

MEETING:	SCHOOLS FORUM
DATE:	17 MAY 2010
TITLE OF REPORT:	CONSULTATION ON THE FUTURE DISTRIBUTION OF SCHOOL FUNDING
OFFICER	SCHOOLS FINANCE MANAGER

CLASSIFICATION: Open

Wards Affected

County-wide – All Schools

Purpose

To approve the response to the Department for Children, Schools and Families (DCSF) consultation paper on the future distribution of school funding.

Key Decision

This is not a Key Decision.

Recommendation

THAT School Forum is asked to:

- a. Contribute to the response document as appropriate
- b. Approve the response document for submission to the Secretary of State.

Key Points Summary

- The appendix sets out the Government's proposals for the distribution of school funding from April 2011 and includes the consultation response form. It sets out the principles which would underpin a new funding system along with proposals on the formula for allocating the Dedicated Schools Grant (DSG). Details of the consultation paper are set out in paragraphs 3 to 31.
- The proposed formula elements are
 - Basic Entitlement
 - Additional Educational Needs
 - High Cost Pupils
 - Sparsity

Further information on the subject of this report is available from
Malcolm Green, Schools Finance Manager on (01432) 260818

- Area Cost Adjustment

Alternative Options

- 1 There are no alternative options for consideration.

Reasons for Recommendations

- 2 Herefordshire Schools Forum needs to reply to the consultation paper so their views are collated and add strength to achieving a satisfactory outcome.

Introduction and Background

- 3 DCSF has launched a consultation on the future distribution of the DSG from April 2011 onwards. The **consultation period ends on 7 June 2010** and responses can be completed via the DCSF website or sent to dsg.consultation@dcf.gsi.gov.uk. The results of the consultation will be published by the Department in summer 2010.
- 4 This briefing paper summarises the formula proposals for DSG and mainstreaming of specific grants, in the order they appear in the consultation document. The consultation paper itself contains the technical detail and is attached as an appendix.

Background

- 5 Until April 2006 core funding for schools was allocated through the local government finance system, in the same way as funding for other local authority services. A formula known as the Schools Formula Spending Share (FSS), allocated an amount for each education authority to fund schools. This amount was notional, meaning individual authorities could chose to spend more or less than their FSS on education.
- 6 From 2006/07 funding for schools has been distributed to local authorities as a separate ring-fenced grant, the DSG.
- 7 Currently, allocations for DSG are based on the 'Spend Plus' methodology. The 'Spend' element takes the planned spending on education by local authorities in 2005/06 as a baseline and gives each authority the same basic increase per pupil above the previous year's level of DSG per pupil. The 'Plus' element consists of a number of 'top-ups' to reflect Government priorities, each of these are allocated according to their own formulas. In common with other low funded authorities, Herefordshire has received extra funding i.e. £0.82m for Herefordshire, to bring the allocation up to formula in the three years 2006/7, 07/08 and 08/09.
- 8 As such, the DSG cannot reflect changes in relative needs between local authorities since 2005/06. Consequently, the Government wishes to return to a system which better reflects current need.

Formula Review

- 9 The Government launched a review of the distribution mechanism for DSG in January 2008. Since then a Formula Review Group, representing all the main stakeholders, has met regularly to direct the work of the review. Details of the Group's membership and papers and notes of their meetings are available on the DCSF Teachernet website. Following this process, the Department has set out the principles for a new formula and the options within its various elements, for consultation.

Consultation Proposals

- 10 The consultation focuses on two particular issues, the formula for distributing DSG and the inclusion of a number of specific grants into DSG (mainstreaming). The consultation paper is divided into chapters, detailing the proposals for each element of the formula and the questions for stakeholders. The paper does not include details of how these elements would be weighted in relation to one another, nor are there exemplifications of authorities' allocations. The consultation makes clear that the Government's principle of fairness 'does not mean every pupil or each area getting the same level of funding'.
- 11 Each chapter of the DCSF consultation paper is considered individually below and a draft response is listed under each consultation question.

Structure of the Formula [Chapter 1]

- 12 DCSF's intention is to return to a formula-based approach to the distribution of DSG. The consultation paper states the aim in developing a new formula distribution methodology was to distribute resources according to relative need, taking into account the different costs of educating particular groups of pupils and of providing education in different areas.
- 13 DCSF propose the new formula as consisting of the following elements:
 - **A basic entitlement** – a set amount given for every pupil regardless of any additional need and/or cost;
 - **Additional Educational Needs including those associated with deprivation** – to recognise that some children need greater support, which schools and local authorities need to pay for, in order to help them achieve their potential;
 - **High Cost Pupils** – to recognise that a small number of pupils have specific needs which mean they cost significantly more to educate than other pupils;
 - **Sparsity** – to recognise that in rural areas the sparsity of the pupil population makes it necessary to have small primary schools, which cost more per pupil;
 - **Area Cost Adjustment** – to recognise that there are higher salaries and associated staffing costs in certain areas.

Reducing Specific Grants [Chapter 1]

- 14 Currently specific grants allocate an additional £4.5bn for schools funding, which is not included in the DSG. Specific grants were originally introduced to fund the implementation of specific Government policies. However, the guidance for most of these ring-fenced grants now specifies only that the funding should be spent on any purpose of the school. Therefore, it is the Department's intention to reduce the number of ring-fenced grants to as few as possible. DCSF envisages the new DSG will include the following grants currently in existence:
 - Dedicated Schools Grant (including London Pay Addition Grant);
 - School Development Grant (Devolved) excluding Specialist Schools;
 - School Standards Grant;
 - School Standards Grant (Personalisation);
 - School Lunch Grant;

- Ethnic Minority Achievement Grant;
- Extension of the Early Years Free Entitlement;
- Extended Schools – Sustainability and Subsidy

Consultation Questions

- 1. Do you agree with the principles we are applying to the formula?**
- 2. Do you agree with the proposals to mainstream the grants specified into DSG?**
- 3. Do you agree with the proposed elements of the formula?**

Basic Entitlement [Chapter 2]

- 15 The basic entitlement is intended to cover the general costs of running schools; consequently it is the element of the formula which allocates the most funding (almost 75% notionally at present). The consultation proposes two options for establishing the basic entitlement, either judgementally or through an Activity Led Funding (ALF) approach.
- 16 If a judgemental approach were to be used, DCSF would determine an amount after making a judgement about how best to divide the overall sum (quantum) into the main formula components. This has the advantage of simplicity and would represent the pattern of historic funding between the elements.
- 17 An ALF approach would allocate funding based on an assessment of how much a school needs to spend to provide education for pupils, before any adjustments are made. It involves identifying the core activities undertaken by schools (e.g. teaching, management etc.) and trying to cost them, taking account factors such as their frequency and time. This approach would also involve a degree of judgement. The ALF approach could make it clear to budget-setters what the resources available to schools would buy. However, the consultation document says there are 'significant challenges in developing and operating a successful model'.

- 4. Which methodology for calculating the basic entitlement do you consider would enable the fairest and most practical distribution of funding?**

Additional Educational Needs [Chapter 3]

- 18 This element of the formula is intended to reflect the costs associated with providing additional support to some children. Research was commissioned from the consultants PricewaterhouseCoopers (PwC) to identify categories of additional educational needs. It is the Department's intention that the formula should recognise deprivation in particular. As such, it is proposed 50% of the AEN block would be distributed according to a proxy for deprivation,

25% via an indicator for underperforming groups, 13% via English as an Additional Language and 12% via a flat rate per pupil.

- 19 The document proposes five different options for a deprivation indicator (the proportion of pupils affected by each measure is in square brackets):
- Option 1 – Out of Work Tax Credit Indicator [20.6%]
 - Option 2 – Free School Meals (FSM) [16.0%]
 - Option 3 – Child Poverty Measure [22.5%]
 - Option 4 – Average Income Deprivation Affecting Children Index (IDACI) score of pupils educated within the local authority [23.2%]
 - Option 5 – FSM with the additional 500,000 pupils in the most deprived areas by the IDACI score not on FSM [23.4%]
- 20 In order to ensure the funding system recognises deprivation at a local level, from 2012/13 all authorities will be required to operate a Local Pupil Premium agreed with their Schools Forum. In time, it is expected this will become the main vehicle for distributing deprivation funding and authorities will be required to report annually how they are allocating deprivation funding through the Section 251 financial reporting tables (formerly Section 52).

- 5. Do you agree with the proposed methodology for distributing money for additional educational needs?**
- 6. Which is your preferred indicator for distributing money via deprivation? Why?**
- 7. Do you agree with the indicators, other than for deprivation, that we have proposed for each need?**
- 8. Will the Local Pupil Premium mechanism help funding to be more responsive to changes in pupil characteristics?**
- 9. Is it right that local authorities should each develop their own pupil premium mechanism?**

High Cost Pupils [Chapter 4]

- 21 A small proportion of pupils, generally those with statements of Special Educational Needs (SEN), have very specific needs which are very costly to provide for. Unlike the other formula elements, funding for high cost pupils is directed to the authority where the pupil is resident, not the one where they attend school, as it is the resident authority which has statutory responsibility for ensuring provision.
- 22 DCSF used evidence from the PwC research to define high cost pupils and to develop proposals for resource allocation. The consultation proposes a similar approach to that for AEN, based on types of pupil need. This would result in the High Cost Pupils block being distributed 50% via a per pupil rate, 33% via a measure of low attainment at Key Stage 2,

14% via a deprivation proxy, 2% via take-up of Disability Living Allowance and 1% via English as an Additional Language.

- 23 The current system of recoupment for pupils with statements of SEN educated outside the authority will remain. The consultation also states DCSF will encourage voluntary recoupment for pupils classified in the School Action and School Action Plus categories, who are educated outside the resident authority and have similar needs to pupils with statements.

10. Do you agree with the methodology for distributing money for High Cost Pupils?

Sparsity [Chapter 5]

- 24 The consultation proposes two options to reflect sparsity. The broad option would result in 104 (out of 150 local education authorities) receiving additional money for sparsity. The narrow option would target funding at the most sparsely populated areas. The narrow option would affect 66 authorities and 300,000 pupils, a similar number to pupils currently attending small rural primary schools (less than 150 pupils). In order to derive a measure of sparsity, DCSF propose using home postcode data of pupils, collected in annual school censuses, and applying this data to Middle Super Output Areas. Currently, pupil numbers are taken from 2001 census data and then applied to electoral ward geography. No provision for sparsity for small secondary schools is proposed, the consultation notes home to secondary school transport is already funded through Formula Grant.

11. Do you agree that the school census and Middle Super Output Area are the right data sources and geography to use to assess the sparsity of an area?

12. Which method for calculating the sparsity factor do you think will best enable additional funding to reach those local authorities that need to maintain small schools – the broad or narrow option?

13. Do you agree that there should not be a secondary sparsity factor?

Area Cost Adjustment [Chapter 6]

- 25 The Area Cost Adjustment (ACA) is intended to reflect that the cost of providing services in some authorities will be higher than others. The document proposes two options for an ACA in the formula; a General Labour Market (GLM) approach and a hybrid approach. The methodology for the previous schools formula used a GLM approach.
- 26 The GLM approach takes account of the relative pay of various groups of workers in different

geographical areas. Underlying this approach is the principle that teachers and other education workers are part of a general labour market. Consequently, employing authorities have to compete with other employers in the area in both the public and private sectors. If a GLM approach were to be used DCSF would adopt the same methodology as used by CLG, which is likely to be consulted on over the summer.

- 27 A hybrid approach would focus more directly on the costs of employing school staff. It would involve a specific cost approach using teachers' pay bands to cover the direct financial costs of teachers; this would be derived from a national index of the direct financial cost of each group of teaching staff. In addition it would use the GLM approach to cover the direct financial costs of non-teaching staff and the indirect cost of both type of staff. The split of pay between teachers and other staff is calculated as 68:32. The consultation states the hybrid approach would allocate fewer resources than the GLM method as the differential between higher and lower cost areas is calculated to be smaller. This could allow for the additional money to be recycled through the basic entitlement to all authorities.

14. Which is the fairest method of applying the Area Cost Adjustment?

Transitional Arrangements [Chapter 7]

- 28 The introduction of a new needs-based formula will, according to DCSF, 'result in significant distributional changes'. The Department recognise authorities need protection from sudden changes to budgets and are proposing transitional arrangements (i.e. a Minimum Funding Guarantee).
- 29 It is proposed transitional arrangements for 2011/12 and 2012/13 will involve a per pupil floor set above the Minimum Funding Guarantee. This would result in no authority receiving an increase lower than the floor in both years. The floor will be paid for either by a ceiling on the authorities with the largest increases in funding or by reducing the amount above the floor for all non-floor authorities by the same proportion (scaling) or a combination of these two options. The consultation paper does not propose a cash-floor, such as the one which operates at present, as it is likely to move authorities with falling pupil numbers away from the formula. However, the Department recognises that authorities which will lose under the new formula and have declining pupil numbers could be faced with difficulties. The paper states DCSF will 'consider whether any protection needs to be offered for local authorities in that position'.
- 30 It will also be necessary for authorities to make local transitional arrangements to manage the impact on schools' budgets of the movements in funding which will result from the removal of the specific grants listed earlier. DCSF propose a single set of transitional arrangements, which will be based on a single baseline, including both the DSG and the special grants rolled into DSG. The Department consider this approach as preferable to establishing separate transitional arrangements for each specific grant.

15. Do you support our plans for the transitional arrangements for mainstreaming grants?

16. Should floors be paid for by all local authorities or just by the largest gaining authorities?

17. Do you have any suggestions for how the Minimum Funding Guarantee could be improved?

Further Considerations [Chapter 8]

- 31 DCSF currently provide an Exceptional Circumstances Grant for authorities which experience significant growth in pupil between the January school census and the start of the academic year or significant growth over in the number of pupils with English as an additional language. No authorities received the Grant in 2008/09 or 2009/10 for the first reason, although several received funding for the second reason. The consultation seeks views on whether similar arrangement, funded from the DSG, should be continued from 2011.
- 32 The consultation also proposes allowing local authorities with schools near military establishments to make a claim for additional pupils to be counted for DSG purposes, if numbers have fallen significantly from the previous year as a result of armed forces movements. Claims would have to be made directly to the Department and would be considered individually on their merits. The consultation does not propose making any specific provision in the formula for children of parents serving in the armed forces.

18. If a contingency arrangement for local authorities is to continue, funded from the DSG, what areas should it cover and what should the criteria be for triggering eligibility?

19. Do you support our proposals for Service children?

Key Considerations

33. None identified.

Community Impact

- 34 None identified.

Financial Implications

- 35 No financial implications are identified within the consultation paper as per pupil funding allocations will be announced by DCSF in the autumn after the closure of the consultation.

Legal Implications

- 36 It is confirmed that these proposals are consistent with the Council's legal duties

Risk Management

37 Herefordshire's views will only be considered by DCSF if a response is returned by 7th June 2010.

Consultees

38 None.

Appendices

39 Consultation on the future distribution of school funding published by DCSF March 2010
Schools

Background Papers

Briefing notes prepared by Society of County Treasurers and the Local Government Association