

TO: SCHOOLS FORUM  
DATE: 16 JULY 2015

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**FUNDING POLICY FOR NEW AND EXPANDING SCHOOLS**  
**Director of Children, Young People and Learning**

**1 PURPOSE OF REPORT**

- 1.1 The purpose of this report is to inform the Schools Forum of the requirement to develop a revenue funding policy for new and expanding schools. This arises from the new build programme currently envisaged and the need to allocate revenue resources to cover initial start-up costs and the diseconomies of scale that will be experienced until sufficient numbers of pupils are on roll. It also reminds the Forum that this is a significant financial pressure at a time of cash flat funding settlements and growing cost pressures.

**2 RECOMMENDATIONS**

**That the Schools Forum NOTES:**

- 2.1 **a significant revenue funding pressure is anticipated as a consequence of increased pupil numbers arising from the anticipated school building programme;**
- 2.2 **the potential need for a new factor to be added to the BF Funding Formula for Schools to recognise the additional costs incurred at schools operating on two different sites;**
- 2.3 **that detailed proposals for a funding policy for new and expanded schools will be presented to the Schools Forum for approval in autumn 2015 together with associated financial implications.**

**3 REASONS FOR RECOMMENDATIONS**

- 3.1 To ensure that an affordable, clear, fair and transparent funding policy is in place that can be consistently applied to all new schools.

**4 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 These will be included on a future report.

**5 SUPPORTING INFORMATION**

Background

- 5.1 The Forum will be aware of the significant growth in pupil numbers that has been experienced in recent years. The latest 2014 pupil forecasting information indicates the trend of increasing pupil numbers and pressure on the intake year in primary schools will

## Unrestricted

continue and begin to impact on secondary schools. In total a further 4,090 pupils will be seeking a school place by 2019, a 25% increase, as follows:

- 1) primary age forecasts indicate a total of 11,669 places will be needed by 2019. This represents an additional 2,208 additional pupils, or a 23% increase;
- 2) secondary age forecasts indicate a total of 8,458 places will be needed by 2019. This represents an additional 1,882 pupils or a 29% increase.

These projections present the maximum forecast number of pupils and are therefore the “worse case” scenario. They are subject to change, for example the actual rate of housing build delivered by developers may be different to the current forecast.

- 5.2 To date, the strategy to deliver the required additional places has been successful and includes where feasible expanding onto existing school sites plus the creation of new schools. The Council’s pupil forecasts have secured £39m of Department for Education (DfE) school places capital grant for the 5 year period 2013-2018, an annual average of nearly £8m. This has significantly reduced financial pressure on the council’s resources.
- 5.3 Moving forwards, a greater number of additional places will be provided in new schools in response to planned housing developments. This creates a new revenue funding pressure as there will be significantly higher start-up costs in new schools compared to those being expanded, as well as a longer period of diseconomies of scale as pupil numbers increase in line with the rate of housing developments which will generally continue for a number of years after the school has opened. An indicative outline of potential new schools is set out below in Table 1. A provisional opening date is also included together with a tentative number of pupils. Most schools are expected to take a number of years to achieve their full capacity.

**Table 1: Potential new schools**

Area	Forms of Entry (FE) (1)	Maximum places	Pupils admitted at opening (estimate)	Provisional opening date	Type of school
<b><u>Primary:</u></b>					
Warfield West	2	420	60	Sep-16	Expansion
Warfield East	2	420	60	Sep-19	New
Amen Corner South	2	420	60	Sep-18	New
Amen Corner North	1	210	30	Sep-17	New
Crowthorne (TRL site)	2	420	60	Sep-18	Expansion
<b><u>All through school</u></b>					
Binfield Learning Village					
Primary:	2	420	60	Sep-18	} New
Secondary:	7	1,050	150	Sep-18	
Grand Total	18	3,360	480		
Primary	11	2,310	330		
Secondary	7	1,050	150		
(1) Schools will ordinarily open with relatively limited pupil numbers but rapidly expand. 2 FE schools are expected to open with 1 FE. Schools will generally be built to allow cost effective future expansion.					

Funding Policy

- 5.4 There are three revenue cost pressures arising from new schools that need to be included within the funding policies for schools:
- 1) Pre-opening / start-up costs. New schools will incur start-up costs associated with planning and preparation, including staff recruitment. These apply to the period between the capital work being completed and the school opening, and will characteristically cover salary costs of headteacher, caretaker and administration prior to opening and the purchase of any resources not covered by the capital element of the project.
  - 2) Diseconomies of scale. These relate to the need to incur some fixed management and premises costs as new schools build up their numbers that the normal operation of the Funding Formula for Schools does not adequately fund when pupil numbers are relatively low.
  - 3) The cost of additional pupils admitted to new schools, generally at the start of the academic year. The ring-fenced Dedicated Schools Grant (DSG) funds LAs for their Schools Budget based on a lagged head-count basis. Funding is based on actual pupil numbers at the October prior to the commencement of the financial year. Any new pupils entering schools after that date are not therefore funded by the DfE but where significant, relevant schools will need to be adequately resourced.
- 5.5 In terms of pupils that will be admitted to new schools, the funding regulations require that LAs should estimate the numbers expected to join the school in September and fund in accordance with the local Funding Formula for Schools for the 7 months of the financial year that the school is open. As well as the per pupil funding amounts, including estimates for levels of deprivation and low prior attainment, a relevant share of business rates and the fixed lump sum payment must also be allocated. In all instances schools will have to be funded for more pupils than those included in the DSG income which clearly creates a budget pressure.
- 5.6 To recognise the financial effect of opening new schools from start-up costs and diseconomies of scale, the DfE allows the DSG to be used to finance a Growth Fund where this relates to supporting growth in pre-16 pupil numbers to meet basic need i.e. a general increase in total pupil numbers. It may not be used to support schools in financial difficulty or general growth at individual schools due to popularity.
- 5.7 In light of the significant number of new schools currently being planned, a Growth Fund is likely to be required in BF.
- 5.8 The financial effect of a Growth Fund is to top slice funds that would otherwise have been allocated through the BF Funding Formula for Schools, the consequence of which is less funds being available for allocation into in each individual school's budget share. Clearly it is important that any amount allocated to a Growth Fund is carefully estimated to minimise the financial effect on all other schools, including academies. The Schools Forum must approve the amount of funds proposed by an LA for inclusion in a Growth Fund and this will need to be considered as part of the 2016-17 budget setting process.
- 5.9 Where a Growth Fund is proposed, LAs are required to produce criteria to determine the allocation of funds. These must provide a transparent and consistent basis for the allocation of funds, including the basis for calculating the sum to be paid, which can be different for different phases. The Education Funding Agency (EFA) is required to approve relevant proposals.

5.10 The EFA has indicated that methodologies for distributing funding could include:

- 1) A lump sum payment with clear parameters for calculation, which is usually associated with start-up costs
- 2) £x per pupil (usually based on AWPU) and reflecting the proportion of the year which is not funded within the school's budget share
- 3) £x per pupil, with a maximum ceiling

5.11 Initial internet research of other LAs has identified a wide range of policies in place. Most use a lump sum payment to cover start-up costs, with some paying an additional amount per pupil for classroom equipment and resources. From the sample used, lump sum payments vary from £25,000 (Staffordshire CC 1 FE Primary) to £125,000 (Devon CC 7 FE Secondary).

5.12 For diseconomies of scale, some LAs fund schools on guaranteed pupil numbers, irrespective of actual take up, generally in multiples of 30 pupils, based on pupil led funding factors, others use lump sum payments, often tapered to reflect how full the school is, paying less as schools fill up with pupils. Funding is generally time limited.

5.13 More work is required to develop detailed proposals to meet the local needs of BF schools. In particular, a different approach to funding will be required for new schools start-up costs where an existing school expands onto a new site compared to a completely new school with no existing infrastructure to call on as relative costs that need to be incurred will be very different.

5.14 There is a further consideration for funding new schools located across two sites. This relates to unavoidable extra costs because the buildings are on separate sites which typically include transport costs for staff and / or pupils moving between the sites and additional fixed reception and premises costs. DfE funding regulations allow for a split site factor to be used provided there are clear trigger points, such as the sites are at least x miles apart and are separated by a public highway, where x% of staff are required to teach on both sites on a daily basis, or where x% of pupils are taught on each site on a daily basis. Funding can generally be allocated as a lump sum payment, amount per pupil or amount per square metre of the additional site. Payments can be different for primary and secondary schools and also stepped, such as when the distance between sites exceeds defined distance thresholds. This factor needs to be fully evaluated to consider whether it will be beneficial to use for Warfield West from 2016-17 and proposals will be made, if relevant, as part of the 2016-17 budget setting process.

5.15 These different types of new school will also be structured differently. The Education Act 2011 changed the arrangements for establishing new schools and introduced section 6A (the academy presumption) to the Education and Inspections Act 2006. Where an LA requires a new school it must seek proposals to establish an academy or free school first. All new academy proposals require approval of the Secretary of State although it appears this may now be the regional Schools Commissioner. However the key point concerning approval remains constant. The LA must assess all proposals received and send the outcome of the assessment to the Secretary of State for consideration. The requirement is likely to result in the creation of 4 new academy schools in the borough at Warfield East, Amen Corner South, Amen Corner North and Binfield Blue Mountain. The Council is in the early stages of seeking an academy provider for the all through school planned for Binfield Learning Village.

Provisional Financial Implications

- 5.16 In setting the 2015-16 Schools Budget, the need to open a number of new schools was highlighted as a significant financial pressure for future years. It was reported that additional funds of around £0.7m would be required to support the new 2 FE Jennett's Park Primary School over a 6 year period. This amount was calculated from the assessed level of spend required each year as the school grows compared to the budget allocated through the normal operation of the Funding Formula for Schools which funds on lagged pupil numbers. In this instance, the size of the housing development, circa 1,500 dwellings, meant that the school filled up quickly, although there was a delay to the originally expected opening date due to a slow down in construction by the developer. Higher costs are likely at the new schools currently envisaged as there are smaller estates to draw new pupils from.
- 5.17 Until more work has been completed to inform the best approach to take in funding new schools, it is not possible to accurately project the likely amount of pressure. However, taking account of the number and anticipated phasing of the new schools, the cost is likely to exceed £1m per annum at its highest.
- 5.18 In addition to a core allocation from the BF Funding Formula for Schools, including an estimate for deprivation and other pupil led funding, early analysis suggests the following additional funding allocations will need to be made to relevant schools:
- 1) for start-up costs, a fixed lump sum, typically to cover the period January to August for a September opening, with different amounts payable to an expanded primary school (lowest value), new primary school and new all through schools (highest value).
  - 2) for diseconomies of scale, an amount per pupil, plus a fixed lump sum, tapered to reduce as pupil numbers rise and the school reaches specified capacity levels e.g. the lump sum payment reduces once the NOR reaches 40% of capacity, then again at 50% and so on. There is likely to be a different primary / secondary per pupil funding rate and a differential fixed lump sum payment in a similar way to start-up costs. The fixed lump sum payment will probably only be payable for a limited period of time.
  - 3) for split site costs, an amount per pupil. This is only expected to be payable once eligibility to the diseconomies fixed lump sum payment has expired. This is because the calculation of the diseconomies fixed lump sum will take into account the additional costs where a school operates across two sites.
- 5.19 Clearly, this is a significant financial pressure at a time when cash flat funding settlements from the DfE can be expected with increasing cost pressures on schools, not least from rising pension costs and general inflation meaning schools will need to continue making year on year savings and efficiency gains to balance their budgets. There is also likely to be on-going cost pressures relating to High Needs Pupils and whilst a strategy is in place to manage the £2m pressure experienced in setting the 2015-16 budget, the need to spend is volatile, unpredictable, generally high cost in nature and subject to change at very short notice.
- 5.20 At this stage there is only one realistic revenue stream for the pressure arising from new schools and this relates to the funding gain achieved in LAs experiencing growth in pupil numbers. With the DfE paying BFC a higher per pupil amount than the average per pupil funding allocation through the BF Funding Formula for Schools there is a financial gain to the Schools Budget. Over the last three years, there has been an average gain of around £0.35m which has been distributed to all schools. It is likely that all of the actual amount gained in each of the next 3 to 4 years will need to be added to a Growth Fund. It may

also be appropriate to create a ring-fenced Growth Fund Reserve to ensure any under spending when there are fewer new schools to support is earmarked for the future when more schools will be open and require financial support.

## **6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

### Borough Solicitor

- 6.1 The relevant legal issues are addressed within the main body of the report.

### Borough Treasurer

- 6.2 Significant revenue cost pressures arise from the new school building programme. Once these have been quantified, they will need to be considered as part of the normal budget setting process.

### Equalities Impact Assessment

- 6.3 None identified.

### Strategic Risk Management Issues

- 6.4 The risk to providing sufficient school places is considered low in the short to medium term as funds and agreements are in place to deliver new schools towards the beginning of major house building programmes, thereby creating the required places.
- 6.5 There is likely to be a significant revenue pressure on the Schools Budget arising from the need to simultaneously adequately fund a number of new schools that are below their full capacity and therefore encountering diseconomies of scale. This will need to be funded from within the overall cash limited Dedicated Schools Grant which will inevitably place pressure on the funds available for all schools and services that support them.

## **7 CONSULTATION**

### Principal Groups Consulted

- 7.1 CYPL Departmental Management Team.

### Method of Consultation

- 7.2 Written report.

### Representations Received

- 7.3 Included in this report.

Background Papers

None.

Contact for further information

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