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**UPDATE FOLLOWING APPROVAL OF CENTRALLY-RETAINED BUDGETS
FOR SCHOOLS AND CENTRAL SCHOOL SERVICES BLOCK 2018-19**

Report of the Operations Director, Education

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1. Purpose

- 1.1 To request Forum's agreement to changes to a number of central budgets following confirmation of Hertfordshire's funding allocation for 2018-19.

2. Summary

- 2.1 This paper sets out changes requested to several centrally retained budgets in 2018-19.

3. Background

- 3.1 Non High Needs central budgets have to be agreed annually by the Schools Forum. In November 2017, Forum agreed the 2018-19 Central budgets for the schools and central services blocks. However, in the light of recent developments, a number of changes are necessary, as set out in this paper.

Central Schools Service Block

- 3.2 Given that less resource was allocated to the new Central Schools Service Block than Hertfordshire's current spend, a number of savings were identified in setting the budgets, but a further saving of £56k needed to be identified to match spend to the DSG allocation. Forum members were advised in November that Officers would seek to identify these savings and report back in the January 2018 meeting. The balancing figure required has increased following receipt of the 2018-19 DSG announcement from the DfE given that the CSSB had been reduced by £7k and an additional £8k charge allocated to DfE central licences. To balance the CSSB, an overall saving of £71k has therefore been required to balance the budget.

- 3.3 The saving has been identified in appeals. Forum may recall that in 2016-17 the DfE announced a requirement on Local Authorities to fund appeals for both VA and Foundation Schools, a service that was previously charged. A £60k sum was therefore approved by Forum for this purpose but given the rate of Academy conversions has not been fully utilised. It is therefore proposed to take the full saving of £60k and reduce the appeals budget accordingly with no impact on service.
- 3.4 In analysing the income and expenditure of the appeals process it is evident that there is a small gap between the charges to Academies for the appeals service (which having been frozen for three years in recognition of financial pressures) and the costs incurred. Through increasing the charge for appeals arrangements for which are to be confirmed, the appeals budget can be adjusted down by £11k to take into account the additional income.

Falling Rolls Fund

- 3.5 Forum was advised when agreeing a £2012k budget allocation for the Fund for small secondary schools in areas of demographic growth in 2018-19 that the introduction of a cap was being reconsidered. However, before proposing a cap, we wanted to understand the impact of proposed budget and admissions arrangement changes on the schools affected. This work has now been done and the impact discussed with the schools concerned.
- 3.6 When the Falling Rolls fund was introduced in 2014 -15 it included a cap of £250k. However, by September 2015 it was evident that very small secondary schools were under acute budget pressure given the combination of their diseconomy of scale and real terms budget reductions. Forum consequently agreed to remove this cap which enabled a significant portion of budget pressures to be absorbed in eligible schools. It is now evident however that numbers are further reducing in some eligible schools despite forecasts suggesting numbers should now be increasing.. The three schools forecast to be the greatest beneficiaries in 2018/19 will have seen increases of 49%, 26% and 27% in funding over this period.
- 3.7 At present, without a cap the Falling Rolls Fund is an unlimited liability on the schools block. There are currently ten secondary schools under 550 pupils in size with half of the schools eligible. Should one of the currently ineligible schools become eligible it would currently be awarded £887k in Falling Rolls funding. The Falling Rolls Fund is a centrally funded Schools Block item funded through the carry-forward and therefore a significant further call on the fund would be a considerable burden on the Schools Block and carry-forward and could not be sustained.
- 3.8 Given that the Falling Rolls Fund is funded through carry-forward, it will need to cease to operate once the carry-forward has been exhausted. It was estimated to Forum in the November 2017 budget paper, that Hertfordshire's reserves of carry-forward will be largely utilised in 2018-19 with Forum agreeing at this meeting that the main call on the carry-forward in future should be School Family Workers. It therefore would seem unlikely that there

will be sufficient carry-forward (circa £2m would be required) to continue to operate the Falling Rolls Fund at current levels in 2019-20. Moreover, Falling Rolls funding is not a feature of the National Funding Formula and should a hard formula be announced may need to cease.

- 3.9 It is evident therefore that the schools in receipt of Falling Rolls Funding need to plan a transition. We will be writing to all schools currently in receipt of funding advising them that it is anticipated that the fund will be significantly scaled-down in 2019-20 and they should put in place plans to manage a significant reduction. In the mean-time it would seem sensible to make some changes to the fund to limit its liabilities and prepare for a significant scale-down.
- 3.10 One such change is the introduction a cap in 2018-19 for the following reasons:
- i) to manage/reduce liabilities;
 - ii) to preserve resource for the fund in future and the ability to operate some form of Falling Rolls fund in extreme cases as long as possible by reducing the total funding requirement; and
 - iii) enable a soft reduction in funding for schools enabling them to plan a transition period.
- 3.11 It is estimated that through setting a cap at £500k in 2018-19 three schools would be impacted. School 1 would lose 8% (41k) of their funding allocation, School 2 10% (50k) and School 3 22% (143k). School 1 and 2 are known to be in absolute deficit with School 3 believed to be in considerable in-year deficit. The total KS3 and KS4 pupils at these schools are 323, 363 and 328 respectively. There can be no doubt therefore that the cap will adversely impact the finances of these schools, however, the fund is no longer considered to be sustainable whilst awards continue to increase (School 2 will have seen a 49% increase since 2016-17 if no cap is introduced) given its funding position.
- 3.12 The three schools concerned have been consulted and understand the need to introduce a cap. Clearly the reduction in funding is likely to cause significant financial concern to the schools concerned.
- 3.13 Recognising that the fund will need to be managed down, it is further proposed that the eligibility criteria are changed with the point at which eligibility or ineligibility for the fund is determined being changed from 31st August in the previous Academic Year to 31st January to allow the most up to date Ofsted judgement to be used when determining budget share. The proposed Falling Rolls Criteria are included in Annex A. The dates for both the Primary and Secondary fund have been updated in Annex A with changes highlighted in yellow.
- 3.13 Forum will be aware that the overall demographic trend in secondary is one of rapid growth. However, in general rapid growth is not being absorbed in these schools but by neighbouring schools that are already full and are electing to admit over Published Admission Number. In 2017-18 there were 10 small secondary schools in Hertfordshire (defined as 550 pupils or fewer).

Over the year one school has grown above 550, but another has fallen below 550 leaving 10 small secondary schools. Of the ten small secondary schools four have seen numbers grow over a four year period whilst six have seen numbers further decline despite forecast demographic growth. Of these six that are continuing to reduce in size, half are judged by Ofsted to be “Good”, two have been judged as “Requires Improvement” at the last two inspections and one is judged to be “Inadequate”. Thus we have good schools continuing to decline in number and sustainability.

- 3.14 As their own admission authority, academies and free schools are not required to consult on their Published Admission Number (PAN) where they propose either to increase or keep the same PAN. There has been a continuing trend in Hertfordshire for Academies at secondary phase to admit over PAN to increase income and mitigate real terms budget reductions. This is problematic from a school planning perspective given that the Local Authority has a duty to provide sufficient school places against a backdrop of fluctuating intakes. The reality is that these smaller schools are needed to ensure sufficient school places and cannot be closed as there is not capacity in neighbouring schools to absorb all pupils currently on-roll. However, managing their sustainability is challenging given their diseconomy of scale.
- 3.15 Clearly once Falling Rolls funding is withdrawn, small secondary schools are likely to be forced to operate at appreciable financial deficit if standards are to be maintained, necessitating bridging loans for academies and licenced deficits for maintained schools. With this in mind, it is proposed that a cap for 2019-20 is not set at this point but instead considered this time next year and is based on affordability and the financial position of these schools.

Growth Fund

- 3.16 The DfE has agreed the Authority’s disapplication request to reduce funded pupil numbers in budget shares to take account of the departure of bulge classes. This is a change to the method for adjusting funding for bulge classes. Prior to the change, the saving from bulge classes leaving (estimated at £315k in 2018-19) would have been credited to the Growth fund. Therefore, in order to keep the balance of resource between the Growth Fund and budget shares in alignment, it is intended to increase the budget for the Growth Fund by £315k, the amount of the saving being taken in budget shares as a result of the departure of bulge classes.

4. Final Central Budgets Requested for Approval

- 4.1 Table 1 below summarises the 2018-19 budgets that the Forum is asked to agree for the Schools Block and the changes from the November 2017 position.

		Final 2018-19 Proposed Position	November 2017 Position	Change
CSSB Ongoing Functions				
1)Admissions and Appeals		1,986	2,057	-71
2)Servicing of Schools Forum		30	30	0
3)Boarding Pathfinder		12	12	0
4)DfE arranged Licenses		927	919	+8
5) Former ESG retained duties		2,798	2,798	0
SUB-TOTAL		5,753	5,816	-63
Budget Available		5,753	5,760	-7
Shortfall		0	-56	
CSSB Historical Commitments				
6) Combined Services:				
School Family Support Workers		891	891	0
Schools Block SUB-TOTAL		891	891	0
7)Growth Fund				
	Additional Places	4865	4550	+315
	Infant Class Size Protection	521	521	0
8) Falling Rolls Fund		1796	2012	-216
SUB-TOTAL		7182	7083	+99
GRAND-TOTAL		12,935	12,899	+36

6. Recommendations:

The Forum is asked to agree for 2018-19:

1. The final central budgets listed in Table 1.
2. The inclusion in the Falling Rolls Fund Criteria of a cap on allocations of £500k
3. The changes to the criteria and funding for the Falling Rolls fund as set out in Annex A

Annex A:

Proposed Falling Rolls Fund Criteria 2018-19

Note that updated dates and AWPUs have been highlighted in yellow for reference (dates have been updated in line with the spirit of the previously agreed criteria).

FUND FOR SMALL SECONDARY SCHOOLS IN AREAS OF DEMOGRAPHIC GROWTH

Hertfordshire operates a Fund to support small secondary schools and academies with surplus places which will be needed in the near future. .

The eligibility criteria and formula for determining allocations from the Fund are based on the assessment that 550 pupils (years 7-11) is the minimum long-term viable size for a school.

The Fund has the following eligibility criteria:

- (i) The school/academy has fewer than 550 pupils (excluding sixth form) in the October census prior to the start of the financial year.
- (ii) The number of places offered by the school across year groups 7 to 11, if full, is greater than 550.
- (iii) The authority has forecast that at least 110 places will be required from the school in year 7 (year 9 for upper schools) by Autumn Term **2021**; otherwise there will be an absolute shortfall of capacity in the relevant planning area.
- (iv) The school is Good or Outstanding. The date at which Ofsted category data will be taken will be **31st January** prior to the start of the financial year to which funding relates.

Formula for Allocation:

The allocation formula takes account of the size of the school and any MFG protection funding the school receives in its budget share to avoid duplicating it.

The formula for determining an allocation to eligible schools is:

- (i) KS3 calculation: 330 – actual number of KS3 pupils on roll x KS3 AWPUs x 66%;
- (ii) KS4 calculation: 220 – actual number of KS4 pupils on roll x KS4 AWPUs x 66%;
- (iii) Sum of the result of lines i and ii ;
- (iv) Deduct any MFG protection funded received by the school - the MFG protection figure taken into account in calculating allocations from the Fund is the MFG protection calculated by the Authority and notified to the DfE via the Authority Proforma Tool (APT);
- (v) Equals the allocation from the Fund.

Allocations will be capped at £500k per school in 2018-19

This Fund does not cover schools or academies which have newly opened in the last eight years

FUND FOR PRIMARY SCHOOLS WITH FALLING PUPIL ROLLS IN AREAS OF DEMOGRAPHIC GROWTH

Hertfordshire will operate a fund for primary schools which have experienced a substantial short term fall in pupil numbers but where the surplus places will be needed in the near future.

a) Eligibility Criteria

The Fund has the following eligibility criteria:

- i) The school has had a reduction in its pupil numbers (excluding nursery pupils) of both more than 20% AND more than 30 pupils, between the October 2015 census and the October 2017 census.
- ii) The Authority has forecast that:
 - by Autumn Term 2021 the school's pupil numbers (excluding nursery) will have increased by at least 20% above the October 2017 census AND
 - by Autumn Term 2022, the school's pupil numbers (excluding nursery) will have returned to, or exceeded, the October 2015 census number.
- iii) The school is Good or Outstanding. (This is a DfE requirement for eligibility for the Fund.) The date at which Ofsted category data will be taken will be 31st January prior to the start of the financial year to which funding relates, except that a school which becomes Good or Outstanding during the subsequent Autumn Term prior to the start of the financial year shall also be eligible.

b) Allocation Formula

The allocation formula is as follows:

The decrease in the number of pupils on roll between October 2015 and October 2017 – 30, x primary AWPU x 50%

Example:

A primary school had 400 pupils on roll in October 2015 and 300 in October 2017, a decrease of 100 pupils in the number on roll. It is forecast to have 380 pupils on roll by the Autumn Term 2021 and 420 pupils on roll by the Autumn Term 2022. The school would be eligible for an allocation from the Fund and this would be calculated as follows (using the 2017-18 primary AWPU for illustrative purposes):

$(100-30) \text{ pupils} \times £2737.80 \times 50\% = £95,823$ allocation from the Fund.