

HEREFORDSHIRE SCHOOL FUNDING

1. This paper is an attempt to set out in clear and understandable terms the arrangements for funding Herefordshire schools. It demonstrates the impact of maintaining the status quo as well as considering the implications for any future changes. All scenarios are hypothetical and are set out purely as an aid to the Task Group's considerations.
2. The Dedicated Schools Grant (DSG) from central government is paid as a ring-fenced specific grant and must be used in support of the Schools Budget as defined in the School Finance (England) Regulations 2008. It is the main source of income for the Schools Budget and can be used for no other purpose. There are specific requirements to ensure appropriate use:-
 - i. At notification stage the authority is required to submit a statement certified by the Chief Finance Officer that the DSG is being deployed in support of the Schools Budget.
 - ii. At outturn stage the authority is required by the Accounts and Audit (Amendment) (England) Regulations 2006 to append an additional note to the Statement of Accounts confirming the deployment of the DSG in support of the Schools Budget (Appendix 1).
 - iii. The Chief Finance Officer is also required to confirm final deployment of the DSG in support of the Schools Budget in connection with the Section 52 outturn form.
 - iv. The Secretary of State reserves the right to recover the grant if there has been any breach.
3. The DSG is based upon a per pupil formula and issued to all English local authorities with responsibility for education to enable and support the delivery of provision, services and statutory processes for all children and young people.
 - i. The current methodology (Spend Plus) underlying the allocation of DSG to individual local authorities is determined by central government and has been used for the years 2008-9, 2009-10 and 2010-11. A national review of the distribution formula for DSG is currently being undertaken and will be in place from 2011-12.
 - ii. The Department for Children, Schools and Families (DCSF) allocation to Directorates is calculated on the January School Census submissions from schools and nurseries. A fixed amount is identified per pupil and this is then multiplied by the totals submitted through the School Census.
 - iii. Local authorities are responsible for determining the split of the grant between central expenditure (to support appropriate and statutory central services) and the Individual Schools Budget (ISB) in conjunction with the Schools Forum which makes recommendations to a council's Cabinet on such allocations.
 - iv. The ISB is deployed directly to schools through a locally agreed formula allocation.

4. It is worth setting Herefordshire within the national funding context for schools and noting that national funding reflects factors such as deprivation which affect urban and rural areas in different ways. The county has one of the lowest funding levels of the nationally distributed DSG at an overall ranking of 147 out of 149. Consequently, DSG allocations for Herefordshire fall well below the average for the country. In 2008/2009 the DSG per pupil allocation in Herefordshire (not including any grants) was £3,687 whilst the national average was £4,066. Any financial planning has therefore to consider the low baseline from which the authority starts. It is not anticipated that the current revision of the funding allocation process at national level will significantly improve the position in Herefordshire, though officers and Members have been keen to highlight the issues facing a rural authority.

- i. **Table 1** - illustrates the actual DSG funding for Herefordshire up to 2008/9.

Year	Pupil Data	Amount per pupil (rounded) £	% per pupil increase	DSG Total £	% cash increase
06/07	23,705	3,297		78,151,000	
07/08	23,427	3,523	6.9	82,535,000	5.6
08/09	23,101	3,687	4.7	85,162,000	2.4

(Source: Teachernet, Final Allocations of DSG 2008/9)

- ii. **Table 2** - uses the Government's assessment as at October 2008 to project through to 2011 assuming no change in the current model of provision.

Year	Pupil Data inc the academy	Amount per pupil (rounded) £	% per pupil increase	DSG Total inc the academy £	% cash inc	DSG Total for the LA excl the academy £
09/10	22,759	3,830	3.9	87,176,000	2.4	84,291,000
10/11	22,562	4,002	4.5	90,296,000	3.6	87,411,000

(Source: Teachernet, Revised Indicative DSG Allocations 2008-11)

Any future revised figures from central government will separate pupil numbers, and hence finances, for the Hereford Academy, which will make direct comparisons with previous years more difficult.

- These tables evidence the impact of falling rolls upon the total amount of DSG received, but this is in part masked by the yearly increase in the amount of per pupil funding.
- The yearly increase is made in order to meet inflationary pressures.
- The actual cash increase is much lower than the per pupil increase for each period as a result of the reduced pupil numbers.
- It is evident that in relative terms overall funding is reducing as a result of a decrease in pupil numbers.

- iii. **Table 3** identifies the decline in pupil numbers between 2006-7 and 2010-11 and the related reduction in overall funding through DSG:

Year	Status	Pupil Reduction	Amount per pupil £	DSG Reduction £
06/07 - 07/08	Actual	278	3,523	979,394
07/08 - 08/09	Actual	326	3,687	1,201,962
08/09 - 09/10	Actual	342	3,830	1,309,860
09/10 - 10/11	Projected	197	4,002	788,394
Average		286	3,760	1,075,360

5. It is important to recognise the full implications of the reduction of this DSG allocation. As shown Appendix 1, a proportion of the funding is legitimately spent on centrally held services and the remainder goes into schools. The funding of Individual School Budgets is through a complex formula agreed with schools known as Local Management of Schools or LMS. In 07/08 schools received an average of £2,500 per pupil on roll supplemented by additional funding for Additional Pupil-led funding (such as nursery classes), Special educational Needs, Social deprivation, Site Specific (such as playing field maintenance costs) and School Specific (such as rates, small school protection, and flat base allocations for premises and management costs).

Using 2008-9 to illustrate:

- i. Based on the Government's figures there is a loss of 342 pupils between January 2008 and 2009 and one less pupil means £3,687 less in the DSG (based on 08/09 funding rates).
- ii. For each pupil lost, a school budget will be reduced by an average of £2,500 for pupil related funding.
- iii. For each pupil lost, £1,187 will need to be found from within central services funded by DSG.
- iv. An annual reduction of 342 pupils will mean a reduction in funding of £406,000 (i.e. 342 x £1,187) which will need to be found from centrally retained services such as Pupil Referral units (£0.895m), Special Educational Needs Support Services (£1.376m), Banded Funding (£0.858m), Nursery Education Funding (£2.923m), Fees for pupils at independent special schools (£0.951m) and other central staffing budgets such as school admission and asset management.
- v. If the reductions in pupil numbers disproportionately affect primary schools, then the amount required from centrally retained budgets will be greater. Fixed costs in primary schools form a greater proportion of the budget, and therefore the pupil related funding in primary school budgets is only £2,000 per pupil leaving a shortfall of £1,687 per pupil.
- vi. It is unlikely that significant reductions can be made in some of these areas; however, because of their statutory nature. To continue to provide these statutory services it is anticipated that further reductions in per pupil funding will be required every year to make up the shortfall.

- vii. Overall pupil numbers are projected to continue to fall until 2018 at the same rate and therefore it is possible that these budget reductions will have to be found each year until 2018.
6. The full impact upon schools and services of falling rolls and DSG finances will also be affected by the following:
 - i Fixed costs (rates, premises costs, salaries of headteacher and secretary) may remain constant or increase in line with inflation whilst overall budgets reduce;
 - ii Maintenance of standards and improvements in achievement and attainment will require investment;
 - iii New initiatives and National Strategies will require investment;
 - iv Parental preference may impact further upon pupil numbers in settings;
 - v Staffing profiles and appointments within schools may require additional funding.
 7. There is already an increase in the number of schools experiencing financial difficulties and operating with deficit budgets and this is set to continue. Planning is underway with these settings to ensure that schools address the budget difficulties. Even so it will clearly be increasingly challenging to maintain the current models of provision and probably untenable in the medium to longer term.

i. **Table 4** identifies the number of schools with deficit budgets since 2003:

Year	Primary Schools	High Schools	Special schools	Total number of schools	Total Deficit £
03-04				0	0
04-05				0	0
05-06	2			2	11,000
06-07	4	2	2	8	252,000
07-08	6	2	1	9	398,000
08-09	4	1	1	6	262,477

(Source: School Budget Team)

NB Not all the schools in this category are small schools.

8. In order to further identify the future funding implications for schools, the table in Appendix 2 sets out indicative school budgets according to school size and estimated average pupil population. This financial model does assume that trends will continue and includes adjustments for inflation. The figures shown include current small schools protection allowance for Primary Schools at £109.80 per pupil below 200 on roll and for High Schools at £215.35 per pupil below 655 on roll. These amounts have been fixed on the recommendation of Schools Forum for the next two financial years i.e. until end of March 2011. It is noteworthy that in the primary sector 63 schools have below 200 pupils, and in the secondary sector 6 schools fall below 650. This means that 69 schools will receive some form of protection.
9. The methodology for DSG allocation is set until 2011. This gives some degree of certainty in funding projections to that point. In order to demonstrate the affect of

falling school rolls on individual schools over the three year period, the table in Appendix 3 outlines indicative budgets according to cluster allocations using January 2008 pupil numbers. (It is anticipated that a model using January 2009 actual pupil numbers will be available by the end of July.) However, the allocation per pupil varies from school to school. This is because each school has an individual set of circumstances which determine the ISB allocation it receives.

10. Maintaining the status quo in terms of numbers of settings means that:-

- i. The total small schools protection element was £958,609 in 2008/9. Schools Forum agreed that the budget for small schools protection should be frozen at the 2006/7 cash total and this will continue for the next two financial years i.e. until the end of March 2011. If the number of schools requiring an element of protection increases, the amount per school will reduce. However, this is effectively reducing the overall amount for distribution to all schools.
- ii. Every school receives a fixed base allocation for management and premises as shown below in **Table 5**.

	2008/9 £	2009/10 £	2011/12 £
Primary	29,292	30,083	30,714
Secondary	13,681	14,051	14,346
Special	11,876	12,196	12,453

(Source: School Budget Team)

- iii. As agreed by Schools Forum, every school in Herefordshire, regardless of how many pupils, receives a minimum level of funding. The following simple example (**Table 6**) illustrates this by showing the minimum a school received in 2008-9, without showing pupil funding and without showing specific funding such as playing field maintenance or the current Key Stage 1 class size element:-

	Small schools protection £	Base allocation for management £	Base allocation for premises £	Minimum funding (without pupil related funding) £
Primary (60pupils)	*15,372	25,473	3,819	44,664
Secondary (500pupils)	**33,379	8,029	5,652	47,060

The figures shown include current small schools protection allowance for Primary Schools at £109.80 per pupil below 200 on roll and for High Schools at £215.35 per pupil below 655 on roll.

* (200 - 60 = 140 x £109.80)

** (655 - 500 = 155 x £215.35)

11. Trends in falling pupil numbers and attendant reductions in funding will require a re-evaluation of existing provision necessitating consideration of a schools reorganisation. The local authority has a duty to ensure that it achieves the most effective use of resources available in the quest to raise the achievement of all children and young people in its schools. This process could be assisted by increasing funding to directly support teaching and learning in schools by reducing levels of funding currently maintaining individual premises in various forms of protection. It is evident that any school reorganisation producing fewer schools will result in a combination of savings including fixed costs for individual premises and the small schools protection element. All remaining schools will benefit from these savings as they will stay within the ISB for redistribution via the funding formula across a smaller number of schools. This strategy has worked in other authorities and has proven to be a successful model leading to the development of enhanced provision.

12. Several pertinent financial considerations will emerge as a result of any school reorganisation, the most significant being possible staff redundancies and the additional cost of transport for pupils. It is possible to provide more detailed and accurate financial plans for future provision design once the Task Group is able to provide the key criteria on which to base any such exercise.