanisms. The table illustrates the variability in the support received by smaller secondary schools. For example, Schools 3 and 6 are of comparable size and situated within 3 miles of one another. School 3 has now for a number of years benefited from c£500k of MFG annually which enabled it to invest in required school improvement interventions and last year achieved an Ofsted grading of 'Good' for the first time in its history. Neighbouring School 6 is not eligible for any financial support and is unable to make comparable investments. School 6 has twice been graded 'Requires Improvement' by Ofsted and is due a third inspection next term, when if it hasn't achieved an Ofsted grading of 'Good' it will be rated as 'Inadequate'. So, whilst the socio-economic and demographic profiles of these schools are directly comparable, the resources allocated to the schools differ considerably.

Table 1: Inconsistency of additional income received by Hertfordshire's smallest 11-18 secondary schools

School	Ofsted Rating	Support Received in 2016/17 from the mechanisms outlined	Amount	Support Received in 2017/18 from the mechanisms outlined	Amount	Additional Funding Routes Open
School 1	Double RI	Contingency Payment	£300,000	None	-	
School 2	Good	Falling Rolls	£514,576	Falling Rolls	£648,494	
School 3	Good	MFG	£543,968	MFG	£513,000	
School 4	Good	Falling Rolls MFG	£327,164 £130,307	Falling Rolls MFG	£404,989 £100,153	
School 5	Good	Falling Rolls Contingency Payment	£329,081	Falling Rolls	£434,629	
School 6	Double RI	Contingency Payment	£93,000	None	-	
School 7	Good	Falling Rolls MFG	£225,036 £10,990	Falling Rolls MFG	£375,695 £24,114	
School 8	Good	Falling Rolls	£148,902	Falling Rolls	£147,992	
School 9	Double RI	None	-	None	-	
School 10	Inadequate	Contingency payment on Academy conversion	£139,000	None		SSIF Emergency Fund

- 2.8 In 2016/17 recognising the impact that severe budgetary constraints would have on educational outcomes, the LA sought to smooth the inconsistency of funding for smaller maintained secondary schools through a series of one-off contingency payments to support the projected in-year deficits of schools ineligible for any other form of support. These payments were detailed in a paper shared with Forum in September 2016 where “Forum noted the very challenging financial circumstances that some schools are operating in”. As detailed in the September paper, the payments were offset in their entirety by savings to the DSG budget from Community Schools converting to Foundation Status. However, this is not considered to be a sustainable approach to dealing with the full range of current and prospective financial pressures in challenged schools.
- 2.9 There remains an inequity in funding therefore for smaller secondary schools, the reality of which impacts directly on the capacity of schools that are not yet rated as ‘Good’ to drive the necessary rapid and sustained improvements. It should be remembered that, prior to the introduction of recent constraints on local funding formulae, in Hertfordshire Forum recognised the particular pressures on small secondary schools and agreed that they should benefit from a much higher lump sum than they do now.
- 2.10 As is evident from the narrative in this paper, the Falling Rolls Fund is a key support mechanism for a number of smaller secondary schools. However, there is a question round whether the fund can continue to operate with payments at this scale under a National Funding Formula. It is therefore proposed to review the fund once there is greater clarity around the National Funding Formula.

Future Challenges- Lagged Growth

- 2.10 Given that the recent bulge of primary students are beginning to transition to secondary, there can be no question smaller secondary schools will all be needed in the medium-term. Closure of smaller schools would be a false economy given the significant costs that would result from closing schools and then immediately reopening as the demographics would require. It therefore seems inevitable that smaller secondary schools will require some form of financial support over the medium term.
- 2.11 The school funding agenda continues to evolve with the withdrawal of ESG and proposed implementation of the National Funding Formula. The system appears to be increasingly beset with inequity and an inherent lack of flexibility. Further system-wide fragmentation is evident with application process for the Emergency Strategic School Intervention Fund only open to some types of institutions.
- 2.12 When overlaying the local context with the national, it becomes evident that further significant financial challenges lie ahead for the smaller

schools in Hertfordshire. Smaller secondary schools are operating with at least 25% surplus capacity, with some as much as 60% and consequently have over time adapted their structures to pupil numbers.

- 2.13 Forecast demographic growth schools projects that smaller secondary schools will all grow rapidly over the next three years. Smaller schools with surplus capacity will be required to increase pupil numbers within their existing Published Admission Number (not staffing and curriculum capacity). They will therefore not be eligible for allocations from the Growth Fund under DfE rules because the equivalent of Growth Fund allocations can only be paid if the DfE agrees an exceptional arrangement.
- 2.14 This is a particular financial challenge because funding allocations are based on lagged pupil numbers, and in the case of academies a year in arrears. This is a particular problem for licensing deficits in maintained schools because recovery within the 3 year period stipulated (because growth will take seven years to transition through the school) cannot be evidenced leaving schools unable to manage the forecast demographic growth. If MATs take these schools on, they will need to seek bridging loans from the EfA to meet forecast growth which will lead to the automatic issue of a “Financial Notice to Improve” with significant additional red tape and imposed financial restrictions. MATs are simply unprepared to seek bridging loans and in any event unable to guarantee repayment.
- 2.15 Recognising that contingency payments could only ever be made as a one-off, the LA has sought to broker the conversion of smaller maintained schools graded as ‘requires improvement’ or ‘inadequate’ to local MATs over the last six months. In addition to enabling intensive school to school support to facilitate rapid and sustained progress required post ESG withdrawal, MATs are considered a better structural fit given opportunities for achieving economy of scale needed prior to forecast growth. Working with the Regional Schools Commissioner, Sponsors have been identified for five smaller secondary schools requiring rapid school improvement. Two of these five schools have been placed in an Ofsted category and other three schools are on double “Requires Improvement” judgements with one in the Ofsted inspection window and the other two due next term. The conversion for all five schools has stalled following the financial due diligence process where the impact of lagged funding on school budgets beyond 2018/19 was raised as an issue by Sponsors. Consequently, Hertfordshire now has two inadequate “Orphan Schools” facing a future of turbulence and uncertainty which stands to further undermine their required school improvement journey. There is a possibility that the other three schools could also shortly find themselves in this position and a real risk that a pocket of five “Orphan Schools” emerges in some of the most challenging areas in Hertfordshire driving inequity in standards and outcomes.

- 2.16 The tightening of the School Funding regulations over recent years and the fragmentation of the system leaves very little room for manoeuvre to meet this challenge. Even if the LA could reduce PANs temporarily in order to try and widen the number of schools eligible for Growth Funding, it could even be considered false economy to do so given that the Conservative Party manifesto stated that they would seek to ensure that only 'Good' or 'Outstanding' schools could be expanded in future. If were to happen and PANs of schools with surplus capacity had been lowered, there would be a significant capital investment required to expand full schools when there was surplus space in smaller schools.

Development of a proposal to the DfE for a central budget

- 2.17 As indicated in the 2016-17 outturn paper, Hertfordshire currently has a DSG carry-forward of approximately £20m. The under-spend in 2016-17 is larger than projected when the 2017-18 budget was set. Given that it is evident that the situation is critical in a group of five smaller secondary schools operating beyond operational norms against a background of an urgent need to improve standards, it is proposed that £3.5m of this carry-forward is allocated to a central fund to enable these five schools to be Academised.
- 2.18 The Authority has prepared an application to the DfE for permission to hold a central budget to fund the lagged growth in the five smaller secondary schools detailed in 2.16 above, where conversions have stalled following detailed financial due diligence by Sponsors. Given the criticality of the timeframe for a September conversion and impact of the General Election on decision making at the DfE, the application has been sent to the DfE following advice from DfE officials that it should be submitted without delay. The LA made clear on the application that it has yet to consult Schools Forum on the issue.
- 2.19 Ministerial approval of the proposal will be required in the form of a dis-application to the School Funding Regulations. An initial sounding has been taken from the Regional Schools Commissioner and the Academies Regional Delivery Group who have indicated a willingness to discuss and champion with the relevant Minister. The Forum is asked to support the application that has been submitted to the DfE.
- 2.20 Whilst it is noted that the emergence of "Orphan Schools" is a national problem that the Government will need to address over the course of the new parliament, there is no certainty around how quickly the issue will be addressed. The intervening turbulence and uncertainty created through the emergence of 'Orphan Schools' will impact negatively on both the schools concerned and the wider school system in Hertfordshire but most crucially on the outcomes of students in these five schools. The future of these five schools is the most immediate challenge in the local school system and this proposal provides a sustainable solution.

3. Request for an exceptional arrangement

- 3.1 The application made to the DfE requests permission to create a £3.5m central budget in 2017/18 to provide resource to schools meeting the following criteria:
- a) maintained secondary schools which are in their third cycle of RI / in an Ofsted category,
 - b) will become a sponsored Academy in 2017/18 and
 - c) their Sponsor has an Ofsted category of good or outstanding, or has been identified by the RSC.
- 3.2 If agreed, the allocation made from the central budget in 2017/18 will relate to the estimated lagged growth for each of the three years 2017/18 - 2019/20. The pupil numbers used in this calculation will be taken from the Authority's forecasts for the relevant planning area. Allocations will be calculated using Hertfordshire's Growth Fund formula for secondary schools with 2017/18 unit funding values, uplifts for AEN etc. Pupil numbers used in the calculation will be the estimated increase in pupil numbers in the Year 7 intakes, as compared to October 2016, rather than the planned increase in the size of the annual cohort at the school (as used in the Growth Fund). Allocations will include the additional 5/12s applicable to Academies.
- 3.3 The proposal is for 3 years of growth funding to be allocated in 2017-18 in order to provide certainty to the schools affected. Annex 2 shows the allocations that would be made using the criteria based on current forecasts if the DfE agrees the proposal.
- 3.4 If approved, the continuation of the arrangement is likely to be requested in future years for schools facing significant funding lags if the DfE has not relaxed the rules around Growth Funding or introduced alternative mechanisms of support to support smaller schools facing budget deficits seeking to Academise.

4. Conclusion and Next Steps

- 4.1 It is evident that the financial challenge facing the smallest secondary schools continues to be a significant issue. Given an increasingly inequitable school funding system, support for smaller secondary schools is both inequitable and uncertain as we transition towards a National Funding Formula.
- 4.2 It is proposed that the Falling Rolls Fund is reviewed to ensure that the smallest secondary schools are best placed to meet the growing financial challenges that they face in a measured and sustainable way. A paper will be tabled to Forum once there is greater clarity around the future of Growth Funding under the National Funding Formula.

4.3 A proposal in the form of a disapplication request to the DfE has been developed for a group of smaller secondary schools operating in exceptionally challenging circumstances in which can be considered beyond reasonable norms. The Forum is asked to support this proposal.

4.4 It is evident that smaller schools with significant surplus capacity will need support to meet the impact of lagged growth in future. If successful, a further application could be submitted if the issue has not been dealt with at a national level.

5. Recommendations:

5.1 The Forum is asked to support the disapplication request to the DfE which is outlined in section 3 of this paper.

Annex A Proposed Allocations from the Central Budget

Year 7 pupil numbers											
School Name	Oct-16	Oct-17 Estimate	Oct-18 Estimate	Oct-19 Estimate	Oct-17 Increase on Oct-16	Oct-18 Increase on Oct-16	Oct-19 Increase on Oct-16	Total increase on Oct-16	AWPU (£) 3,845.66 (London +fringe applied where applicable)	AEN Adjust (£)	Total (£)
School A	89	109	141	150	20	52	61	133	519,470	135,227	654,697
School B	145	117	170	196	0	25	51	76	292,270	46,708	338,979
School C	146	120	155	210	0	9	64	73	285,123	45,652	330,774
School D	44	70	90	120	26	46	76	148	578,057	160,849	738,906
School E	114	160	187	215	46	73	101	220	859,274	163,627	1,022,901
Total											3,086,258

Annex B Lump Sum as a % of School Budget Share for ten smallest secondary and primary schools

SECONDARY PHASE 10 SMALLEST SCHOOLS	Lump Sum as a proportion of SBS
School 1	10.17%
School 2	9.03%
School 3	5.97%
School 4	8.29%
School 5	7.63%
School 6	6.04%
School 7	7.59%
School 8	6.31%
School 9	5.68%
School 10	5.78%
PRIMARY PHASE 10 SMALLEST SCHOOLS	Lump Sum as a proportion of SBS
School 1	68.37%
School 2	51.95%
School 3	69.16%
School 4	56.66%
School 5	59.12%
School 6	57.29%
School 7	49.87%
School 8	54.69%
School 9	49.72%
School 10	53.38%