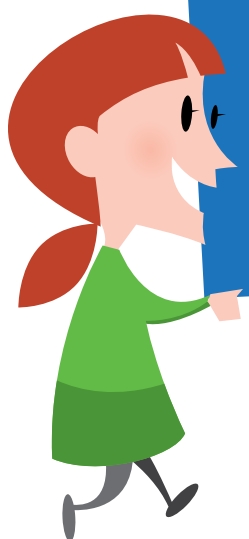


Consultation on the future distribution of school funding



Contents

Ministerial foreword	3
Executive summary	5
Chapter 1 Towards a new formula	8
The school funding system, core principles and formula structure	
Chapter 2 The Basic Entitlement	13
Options for determining the basic unit of funding	
Chapter 3 Additional Educational Needs	18
Distributing additional funding for pupils with additional educational needs	
Chapter 4 High Cost Pupils	27
Distributing additional funding for high cost pupils, including those with high cost special educational needs	
Chapter 5 Sparsity	32
Reflecting the additional costs of small primary schools in sparsely populated areas	
Chapter 6 Area Cost Adjustment	37
Reflecting labour costs in different areas	
Chapter 7 Transitional arrangements	44
Protecting schools and local authorities from significant fluctuations in funding	
Chapter 8 Further considerations and conclusion	46
Other issues and next steps	
Annex A Methodology underpinning the current funding arrangements	51
Annex B Supplementary technical information on the proposed formula arrangements	56
Annex C Charts included in the document	69
Annex D Consultation questions	83
Annex E Links to other useful documents	85

Ministerial foreword



Ever since this Government came to power, education has been a top priority, backed by record levels of investment. And as we have set out, that investment is set to continue. But it is not simply a case of putting more money into the system as a whole. We need to make sure that investment goes where it is needed and is spent wisely.

Over the last few years we have brought a high degree of stability and predictability to school funding through our Spend Plus methodology. But we have always said that we wish to return to a formula-based method of allocation in 2011, so that allocations better reflect actual characteristics of pupils.

This consultation sets out the principles of the new formula and asks for views on the options available to us. In getting this far we have been ably assisted by members of our Formula Review Group which includes representatives of central and local government, teacher and headteacher associations, unions representing support staff and other interested parties. We are extremely grateful to them.

We are also very grateful to the countless people – school leaders, teachers, support staff, governors, parents, pupils, MPs, Schools Forum chairs, local government representatives, local authority officers and other organisations and individuals – who have contributed to the review.

We are proposing five elements for the formula, which will be familiar to those involved in school funding. These are: a basic entitlement for every pupil; additional money for pupils with additional educational needs, funding for provision for high cost pupils, a sparsity factor to support local authorities which need to maintain small schools in sparsely populated areas, and an adjustment for local authorities who have higher labour costs. We are also proposing the introduction of a Local Pupil Premium, in order to ensure that the very significant resources in the system for deprivation reach the pupils who need them.

We have set out in this document the options for distributing each of the elements. We want to hear from all interested parties their views on these options, and in particular which, they believe, are right in principle. We will continue to talk to stakeholders and will develop firm proposals which we will publish later in the year.

This is a technical but highly important document, as the final outcome of this review will affect the distribution of school funding for several years to come. We would therefore urge all those with an interest in school funding to take the time to read this document, discuss it with their colleagues in schools and local authorities, and to send us their views.

A handwritten signature in black ink that reads "Vernon Coaker". The letters are cursive and slightly slanted to the right.

Vernon Coaker
Minister of State for
Schools and Learners

Executive summary

This document sets out the Government's proposals for the distribution of school funding from April 2011. 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). The document seeks agreement on funding principles and seeks views on the options put forward on how the individual formula elements should operate.

This follows a wide-ranging review of the mechanism for allocating the DSG, announced by the Government in January 2008. A Formula Review Group (FRG), which has included representatives from the main education stakeholders, has steered the work of the review. More details of the group's work, including FRG membership, papers and notes of the meetings, along with reports by PricewaterhouseCoopers (PwC), commissioned for the review, can be found on the Department's Teachernet website:

<http://www.teachernet.gov.uk/management/schoolfunding/DSGformulareview/>

Formula principles

The school funding system must support schools to prepare all children for adult life and help schools narrow the gaps in achievement that exist, particularly between deprived and non-deprived pupils. The formula should reflect that different pupils need different levels of support and that different areas will have different cost pressures. It should reaffirm the principle that needs in individual schools are best assessed at the local level. It should reflect the priority the Government is giving to supporting deprived pupils to raise achievement and to ensure the funding to support schools to meet the needs of deprived children is clearly identified.

Around £4.5 billion is currently allocated to schools through specific grants. The intention is to mainstream as many of these grants as possible into the DSG. This will both simplify the process and give further control to schools and local authorities. After the incorporation of other grants proposed in the document, the DSG will total over £35 billion and will form the vast majority of funding for schools.

The Secretary of State has announced that the Government intends to set a Minimum Funding Guarantee. This will mean that all schools would receive a cash increase per pupil, subject to exclusions such as resources assigned to individual pupils and adjustments for marginal pupil number changes.

Proposed formula elements

(i) Basic Entitlement

The Basic Entitlement is there to cover the general costs of running schools, notionally around three quarters of the DSG allocation. It is a per pupil amount not covering any additional needs or

costs, which are picked up elsewhere in the formula. This document sets out two options for the calculation of this basic unit of funding; a judgemental approach to dividing up the overall sum available for the DSG into its formula elements, and an activity-led funding (ALF) approach which identifies and attempts to cost the core activities that schools undertake. Both options require elements of judgement.

(ii) Additional Educational Needs (AEN)

Some children need additional support, for which schools and local authorities need to pay. Research undertaken by PwC has identified a range of additional needs of pupils from all backgrounds and these have been used when developing the formula. This formula factor should reflect, in particular, that children from deprived backgrounds are less likely to achieve than their more advantaged peers and need additional support to help them achieve their potential.

To ensure that the funding system is responsive to where deprived children are, all local authorities will be required to operate a local pupil premium from 2012-13 onwards. Such a local pupil premium would mean that if a school recruits a larger number of deprived pupils, it can see that it will receive additional funds, which will be reflected in its budget.

(iii) High Cost Pupils (HCP)

A small number of pupils, mainly those with Special Educational Needs (SEN), have very specific needs which are very costly to provide for. Evidence from the PwC research has been used to define high cost pupils and to develop proposals for allocating resources, based on the need types identified in the PwC work. The current recoupment system for pupils with statements of SEN educated outside the resident local authority was also looked at as part of the review and no change is proposed.

(iv) Sparsity

This is not simply a factor for small schools. It is intended to recognise the need to maintain small primary schools in sparsely populated areas, which cost more per pupil to run. Two options are proposed; a broader option incorporating more local authorities or a narrower option which targets a smaller number of more sparsely populated local authorities. The case for a sparsity factor for secondary schools was considered but evidence did not suggest a strong case for its inclusion.

(v) Area Cost Adjustment (ACA)

There is a wide variation across the country in staffing costs which means that the cost of providing comparable services in different parts of the country will differ. Two options for calculating the ACA are considered. One is based on the principle that education workers are part of the general labour market (GLM). The other "hybrid" approach is based in part on the direct pay costs of teachers, which we are able to quantify, and uses the GLM approach for all other elements of staff costs, which we are not able to quantify.

Other issues

The consultation also addresses other issues considered during the review, including how to adjust the DSG for the conversion of maintained schools into Academies, funding for Service children, the revenue cost implications of the Private Finance Initiative, Home Educated children and links with the Department for Communities and Local Government's (CLG) relative needs formula (RNF), which includes aspects of children's services.

Next steps

We want to hear from all those with an interest in school funding on both the overall makeup of the formula and the principles set out in this document. Once we have considered the responses we will consult on firmer proposals so that we are able to give indicative allocations to local authorities by November 2010. The closing date for responses is 7th June 2010.

Enquiries

If your enquiry is related to the policy content of the consultation you can contact either

Juliet Yates on: telephone: 020 7340 8313 e-mail: juliet.yates@dcsf.gsi.gov.uk, or

Ian McVicar on: telephone: 020 7340 7980 e-mail: ian.mcvicar@dcsf.gsi.gov.uk

If your enquiry is related to the DCSF e-consultation website or the consultation process in general, you can contact the Consultation Unit by e-mail: consultation.unit@dcsf.gsi.gov.uk or by telephone: 0870 000 2288.

How to respond

Consultation responses can be completed online at www.dcsf.gov.uk/consultations

or by downloading a response form which should be completed and sent to:

e-mail: dsg.consultation@dcsf.gsi.gov.uk

post: Ian McVicar
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Additional copies

Additional copies of the PDF version of this consultation and the response form are available from www.dcsf.gov.uk/consultations

Chapter 1

Towards a new formula

The school funding system, core principles and formula structure

- 1.1** The system of funding schools has changed significantly since 1997. Until 2005-06, local authorities' core funding for schools and other pupil provision was provided in the same way as for all other local services through the local government finance system. A formula was developed in 2002-03 to calculate the Schools Formula Spending Share, which was the money given to local authorities notionally for schools. This formula was used until 2005-06.
- 1.2** Since 2006-07 funding for schools has been distributed to local authorities as a separate Dedicated Schools Grant (DSG) using the "Spend Plus" methodology. This covers funding for pupils aged 3-16. Post-16 education is funded separately. This methodology has provided stability and predictability in school funding. However, it has required the setting of a base year to which future increases are applied, in this case 2005-06, and so does not allow for changes in relative needs between local authorities since that time to be reflected. There is a strong case, therefore, for returning to a system where funding allocations better reflect current need. More detail about the school funding system is set out in Annex A.
- 1.3** The Government launched a review of the mechanism for allocating DSG in January 2008. The aim of the review has been to consider the development of a single transparent formula for the distribution of the DSG, which allocates resources in line with relative need, recognising the different costs of educating particular groups of pupils, particularly to meet the needs of disadvantaged pupils, and providing education in different areas.
- 1.4** To steer the work of the review and to gather evidence on relevant issues, a Formula Review group was established. This group included representatives from central and local government, teacher and headteacher associations, unions representing support staff and other interested parties.
- 1.5** The work of the group was carried out in public with papers and minutes of the group being published on the Department's Teachernet website:
<http://www.teachernet.gov.uk/management/schoolfunding/DSGformulareview/>.
- 1.6** The Group held 13 meetings and 53 papers were considered. The main area of focus was on the likely formula elements:
- a. A basic entitlement** – an amount given for every pupil regardless of any additional need and/or cost;

- b. Funding for the additional educational needs (AEN) of pupils including, those associated with deprivation** – to recognise that some children need greater support, for which schools and local authorities need to pay, in order to help them achieve their potential;
- c. Funding for High Cost Pupils (HCP)** – to recognise that a small number of pupils have needs which mean they cost significantly more to educate and support than other pupils;
- d. Sparsity funding** – 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 to run;
- e. Area Cost Adjustment (ACA) funding** – to recognise that there are higher salaries and associated staffing costs in certain areas.

1.7 PricewaterhouseCoopers (PwC) were commissioned to undertake research into four areas of funding: Additional Educational Needs; high cost pupils (mainly, but not entirely those with statements of SEN); the feasibility of an activity-led funding approach for calculating the basic entitlement; and area cost issues. The four reports can be found on the Teachernet website:

<http://www.teachernet.gov.uk/docbank/index.cfm?id=14194>

1.8 The development of the formula needs to be considered in the context of the current economic climate and the state of the public sector finances. The Government is committed to continuing to provide real growth in school funding and has announced that schools will continue to receive real terms increases between 2011 and 2013. But more than ever there is a need to ensure that schools work efficiently and effectively and that there is value for money in the provision of services.

1.9 Having developed options on the key issues with our partners, we are now looking to schools and local authorities to tell us their views about the options, before we announce final proposals. Therefore this document sets out the principles of the formula and the options within its various elements.

Principles

- 1.10** The aim is to produce a distribution formula which meets the needs of the 21st Century School. It must recognise that schools face challenges in narrowing the gaps in achievement and preparing every child and young person for life in an ever-changing world.
- 1.11** It must recognise that the concept of **“fairness” does not mean that everyone will get the same**. Instead it must reflect that our economy and geography means that different areas have different cost pressures, and that different pupils need different levels of support in order to help them achieve.
- 1.12** It must recognise that, whilst there are valid assessments that central government can make about need, **needs in individual schools are best assessed at the local level**. This principle underpinned the creation of Schools Forums in 2002 to advise and consult on

the distribution of funding. We intend to continue to distribute money to schools, through local authorities, using their local formulae.

- 1.13** A national formula to fund local authorities should recognise those issues which are of national importance and make significant differences to local costs and pressures. It is not there to reflect variations that are randomly occurring, nor, if we are to achieve the aim of a simple and transparent funding formula, is it right to include every issue raised. **Differences in funding between local authorities must be justified using robust evidence.**
- 1.14** As set out in the White Paper, **the Government is committed to at least maintaining the current level of funding allocated for deprivation.** We strongly believe that this **additional funding should be spent for the benefit of deprived pupils.** Local authorities have been working to increase the proportion of their deprivation funding that they put towards deprived pupils, and they should ensure that this trend continues so that **by 2014-15, all the money allocated nationally for deprived pupils reaches deprived pupils locally.** Local authorities will also need to ensure that their funding for deprived pupils is **responsive to changes in the numbers of deprived pupils in different schools through the operation of a Local Pupil Premium.**
- 1.15** We must also recognise that schools and local authorities need stability and time to plan for changes to funding. **Therefore there will be protections at school and local authority level to reduce the level of short term changes to the distribution.**

Mainstreaming grants

- 1.16** Some £4.5 billion is currently allocated to schools through specific grants. Many of these grants were originally introduced to implement specific policies. However, while specific ring fences have remained for the School Lunch Grant and Ethnic Minority Achievement Grant (EMAG) most of the other grants have ring fences which simply specify that the funding can be spent on any purpose of the school.
- 1.17** We therefore intend to mainstream as many specific grants as possible into the DSG, which makes sense if we are moving to a single needs based formula. This will simplify the system and give further control to schools and local authorities, in line with the principles of the White Paper, *Smarter Government*. This is not about cutting funding – overall front line funding for schools will increase in real terms by an average of 0.7 per cent per annum in 2011-12 and 2012-13 and this is applied to the total which includes all of these grants. At this stage we see the the future DSG including:
- a. Dedicated Schools Grant (including London Pay Addition Grant);
 - b. School Development Grant (Devolved) excluding Specialist Schools;
 - c. School Standards Grant;
 - d. School Standards Grant (Personalisation);
 - e. School Lunch Grant;
 - f. Ethnic Minority Achievement Grant;

- g. Extension of the Early Years Free Entitlement;
- h. Extended Schools – Sustainability and Subsidy.

- 1.18** We recognise that there will be issues around the mainstreaming of individual grants. The Ethnic Minority Achievement Grant, for example, has been an important grant in helping narrow the achievement gaps for Black and Minority Ethnic groups and in supporting the needs of pupils for whom English is an Additional Language (EAL). These purposes will remain but, under these proposals, schools will have additional freedom to use the funding to target narrowing achievement gaps for any other under-performing pupil groups. Local authorities should also be able to retain a portion of this funding to run a centralised service to support schools in narrowing achievement gaps for under-performing pupils and meeting the specific needs of bilingual learners, where they consider that is more practical than delegating all the funding to schools. **We will ensure that the total of funding distributed through the formula towards underperforming ethnic groups and pupils with EAL is at least as great as the total of EMAG plus the amount of DSG already notionally distributed on that basis.**
- 1.19** As set out in the White Paper *Your Child, Your School, Our Future: Building a 21st Century Schools System*, we also intend to bring forward proposals for a grant to support school improvement. This will be outside the DSG and will be funded by redirecting resources from the National Strategies and other central programmes, such as the National and City Challenge programmes. In line with the commitment in the White Paper, for weaker performers, we propose that this grant should be linked to the agreement of the School Improvement Plan by the School Improvement Partner (SIP), representing the local authority. The DCSF is currently conducting a separate consultation on these arrangements. Specialist Schools' funding will continue to be allocated separately outside the DSG, as SIPs will be responsible for taking decisions about schools' specialist status.
- 1.20** The mainstreaming of grants will result in some movement in funding and will require local transitional arrangements to manage the impact on schools' budgets. This will be particularly true where the school has been allocated a significant amount of specific grant per pupil in comparison to the rest of its budget. Therefore local authorities will need to manage the process so that the locally agreed formula can run without putting schools in difficulty. This is likely to require tight transitional arrangements at least in the first year. The Minimum Funding Guarantee would apply to a base that includes both funding through the DSG and grants that are to be mainstreamed. We consider this approach is preferable to separate transitional arrangements for those grants. We will take this opportunity to see if the operation of the Minimum Funding Guarantee can be improved. More detail on the operation of transitional arrangements is set out in Chapter 7.

Structure of the formula

- 1.21** We are clear that the elements of the formula will be:
- a. **A basic entitlement** – an amount given for every pupil regardless of any additional need and/or cost;

- b. 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;
- c. High Cost Pupils** – to recognise that a small number of pupils have specific needs which mean they cost significantly more to educate and support than other pupils;
- d. 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;
- e. Area Cost Adjustment** – to recognise that there are higher salaries and associated staffing costs in certain areas.

1.22 Allocations will be calculated in four separate blocks. These will be:

- a.** Early Years settings;
- b.** Reception to Year 6;

both of which will include elements of Basic Entitlement, Additional Educational Needs and Sparsity, plus the Area Cost Adjustment.

- c.** Year 7 to 11;

which will include elements of Basic Entitlement and Additional Educational Needs, plus the Area Cost Adjustment; and

- d.** High Cost Pupils;

which will include the High Cost Pupil element plus the Area Cost Adjustment.

At the beginning of the spending period we intend to issue fixed annual Guaranteed Units of Funding per pupil for each year of the period for each local authority. There will be Guaranteed Units of Funding for each of the four blocks. This will allow multi-year budgeting to continue.

- 1.23** We have considered evidence, including the research commissioned from PwC, to develop options in each of these formula elements. The development of the methodology has been supported by input from a technical group of school funding experts.
- 1.24** Options for these factors, where proposed, are set out in the following chapters.

Isles of Scilly

- 1.25** The formula will apply to all local authorities in England with responsibility for schools, except the Isles of Scilly. Where we intend to continue to issue a separate grant, as a formula cannot apply meaningfully to this small and unique authority.

Questions

Do you agree with the principles we are applying to the formula?

Do you agree with the proposals to mainstream the grants specified into DSG?

Do you agree with the proposed elements of the formula?

Chapter 2

The Basic Entitlement

Options for determining the basic unit of funding

Background

- 2.1** The basic entitlement is intended to cover the general costs of running schools and is therefore the factor which allocates the most funding – notionally just less than three quarters of the current DSG allocation. It covers base funding before any additional amounts for AEN, separate funding for high cost pupils, sparsity funding for the primary sector and the adjustments for area costs are added. There are two approaches to calculating the basic unit of funding per pupil:
- A judgemental approach – in which the funding is based on an assessment about how best to divide up the overall sum planned by the Government into its main formula components. An amount per pupil is derived to cover each of basic funding, AEN, high cost pupils, sparsity and area costs; or
 - A bottom-up approach – in which the funding is based on an assessment of how much a school needs to spend to provide education for pupils before any adjustments are made. This is known as activity-led funding (ALF). It would involve identifying a list of core activities that schools undertake (e.g. teaching, management) and trying to cost them, taking account of such factors as their frequency and time. The aim would be to describe what the sums available would buy. This approach would also require a degree of judgement.

Previous work on activity-led funding

- 2.2** As part of its work to develop a formula for 2003-04 the Education Funding Strategy Group (EFSG) considered the experience of those local authorities which were using an activity-led approach to resource allocation. The purpose was to understand more clearly the types of activities carried out by schools and their associated costs, in order to see what elements could be applied as part of a national formula. The Group identified six components and cost drivers for determining the basic entitlement: teaching, management, support staff, Information and Communications Technology (ICT), premises maintenance and other non-staffing costs. The Group recognised that this approach was potentially very complex and required explicit assumptions and decisions on a whole range of issues such as class sizes by key stage, non-contact time for teachers, numbers of non-teaching and support staff and premises costs. These are factors on which headteachers decide and which will vary between schools. The process would have involved deriving a national average per-pupil figure for each of the sub-blocks by building up a set of assumptions around the six components, in some cases by making different assumptions for each key stage.

- 2.3** Work was not sufficiently developed on the ALF model for it to be included in the 2003-04 formula and the approach used up to 2005-06 used the judgemental approach outlined above. The work of the previous review has however provided a useful starting point for the consideration of an ALF approach as part of this review.

The Basic Entitlement in the new formula

Activity-led funding approach

- 2.4** We commissioned PwC to determine the feasibility of an activity-led approach and the options for doing so. We further commissioned SERCO to develop a working model for potential use in the DSG allocation process. The ALF approach has the potential advantage of making it clearer to those setting budgets what the resources available would buy. There are, however, significant challenges in developing and operating a successful model.
- 2.5** The first is the complexity of the process which, even at its most basic level, relies on there being a substantial amount of detailed and accurate data available. Where there are data gaps, assumptions will need to be made based either on model theory or by applying experience of how such models operate in other areas such as in local authorities. There is a significant amount of national data available including financial returns, school censuses and the teacher workload survey and we made these available to SERCO. However, during SERCO's analysis they encountered the following issues:
- An evidence gap around the Early Years settings, in particular regarding Private, Voluntary and Independent providers (PVIs). In addition, the difference in the geographical distribution of nursery schools, which typically attract a higher level of funding than PVIs and nursery classes, provides a further complication;
 - Where resources or staff are used for both non-AEN and AEN pupils, for example teaching assistants, there is a difficulty in determining the proportions to allocate to the individual basic entitlement and Additional Education Needs blocks; and
 - Being able to reflect appropriately the additional costs of sparsity, which would be separately identified in the DSG formula, as these costs may be included in many different sections in the financial returns.
- 2.6** There is the further issue that, while the SERCO model allows for exploration of the funding passed to schools, it does not consider the centrally retained local authority activities which would have to be considered separately.

Development of the ALF model

- 2.7** The feasibility of an ALF basic entitlement depends on key assumptions around the areas of typical staffing ratios, staff salaries, proportions of time devoted to particular activities and how the funding within the basic entitlement links with the funding streams for AEN and HCP. Some particular issues to be considered are:

The role of the management team in schools

- 2.8** To be able to consider appropriately how much teaching resource there is in each school it is necessary to understand the role of various management grades. To develop the model therefore we would need to know:
- how many deputy and assistant heads would be in post (per 1,000 pupils in each of the primary and secondary phases) and how much of their time would be spent on classroom teaching activities;
 - how much of their time would be spent on the administration and specific teaching support for those pupils who have additional educational needs;
 - how many heads of departments would be in post (per 1,000 pupils in secondary schools) and how much of their time would be spent on classroom teaching activities; and
 - how much of their time would be spent on the administration and specific teaching support for those pupils who have additional educational needs.

Teaching assistants not assigned to SEN/EAL who are not Ethnic Minority Support Assistants

- 2.9** Most staff classified as SEN/EAL teaching assistants and Ethnic Minority Support Assistants will be involved in additional educational needs activities rather than in meeting more general learning needs. The situation is however less clear for other teaching assistants and it will vary between schools and within classes. For the model we would need to know:
- how many general teaching assistants are in post and how much of their time would be on activities associated with additional educational needs (per 1,000 pupils in each of primary and secondary phases)

The use of other non-teaching staff in schools

- 2.10** The basic entitlement covers non-teaching work and other non-teaching staff. For schools of different sizes the structure of the organisation will be different, allowing the split between basic entitlement and the extra workload associated with the administration of additional educational needs to be more easily defined in some schools than others. Differences may also exist between phases, adding further complication. For the model we would need to know:
- how many bursars, secretaries, other administration and clerical staff, midday supervisory assistants and other staff who are neither teachers nor teaching assistants (TA) would be in post (per 1,000 pupils in each of primary and secondary phases); and
 - how much of their time would be on activities associated with additional educational needs.

Non-pay costs

- 2.11** An ALF model for the basic entitlement must also consider the non-staff costs that school incur such as energy bills and maintenance costs. On a per-pupil basis these non-staff

costs are found to vary across the country. Explanations for this variation may include economies of scale, the age of school buildings or differences between schools in the utility deals secured. In particular, primary schools with more than 300 pupils and secondary schools with a sixth form spend considerably less per pupil on non-pay costs.

- 2.12** As with staff costs, consideration has to be given to additional educational needs requirements. Schools with a higher percentage of pupils eligible for free school meals, a proxy indicator for pupils with additional educational needs, are found to have a higher spend and a greater variation in spend per pupil on premises costs. This is true for both primary and secondary phases. Therefore a proportion of the premises costs should be deemed to be associated with additional educational needs. Difficulties occur in determining the appropriate mechanism for doing this given the wide variation observed.

A national assessment

- 2.13** In order to calculate all of these costs, we would need to make assumptions that reflect a national average position for the system as a whole. Schools vary hugely due to variations in size, in pupil characteristics, and in the way they are funded through local formulae. This national position will therefore not necessarily reflect all local circumstances. Also, whilst the purpose of the ALF approach is not to specify what all schools should be spending on certain budget areas, it could be viewed as such. Schools might feel under pressure to try to match these national assumptions, leading to inappropriate budgeting and an unhelpful assumption in the system that the Government is attempting to prescribe how every school should be run.
- 2.14** Were we to adopt an ALF approach, we would need to make it extremely clear to local authorities and schools that the assumptions and calculations used in the model are not an indication of what we think should be spent in schools. These decisions must be made locally.

A judgemental approach to deriving the basic entitlement in the new formula

- 2.15** The alternative to an ALF methodology for the basic entitlement is to determine an amount after making a judgement about how best to divide up the overall sum planned by the Government into its main formula components. It starts by considering the funding to be allocated for each of the formula factors of basic entitlement, AEN, HCP, sparsity and the associated area cost adjustment that applies to each of them.
- 2.16** An amount per pupil is derived for each of the formula components and we need to reach a view, which involves an element of judgement, as to the balance between them.
- 2.17** This approach would require fewer assumptions to be made about the detail of the approach. As we know that the phases are funded differently, we need to reflect those differences in the basic entitlement. In order to do so we would use evidence from the section 251 outturn statement (formerly section 52) to derive the relative weights between the phases.

2.18 Some issues to consider therefore are:

- activity-led funding has the potential advantage of making it clearer to those setting budgets what the resources available would fund. This could help those making funding decisions to judge between competing priorities and improve value for money.
- it is however a complex process which, to make it workable and acceptable, relies on there being detailed and accurate data available.
- it also relies on some assumptions such as on the split between the AEN and basic entitlement components that would have a significant impact on the funding allocation.
- it could appear prescriptive about how schools should be operating, implying an optimum pattern of activity which schools should be following.
- the ALF approach could lead to insufficient funding being allocated for additional educational needs, if the costs associated with those needs are not appropriately calculated and removed, resulting in the basic entitlement being too high.
- the alternative (judgemental) approach is much simpler in construction and requires fewer assumptions. It does not describe a pattern of spending or what the funding would pay for so would not offer as clear a description of what elements of activity the basic entitlement is covering. It would however represent the pattern of historic funding between the phases.

Question:

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

Chapter 3

Additional Educational Needs

Distributing additional funding for pupils with additional educational needs

Background

- 3.1** One of the aims of the review is to produce a funding system that supports schools and local authorities to raise the educational achievement of all children and young people. Central to this is the aim to narrow the gap in educational achievement between all children and those from low income and disadvantaged backgrounds. Children from deprived backgrounds are still less likely to achieve than their more advantaged peers. Progress has been made in narrowing the gaps between different groups, with the most deprived schools and the most deprived areas making the most progress. But there is still much more to do. Attainment figures for Key Stage 2 show that, for 2009, 53.3 per cent of pupils known to be eligible for free school meals (FSM) achieved the expected level in both English and mathematics; for pupils who were not eligible for FSM the figure was 75.5 per cent. For secondary pupils, 54.4 per cent of pupils not eligible for free school meals achieved 5 or more A*-C grade GCSEs or equivalent, including English and mathematics, compared to 26.9 per cent of pupils known to be eligible for free school meals – an attainment gap of 27.5 percentage points.
- 3.2** We need to have a funding system that reflects the role of schools in supporting all pupils, and enables schools to align resources to agreed priorities. Sir Alan Steer's review of pupil behaviour recommended that we consider how funding can support early intervention and encourage the development of early intervention services. In addition, the Expert Panel on Assessment recommended that the Government considers how school funding could support transition and catch up in years 7 and 8. Specific decisions about what strategies to employ to support pupils are best taken by schools, but the funding system needs to ensure they have adequate resources to do so. Pupils from disadvantaged backgrounds are more likely to need support in order to reach their potential, including during transition, and are more likely to need early intervention. Ensuring that the formula gives due prominence to reflecting disadvantage is important if local authorities and schools are to better target funding towards priorities like early intervention and transition strategies. Targeting deprivation remains a top priority for Ministers.
- 3.3** So it is crucial not only that there is additional money allocated nationally for deprivation but also that this is passed on to and used by schools with deprived children. As was made clear in the White Paper *Your Child, Your School, Our Future: Building a 21st Century Schools System*, the current level of funding for deprivation will be maintained in future years. The Government is committed to increasing deprivation funding from this level

over the next Parliament and also to ensuring that by the end of the next Parliament, at the latest, all of this deprivation funding is passed on to schools with deprived pupils. In order to improve the transparency and targeting of deprivation funding, all local authorities will be required to operate a Local Pupil Premium from 2012–13. When allocating DSG to local authorities, we will set out clearly the level of deprivation funding they receive under the funding formula to help them deliver this objective.

- 3.4** But it is not just deprived pupils that have additional educational needs. A survey conducted by PwC identified a range of additional educational needs experienced by a range of pupils from all backgrounds. So it is important that the funding formula recognises other educational needs and not just those associated with deprivation. More detail of the PwC work is set out below.

Developing a new formula for use from 2011

- 3.5** Details on how the formula underpinning the current funding arrangements operated are set out in Annex A. The previous formula which underpins the current Spend Plus arrangements was largely based on research undertaken by PwC in 2002. In 2009 the DCSF commissioned PwC to update this work to provide details of the costs of and ways of measuring AEN in the formula; whether the incidence of AEN has changed, the different types of need being managed in schools and changes in the cost of meeting these needs.
- 3.6** PwC surveyed over 7,000 schools and used evidence from the 949 schools that responded as part of its research to identify the different types of additional needs pupils have and the measurable factors that correlate most strongly with those needs. This has provided the basis for the options for distributing this element of the formula. The needs identified are:
- Behavioural, Emotional and Social Interaction (BESI)
 - Home Environment (HE)
 - Cognition and Learning (CL)
 - Communication and Interaction (CI)
 - Sensory and Physical (SP)
 - English as an Additional Language (EAL)
 - Other
- 3.7** The above need types were originally based on current SEN categories of need but a wider definition was needed as not all pupils with AEN have SEN. The categories chosen reflect discussions with stakeholders on the need types being experienced in schools.

Distribution methodology

- 3.8** Our proposed methodology for distributing AEN funding is to make an assessment of the national incidence of additional educational needs and, because we have no way of

knowing exactly where each pupil with additional needs is located, to use proxy indicators to assess the likely incidence of these needs in each local authority. We propose to distribute funding using carefully chosen indicators that are associated with the individual need types identified in the survey.

3.9 The total funding distributed in this way will be enough to cover what schools nationally are currently devoting to meeting additional educational needs in the system. On top of this there will be additional funds which will be targeted towards deprivation.

3.10 The survey told us that, excluding pupils with high cost needs, around 23.7 per cent of primary and 20.3 per cent of secondary pupils have AEN – roughly 1.588 million pupils. The survey did not include Early Years settings and therefore it is assumed that the incidence of AEN in these settings is the same as in the Reception to Year 6 block.

3.11 The survey derived the school level incidences of AEN by type for primary and secondary schools. It is important to note that a pupil may have more than one need. For all pupils with AEN, the breakdown by need type is as follows:

	Early Years Settings	R to Y6	Y7 to Y11
Behavioural, Emotional and Social Interaction	9%	9%	21%
Home Environment	42%	42%	26%
Cognition and Learning	22%	22%	29%
Communication and Interaction	9%	9%	6%
Sensory and Physical	2%	2%	3%
English as an Additional Language	15%	15%	12%
Other	2%	2%	3%
Total (ignoring rounding)	100%	100%	100%

3.12 The need type incidences that have been calculated by PwC are at national level. To be able to distribute funding to local authorities it is important to translate the national incidence to a local authority incidence of AEN. This translation is performed by considering the factors that may be strongly associated at the national level with that need type, such as deprivation or underperformance, and then allocating funds based on each local authority's proportion of the national total, for example each local authority's proportion of the national total of pupils eligible for Free School Meals or pupils with English as an Additional Language.

3.13 We have linked the non-high cost AEN need types identified above to what we consider to be the most appropriate distribution indicator. For example EAL is measured directly and we are able to assume that the incidence of needs associated with EAL match the incidence of EAL itself. For other needs we have applied factors with which evidence suggests, or the definition of the need type implies, a correlation with that need type.

- a. For Behavioural, Emotional and Social Interaction needs (BESI) and Home Environment (HE) needs, the PwC study found a positive relationship between the proportion of pupils eligible for free school meals and the proportion of pupils with both BESI and a HE need, suggesting a link between such needs and deprivation. We propose that all funding for these elements is allocated using a deprivation measure;
- b. Cognition and Learning difficulties, by definition, will manifest themselves in groups with slower progress and ultimately lower attainment. We therefore propose allocating funding by reference to underperforming groups. More detail on the definition of these groups is provided later in this Chapter;
- c. The incidence of English as an Additional Language is measured directly, and we assume that the incidence of any associated need is correlated.
- d. The other types of need are considered to be more randomly occurring and we therefore propose that the more complex needs of Communication and Interaction and Sensory and Physical should be allocated using a flat pupil rate across all authorities. We propose to do the same for the "Other" group as there is no reason to allocate this differently.

3.14 The total overall incidence of each need type is the product of the incidence of each need type in each phase and the number of pupils in each phase.

AEN Type	Distribution Indicator	Percentage of all AEN*
Behavioural, Emotional and Social Interaction	Deprivation	13.3%
Home Environment	Deprivation	36.2%
Cognition and Learning	Underperforming Groups	24.6%
Communication and Interaction	Flat Rate Per Pupil	7.9%
Sensory and Physical	Flat Rate Per Pupil	2.2%
English as an Additional Language	English as an Additional Language	13.5%
Other	Flat Rate Per Pupil	2.2%

* the percentages do not add up to 100% due to rounding

3.15 The above distribution mechanisms result in 49.5 per cent of AEN funding being distributed via a deprivation proxy, 24.6 per cent is distributed via underperforming groups, 13.5 per cent via English as an Additional Language and 12.4 per cent via a flat per pupil rate.

Options for distribution indicators

3.16 Within this distribution mechanism there are options for the indicators to be used, and we would welcome views on these. Where possible, the aim is to use indicators that best represent the pupils to be targeted with the additional funding. The deprivation options

are set out below. The table sets out some of the characteristics of the potential indicators.

(i) Deprivation options

Option 1 – Out of Work Tax Credit Indicator

Option 2 – FSM – Free School Meals

Option 3 – Child Poverty Measure

Option 4 – Average IDACI (Income Deprivation Affecting Children Index) score of pupils educated within the local authority

Option 5 – FSM with the additional 500,000 pupils in the most deprived areas by the IDACI score not on FSM

Indicator	Proportion of pupils	Type of Measure
Pupils in families in receipt of Out of Work Tax Credit (OOW)	20.6%	LSOA
Pupils known to be eligible for free school meals (FSM)	16.0%	Pupil
Pupils deemed to be in poverty using the Child Poverty Index (based on Out of Work Tax Credit with additional children in households with incomes <60% of median income, CPI)	22.5%	LSOA
Pupils deemed to be deprived considering the mean IDACI scores associated with pupil postcodes aggregated at Local Authority level (IDACI)	23.2%	LSOA
Pupils known to be eligible for free school meals plus additional 500,000 children in postcodes with lowest IDACI (FSM+IDACI Hybrid)	23.4%	LSOA

Issues relating to the deprivation indicators are:

- each impacts a different proportion of pupils;
- LSOAs (Lower Super Output Areas) are a geography unit based upon national census output areas. There are 32,482 LSOAs in England with an average population of 1,500 people. The LSOA measures assume that each pupil takes on the general characteristics of the LSOA that the pupil resides in. While this will not be true pupil by pupil, on average the pupils' circumstances should reflect the characteristics of the LSOA. The local authority measure is calculated by averaging across its LSOAs according to pupil numbers;
- the pupil measure uses data collected at a pupil level;

- FSM is a pupil level measure but as it relies on the parent applying for free school meals it can under-represent the actual number of pupils who would be eligible. It also has the additional limitation that some local authorities are piloting universal free school meals;
- there are various ways the IDACI score can be used. Translating the IDACI score into a proportion of children that are deemed to be deprived assumes that the difference between the IDACI scores of two pupils directly measures the relative need between them; and
- indicators that rely on people applying for a particular status or benefit, e.g. to receive Disability Living Allowance, will have the potential for under-reporting. This phenomenon is not unique to school funding.

In Charts 1 to 5 in Annex C we show the index for each local authority under each option.

(ii) Underperforming groups

- 3.17** For Cognition and Learning we propose to use an indicator based on underperforming groups, defined as those pupils known to be eligible for free school meals plus black and minority ethnic (BME) groups (Black Caribbean, White/Black Caribbean, Black African and White/Black African, Black Other, Pakistani, White Other and Gypsy/Roma and Travellers of Irish Heritage) where underperformance remains a concern. For details of the local authority distribution of under-performing groups, please see Chart 6 in Annex C.

(iii) English as an additional language

- 3.18** For the EAL block, we are proposing to determine the allocation by using each local authority's percentage of EAL pupils as recorded on the school census. The assumption here is that the occurrence of EAL need follows the general incidence of EAL. For details of the local authority distribution of pupils with English as an Additional language, please see Chart 7 in Annex C.

Meeting additional needs

- 3.19** Pupils from deprived backgrounds consistently do not perform as well as their more advantaged peers and it is important that the funding system is able to deliver sufficient funding through deprivation factors to ensure schools can support these children and to help narrow the gap. In the White Paper *Your Child, Your Schools, Our Future: Building a 21st Century Schools System*, the Government committed to at least maintaining the national allocation for deprivation at its current level. Therefore, we propose to allocate additional resources over and above the AEN distribution described above, on the basis of deprivation, so that the total amount distributed nationally for deprivation is maintained. We will use the same deprivation indicator as we choose for the mechanism above, and this will ensure that substantial additional resource goes towards each deprived pupil, regardless of whether they live in a generally deprived area or in a small pocket of deprivation.

Towards a Local Pupil Premium

- 3.20** This Government has always been committed to narrowing the gaps in attainment between disadvantaged children and their peers. And we have met this challenge with significant additional funding to help schools provide the necessary additional support for deprived children – rising to almost £4bn in 2010-11.
- 3.21** This has resulted in good progress being made in narrowing the attainment gap for ethnic minority pupils and in some of the most disadvantaged areas standards are rising faster than the average.
- 3.22** School improvement programmes such as National and City Challenge are ensuring that more pupils than ever are achieving 5 good GCSEs including English and maths. The additional funding and support they provide plays an integral role in raising standards and aspirations in schools that are often in deprived areas and that face significant challenges.
- 3.23** In order to improve standards and achievement, especially for those pupils from disadvantaged backgrounds, we have introduced the right to one-to-one tuition and catch up support and increased funding for personalisation. We are committed to continuing to invest to ensure that pupils benefit from this kind of targeted support, particularly deprived pupils.
- 3.24** However, we know that the additional funding for deprivation does not always reach the children who need it. Local distribution of school funding is for local authorities to agree in consultation with their Schools Forums, but we know that historically there has been a tendency to “flatten” deprivation funding at a local level, such that local authorities do not always target the money that they have received for deprived pupils towards those pupils.
- 3.25** Local authorities were all given a notional target in 2007 that by 2010-11 they should be passing on at least 80 per cent of their deprivation funding towards deprived pupils.
- 3.26** Further to this, we announced in the White Paper *Your child, your schools, our future: building a 21st century schools system*, that our principles for deprivation funding would be that:
- a.** money allocated at the national level for deprivation should all be allocated locally to schools with the pupils who need it, and this should mean that by the end of the next Parliament at the latest, 100 per cent of deprivation funding is passed on appropriately;
 - b.** the system should be more responsive to changes in the characteristics of pupils in schools and local authorities, so that money is better targeted where it is most needed; and
 - c.** the proportion of resources allocated nationally for deprivation should at least be maintained so that the amount spent locally on deprivation will grow.
- 3.27** The Government rejects the suggestion that there should be a nationally mandated pupil premium which sets out exactly how much should be allocated to prescribed pupils with

no reference to actual need. First, if it is introduced from existing resources it will result in substantial redistribution among schools. The recent Institute for Fiscal Studies report concludes that without additional resources 1 in 10 schools could experience cuts in excess of 10 per cent. But the alternative of substantial extra resources for schools (perhaps in excess of 5 per cent, as in the IFS modelling) is not realistic in current circumstances – it would require very substantial sums to be taken from elsewhere, such as resources for music, sport, and other support for children. Second, the national funding system already allocates significantly higher resources for deprivation – almost £4 billion, and it would make little sense simply to pile a pupil premium on top of what the IFS describes as the existing implicit pupil premium, so taking no account of what is already there. Third, it would presume that there was a single appropriate definition of deprivation for use across the country and that the same level of resource was needed to meet each deprived pupil’s needs, taking no account of local circumstances and local variations. It is for these reasons that we believe a national pupil premium is not the right approach to resourcing schools.

- 3.28** We do however believe that, as set out in the White Paper, funding allocated nationally for deprived pupils should be spent on deprived pupils locally. Historically, this has not been the case. Therefore, in order to ensure that funding reaches the pupils who most need it, **the Government will require local authorities to pass on all their deprivation funding to deprived pupils in 2014-15 at the latest, and expect progress to be made towards this in each of the intervening years.**
- 3.29** To ensure the funding to support schools to meet the needs of deprived children is clearly identified and to ensure that it is responsive to where these children are **the Government will require all local authorities to operate a Local Pupil Premium from 2012-13 onwards.**
- 3.30** This means that an amount of money in a school’s delegated budget must relate directly and explicitly to deprived pupils within the school, and should move around the system as necessary. Such a Local Pupil Premium would mean that if a school recruits a larger number of deprived pupils, they can see that they will get additional funds, which will be reflected in their budget.
- 3.31** Local authorities will have the freedom to agree with their Schools Forums how to operate a Local Pupil Premium, rather than a process being mandated nationally, since schools and local authorities are the ones best placed to decide where need is. For instance it will be for local authorities to agree with their Schools Forums which pupils should be targeted (i.e. the indicators to use), and the level of funding those pupils should attract.
- 3.32** It is our expectation that over time, the local pupil premium will be the main vehicle for the distribution of deprivation funding.
- 3.33** In order to maintain stability of funding during the year, the Local Pupil Premium should operate from year to year, and schools’ budgets should not be adjusted in the financial year. For instance, if a school had a larger number of deprived pupils admitted in September than had left in July, the school would not receive additional money until the

following financial year. But it will be able to plan on the basis that it will receive additional funds. We believe this strikes the right balance between stability and responsiveness.

- 3.34** We recognise that there may be an interaction between the local pupil premium and the operation of the Minimum Funding Guarantee. Schools Forums, who will agree the operation of the Local Pupil Premium, will also have the power to agree to an adjustment to the operation of the Minimum Funding Guarantee where that is necessary for the effective operation of the Local Pupil Premium. We want the funding associated with deprived pupils to be able to move from year to year between schools with those pupils so that schools have an incentive to take on pupils from more deprived backgrounds. For this to happen effectively, local areas may wish to adjust the way the Minimum Funding Guarantee works in order to ensure this responsiveness. Currently, where the adjustment affects schools containing more than 50 per cent of pupils, it can only be made with the agreement of the Secretary of State. However, we would presume that changes of this nature which allow the funding associated with the pupil premium to move between schools would be agreed and we will consult on building this into the regulations later in 2010.
- 3.35** Local authorities will want to develop different systems depending on their local circumstances, and we will look to provide best practice as systems develop.
- 3.36** We are amending the section 251 financial reporting tables to include information about deprivation allocations so that local authorities are required to report annually how they are allocating their deprivation funding.

Questions

Do you agree with the proposed methodology for distributing money for additional educational needs?

Which is your preferred indicator for distributing money via deprivation? Why?

Do you agree with the indicators, other than for deprivation, that we have proposed for each need?

Will the Local Pupil Premium mechanism help funding to be more responsive to changes in pupil characteristics?

Is it right that local authorities should each develop their own pupil premium mechanism?

Chapter 4

High Cost Pupils

Distributing additional funding for high cost pupils, including those with high cost special educational needs

Background

4.1 There are a relatively small number of pupils with additional needs for whom it is very costly to provide. There is no commonly held definition of high cost that is accepted by all local authorities, and the practice of classifying such pupils varies significantly across local authorities. The distinguishing feature is that the incidence amongst pupils is low but the cost of the needs is relatively high. In many cases, as in the case of pupils with statements of SEN, there is a statutory requirement on the resident local authority to provide for these needs, and it is necessary therefore to ensure that these needs are reflected as accurately as possible in the DSG. The best way of doing this is through a separate high cost pupils funding block. 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. This is because the statutory responsibility for ensuring the provision for such pupils falls on the resident authority.

Developing a new formula for 2011-13

- 4.2** Details of how the assessment for high cost pupils underlying the current system was made is set out in Annex A. It was largely based on the work of the Education Funding Strategy Group (EFSG) in 2002. In 2009, the DCSF commissioned PwC to provide an assessment of how the picture for high cost pupils had changed since 2002 so that we can best reflect current needs in the funding formula.
- 4.3** PwC interviewed 29 local authorities to inform its work. Also relevant has been PwC's AEN research work, described in Chapter 3. Their school survey examined the costs and incidence of AEN at school level, including high cost needs, and has therefore provided important background to this work.

Defining high cost pupils

4.4 For pupils in non-mainstream settings we continue to assume that they should all be deemed to be high cost. We recognise that placements will vary locally but consider that this is a reasonable assumption for the purposes of arriving at a national definition. For pupils in mainstream primary and secondary schools however we propose to refine the 2003 definition which only included those with statements of SEN. The survey suggests that local authority policy has been evolving around how they categorise pupils into the four SEN groups – no special provision, school action, school action plus and pupils with

statements of SEN, which means we should be looking at pupils across all the SEN categories when defining the high cost pupils block.

- 4.5** We investigated with stakeholders how best to define high cost pupils and it was agreed that because of the variations in local policy around SEN categorisation the most appropriate method of defining high cost pupils in mainstream schools was by means of a financial threshold. The PwC survey identified a national threshold figure of an annual cost of £6,218 – the point at which the cost increases significantly and the incidence falls. This is in addition to the basic unit of funding. Using this threshold and the proportions below from the survey (adjusted for 2009 census data) of each SEN provision group that are considered to be high cost, we estimate some 1.5 per cent of pupils in mainstream schools are high cost (1.3 per cent in maintained primary and 1.7 per cent in maintained secondary). This amounts to approximately 50,303 high cost FTEs in mainstream primary schools and approximately 47,510 high cost FTEs in maintained secondary schools nationally – a total of approximately 97,813 (see Annex B, paragraph 11). Our estimate for 2009 is that there are 217,599 high cost pupils in mainstream and non-mainstream settings. The table below shows the proportion of pupils in each SEN category that are deemed high cost.

Proportion of pupils in each SEN category that are deemed high cost	
Statemented	65.66%
School action Plus	4.34%
School action	0.70%
No SEN provision	0.01%

- 4.6** This work has identified two important factors which are relevant to the funding for high cost pupils and which we consider need to be reflected in the new formula. The first is that the number and cost of high cost pupils in mainstream settings is much higher than identified in 2002. The second is that the cost of providing for high cost pupils in general has increased more rapidly than cost increases for other parts of the education sector. The notional total for high cost pupils in 2009-10 is just over £3bn but PwC research suggests that around £4bn is currently being spent on such pupils, in addition to the basic unit of funding.

Distribution methodology

- 4.7** We propose to use the same approach for the allocation of funding for the high cost pupil block to that proposed for the allocation of AEN funding – namely that based on the pupil need types identified in the PwC school survey, but using the specific data for high cost pupils, and identifying the most appropriate distribution mechanism for allocating resources to local authorities for these need types.
- 4.8** To estimate the number of episodes of each need type nationally we have multiplied the incidence of each need type for high cost pupils from the survey by the total number of high cost pupils in mainstream settings.

- 4.9** However, many high cost pupils receive specialist provision in non-mainstream settings. We know that there are 119,786 pupils in non-mainstream settings overall but are not able to use the survey to allocate them across the particular AEN need types as the survey only covered mainstream settings. We have therefore mapped the standard SEN categories across to the AEN need types. This has enabled a need profile to be derived for pupils in maintained special, non-maintained special, independent and general hospital schools. More detail is set out in Annex B. By adding together the incidences in mainstream and non-mainstream settings, we have a total incidence for each need.
- 4.10** The need types are the same as those used for AEN. As with AEN, we have linked the need types for high cost pupils to what we consider the most appropriate distribution methods. This has in some cases resulted in more than one distribution indicator for the individual need type although we have tried to keep the formula as simple as possible. Evidence has been taken from a variety of sources including the Special Educational Needs information at pupil level on the school census.
- 4.11** Analysis shows that there is little association at local authority level between most of the need types and deprivation. Because of the more random incidence of high cost AEN at local authority level, a large proportion of the distribution for BES1, CI and SP is assumed to be by a flat rate.
- a.** There is a weak association between BES1 and deprivation at local authority level. However, when exploring the association at a small geography scale a slightly stronger link is observed. Therefore, we are proposing to distribute 25% of BES1 funding via deprivation.
 - b.** To represent the proportion of pupils with severe Cognition and Learning AEN, as with the AEN block, an underperformance measure is appropriate. To direct funding towards the most severe needs a measure of those pupils achieving no more than Level 2 at Key Stage 2 is proposed to distribute funding of this need type. Chart 8 in Annex C shows this attainment for each local authority.
 - c.** Evidence suggests a weak link between Communication and Interaction needs and deprivation, reflected in our proposal to distribute 90% of the money for that need via a flat rate, and 10% via a deprivation indicator.
 - d.** Evidence from the report *Special Educational Needs and Disability: Understanding Local Variation in Prevalence, Service Provision and Support*, published in February 2010, suggests a weak link between pupils with hearing impairment and eligibility for Disability Living Allowance (DLA). We therefore propose to include the proportion of children eligible for DLA as an element of the distribution of Sensory and Physical funding. Chart 9 in Annex C shows the distribution of the percentage take up of DLA by local authority. We propose that the remaining funding is allocated as a flat rate.
 - e.** As with AEN, it is assumed that the incidence of English as an Additional Language is associated with the incidence of the need.

AEN Type	HCP	Need incidence
Behavioural, Emotional and Social Interaction	25% Deprivation 75% Flat rate per pupil	26%
Home Environment	100% Deprivation	6%
Cognition and Learning	100% by Not Achieving More than Level 2 at Key Stage 2	33%
Communication and Interaction	90% Flat Rate Per Pupil; 10% Deprivation	18%
Sensory and Physical	80% Flat Rate Per Pupil 20% DLA	8%
English as an Additional Language	100% English as an Additional Language	1%
Other	100% Flat Rate Per Pupil	8%

- 4.12** So the relevant proportion of the block will be distributed using the corresponding indicator. For example, we will distribute 26 per cent of the high cost pupils block for BESl, 25 per cent of which will be via deprivation, and 75 per cent of which will be flat. In total, 50 per cent is distributed via a flat per pupil rate. Of the remainder, 33 per cent is distributed via a measure of those pupils not achieving higher than Level 2 at Key Stage 2, 14 per cent via a deprivation proxy, 2 per cent via the take-up of Disability Living Allowance and 1 per cent via English as an additional language.
- 4.13** For the distribution of funding for high cost pupils we are not offering a range of options other than for the allocation of deprivation funding, for which we propose to use the deprivation indicator decided upon for the AEN allocation. The range of deprivation indicators are set out in Chapter 3.

Other issues

Recoupment

- 4.14** We considered the case for an alternative to the current system whereby the additional costs of high cost pupils, above, that allowed for in the basic entitlement, are met by the local authority where the pupils reside rather than, as with the rest of the funding system, the provider authority. Evidence suggests that there is no strong support for a change and we propose to retain the current recoupment system for pupils with statements educated outside the resident authority. We will encourage voluntary recoupment for pupils classified in the school action and school action plus categories who are educated outside the resident authority and who have similar levels of need to statemented pupils.

Joint commissioning of provision

- 4.15** We considered whether better value for money and/or provision for very high cost pupils could be achieved through joint commissioning by local authorities. Evidence suggests further work on building capacity and experience within local authorities is needed before such a system could work effectively. We will keep this issue under review. In particular we will study how the new post-16 system, which will have a strong regional element, works after post-16 funding is transferred to local authorities in 2010.

Questions

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

Chapter 5

Sparsity

Reflecting the additional costs of small primary schools in sparsely populated areas

Background

- 5.1** Access to high quality education and other activities and services should not depend on where pupils live. In practice the geography of the land and the variety in density of population means that certain areas face additional challenges in meeting that demand.
- 5.2** In England, 4,476 primary schools have fewer than 150 pupils, of which 1,647 have fewer than 80 pupils. Diseconomies of scale mean that these smaller schools cost more per pupil to run. For primary schools in 2009-10, the average budget share per pupil including SSG, SSG(P), SDG, and other Standard Fund allocations (excluding opening and closing schools) is £4,840 in schools of fewer than 80 pupils, falling to £3,909 in schools of 80 to 149 pupils. These figures compare to a national average of £3,682 per pupil.

School Size (FTE)	Number of Schools	Budget share per pupil including grants
Fewer than 80	1,647	£4,840
80 to 149	2,829	£3,909
150 or more	12,384	£3,512
All primary schools	16,860	£3,682

- 5.3** We accept that some local authorities will have no realistic alternative to maintaining small primary schools, in what are typically rural areas, in order to deliver education to their pupils. They should be supported to meet the necessary additional costs through the DSG formula.
- 5.4** The White Paper *Your Child, Your Schools, Our Future: Building a 21st Century Schools System* recognised the importance of rural schools, and indicated that the development of partnership working between them is important to their longer term sustainability. The Government has signalled that it wants to see the small schools subsidy used for this purpose. This would bring two major benefits to rural communities. Firstly, schools need to work together to deliver the full range of teaching and learning, activities and support that children deserve. By working together, schools in rural areas will be in a better position to improve outcomes for their children than working alone. Secondly, schools that work together will be better able to deliver economies of scale through such actions as employing shared business managers, agreeing joint energy contracts and other measures that deliver efficiencies. Investing the additional money that small schools

receive into such partnerships will not only help to improve children's outcomes, but should also be a means of securing the future of small rural schools.

- 5.5** Small schools play a vital role – but they cost more per pupil to run. Where they are necessary it is important that we continue to support them. Rural schools play an integral role in local communities, often being central to village life. However, we should provide additional funding to not support small schools where they happen to exist because of historical accident or because the local authority chooses to configure its provision in a way which decreases its ability to generate economies of scale.

Sparsity factor and options

- 5.6** Whilst we could devise a formula which could allocate funding for all small schools, we consider that this could remove an incentive to maintain or develop an efficient school organisation. It is, therefore, necessary to use a measure to allocate funding that does not inherently use school size as a factor but maintains a logical link.
- 5.7** Where there is a very low density of pupils in an area, this suggests a need for small schools. We have decided, therefore, in keeping with previous formulae, to support predominately rural authorities through a sparsity factor based upon the sparsity of the early years and primary pupil populations.

Methodology

- 5.8** There are three issues to be considered when developing a sparsity factor:
- The source of data to be used;
 - The thresholds to apply when defining sparsity and super sparsity; and
 - The geography to which we are applying the sparsity measure.

Data sources

- 5.9** The distribution in 2005-06, which underpins the Spend Plus system, used information from the 2001 National Population Census to describe how sparse the population of a local authority was. This census data is collected every ten years, covering the whole population, and the 2011 census would not be available in time to be used for the new formula.
- 5.10** In future therefore, we propose to use the home postcode data in the annual school censuses. These are collected annually and, as a pupil census, would more accurately reflect the sparsity of the pupil population.

Thresholds to be applied

- 5.11** Our starting point for the sparsity analysis has been the thresholds used for the 2005-06 distribution. The thresholds of 4 persons per hectare for sparsity and 0.5 persons per hectare for super-sparsity were set as a measure of sparsity across all ages. It follows that when considering school age population only, the thresholds need to be adjusted to

reflect the new population. We can do so using the proportion of the population aged 3-10 as recorded on the 2001 national census. As the 3-10 population represented just over 10% of the 2001 census population, the scaled factors would be 0.408 for sparsity and 0.051 for super-sparsity. The table below gives the adjusted factors.

	Whole population	3-10 yr olds
Proportion of population – 2001 Census	100%	10.2%
Ordinary sparsity threshold (persons per hectare)	4	0.408
Super-sparsity threshold (persons per hectare)	0.5	0.051

Geography from which we derive the sparsity measure

5.12 Previously, the electoral ward geography was used to derive the sparsity measure. As wards can vary dramatically in geographic size and population density, the use of more regular geographies based upon the national census Output Area geography was explored. The Middle Super Output Area provides a replacement to the ward geography but provides a comparable number of geographic units to that of wards. We therefore propose to count the number of sparse and super-sparse pupils in every local authority (some will of course have none) and multiply that number by chosen unit costs to determine the additional amount of funding for sparsity for each local authority. The method of deriving the unit cost would be the same as that used for the 2005-06 distribution, which calculates the additional costs of small schools as compared to larger schools. Under the previous system a small school was defined as having 150 FTE pupils or fewer but the analysis also took account of the higher costs for very small schools, defined as 80 FTE pupils or fewer.

Options

5.13 We propose two options for the sparsity factor: a broad option which includes more local authorities or a narrower option.

Broad option

5.14 The thresholds could remain as 0.408 pupils per hectare (sparse) and 0.051 per hectare (super-sparse), which equates to the whole population thresholds previously used of 4 persons per hectare (sparse) and 0.5 per hectare (super-sparse). This would, at current figures, result in 104 local authorities receiving additional money for sparsity, with 1.07 million pupils deemed sparse or super-sparse.

Narrow option

5.15 We could reduce these thresholds in order to target more money at the most sparsely populated local authorities. Reducing the thresholds to 0.077 (sparse) and 0.02 (super-sparse) would mean that around 300,000 pupils are deemed sparse or super-sparse, a number similar to the pupils who currently attend small (<150FTEs) rural primary schools,

around 280,000. Under these altered thresholds 66 authorities would receive sparsity money, enabling us to increase the unit cost for each sparse pupil. Those local authorities with the greater need for sparsity money would benefit.

- 5.16** Charts illustrating the sparsity and super-sparsity measures for each local authority and the composite sparsity index, under both broad and narrow options, can be found in Annex C, Charts 10, 11 and 12. It should be noted that the increased unit cost under the narrow option means that a lower index on the narrow option does not indicate a reduced allocation.

Rejecting a secondary sparsity factor

- 5.17** We considered the case for a factor for small secondary schools as well as primary, and discussed this with the Formula Review Group. There are three relevant issues:
- whether there are enough small secondary schools to warrant a dedicated sparsity factor and whether their occurrence can be predicted by a sparsity measure;
 - whether or not small secondary schools require more teachers per pupil than other schools; and
 - if not, whether that means that small secondary schools are unable to deliver sufficient choice in the KS4 curriculum.
- 5.18** There is no clear threshold for defining a small secondary school. Analysis presented to EFSG used 600 FTE as a threshold. Repeating the analysis for secondary schools with this definition confirmed there was no robust link between small secondary schools and sparsity. Only when the definition of a small secondary school increased to 700 to 800 FTE did the analysis become robust. However, it becomes difficult to argue that schools of this size are “small”.
- 5.19** Further analysis was undertaken to explore the case for a “small schools” factor for secondary schools. The relationship between the number of full time equivalent teachers and pupils was explored to determine if small schools faced greater funding pressures due to providing more teachers. The analysis suggested that there is no evidence that small schools had disproportionately more teachers than other schools. Therefore, there would only be a case for additional funding if it could be shown that small schools were unable to provide the same range of subjects as a consequence of not having as many teachers and therefore potentially disadvantaging their pupils.
- 5.20** We analysed the number of subjects on offer at each school using GCSE data, considering similar subjects as belonging to the same family and concluded that there is significant variation. Whilst the number of subjects available increases to some extent with school size, there is also very wide variation in the number of subjects available in schools of similar sizes. This variation suggests that the need for a secondary sparsity factor has not been proved as schools with similar funding are able to provide more subject families than other schools. There will be additional home to school transport costs for secondary schools in sparse areas, but such costs are covered in the Communities and Local Government (CLG) general local government funding arrangements.

5.21 Related to this was the issue about the ability of secondary schools in rural areas to offer a full range of Diplomas as these become available. Funding for Diplomas is currently provided through a specific grant and this is set to continue over the next few years as Diplomas continue to roll out. Within the current Diploma grant is a sparsity element to reflect the additional costs of providing Diplomas in rural areas. We believe that there is no case for additional funding through the DSG.

Questions

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?

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?

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

Chapter 6

Area Cost Adjustment

Reflecting labour costs in different areas

Background

- 6.1** The cost of providing comparable services in two local authorities will often differ. The Area Cost Adjustment (ACA) reflects the need for schools in some areas to pay higher salaries and to pay more to recruit and retain staff. In the 2003 formula it was calculated on the basis of differences between authorities in labour costs, with a small addition related to business rates. In terms of labour costs there are direct costs, such as teachers, education support staff, administrative staff, cleaners and catering staff, and indirect costs including recruitment and retention costs. There are also costs associated with providing staff cover. The ACA is intended to reflect geographical variations in staff costs and should not reflect local decisions which result in variations for other factors such as age, sex, education level, and occupation mix.
- 6.2** Teachers' pay is determined nationally on the recommendation of the School Teachers' Review Body (STRB). There are four pay bands covering England and Wales and the effect of a national pay system is to reduce the variation across the country in the direct costs of employing teachers. The pay of non-teaching staff is not currently subject to similar arrangements but statutory provisions for a national negotiating body for such staff were passed as part of the Apprenticeships, Skills, Children and Learning Act 2009.
- 6.3** A review of the most appropriate system of reflecting area cost differences for education was last undertaken in 2002. Three broad approaches were considered:
- a.** the general labour market (GLM) approach, which calculates an enhancement based on the wages of employees in general in different areas;
 - b.** the specific cost approach, using actual London weighting payments to teachers and other staff to calculate the enhancement; and
 - c.** an approach based on differences between areas in the cost of living rather than differences in wages and salary levels as with (a) and (b) above.

General labour market approach

- 6.4** The general labour market approach looked at the relative pay of various groups of workers in different geographical areas, as shown in the New Earnings Survey (now the Annual Survey of Hours and Earnings). The underlying principle of this approach is that teachers and other education workers are part of a general labour market so local authority employers have to compete with other employers, many in the private sector, in order to recruit and retain sufficient staff of the necessary quality. Where private sector wages are higher, so should those in the public sector be and local authorities in these

areas need to be compensated with higher funding in order to compete with private sector employers on a level playing field.

- 6.5** The methodology for the previous formula used the GLM approach.

Specific cost approach

- 6.6** The specific cost approach considered back in 2002 concentrated on the London weighting payments which are actually made to teachers and other staff.
- 6.7** Local authorities would be given extra resources depending on how much they actually have to pay their staff, thereby providing a link between rates of pay for teachers and other staff, and the additional funding provided to local authorities.

A Cost of living approach

- 6.8** The cost of living approach involved deriving an index of relative house prices as the basis for calculating the ACA. The index would act as a proxy for differences in staff costs across the country. Housing costs were chosen as accommodation costs take the biggest share of income and were mentioned as an important factor affecting employees' decisions to work in one area rather than another. This approach would therefore attempt to deal directly with the main barrier to recruitment and retention.
- 6.9** More detail on how the current ACA methodology operates is set out in Annex A.

Evidence for a new formula

- 6.10** PwC were commissioned to consider how funding within DSG can best reflect the differing labour costs across the country, including to report on such issues as:
- The different methods used to construct an Area Cost Adjustment, including those used by other departments and agencies;
 - The current structure of the four pay bands to see whether they currently help those areas facing the most significant labour market challenges;
 - The merits of different approaches to an ACA.

Relationship between the ACA and the teachers' pay bands

- 6.11** Relevant to our consideration of the most appropriate ACA for the DSG is how it interacts with the teachers' paybands. The cost of teachers' salaries is the single largest element of staff costs and there is therefore a case for the ACA to reflect, at least in part, differences between the pay bands. If that is not the case, changes to the paybands will not result in changes to funding levels and this could affect the ability of local authorities to implement such changes.
- 6.12** The current CLG ACA geographies used for the education ACA and also the payband geographies are set out in Annex B. This shows that there is some misalignment between the two geographies. In particular, Brent, Barking and Dagenham, Ealing, Haringey,

Merton and Newham are assigned to outer London GLM regions but are included in the inner London payband.

Options for the Area Cost Adjustment

- 6.13** We have considered the four generic options identified by PwC:
- the general labour market approach – which uses wages in the wider labour market to reflect differences between areas;
 - the cost of living approach – which uses variations in the cost of living across different areas;
 - the specific cost approach – which uses actual costs of recruiting and employing staff; and
 - a hybrid method which combines two or more of the above approaches.
- 6.14** We consider that neither the cost of living approach nor a pure specific cost approach is a realistic option for the ACA.
- 6.15** Whilst it would be possible to develop a cost of living approach based on house prices we have concerns about how appropriate house prices are as a measure. Despite generally being the largest element in any cost of living measure there seems to be little evidence of a link between house prices and the recruitment and retention of education employees. House prices can be affected by a range of factors, such as supply and availability of credit, unrelated to wage differentials between areas. Therefore basing the ACA on house price differences across the country would not necessarily be the best way of reflecting differences in costs of education staff across the country. More importantly, house prices over the last decade have been much more volatile than earnings. This, we believe, would make the ACA, and therefore the funding distribution, unstable even if we were to take a three year average in our calculation.
- 6.16** The specific cost approach relies on good sources of data for all of the elements it covers – both direct and indirect costs of teaching and other staff. Whilst it is possible to use the requisite data on the direct costs of teachers, sufficient information for non teaching staff and for indirect costs is not available. We are not taking forward the specific cost approach as a whole but are using part of this approach for the hybrid option.
- 6.17** This leaves us with two options for determining the ACA:
- The General Labour Market approach – but with decisions to be made around the most appropriate geographies, etc; or
 - Adopt a newly developed hybrid approach which would be based in part on the specific costs of teachers and on the GLM for the remaining elements.

General labour market

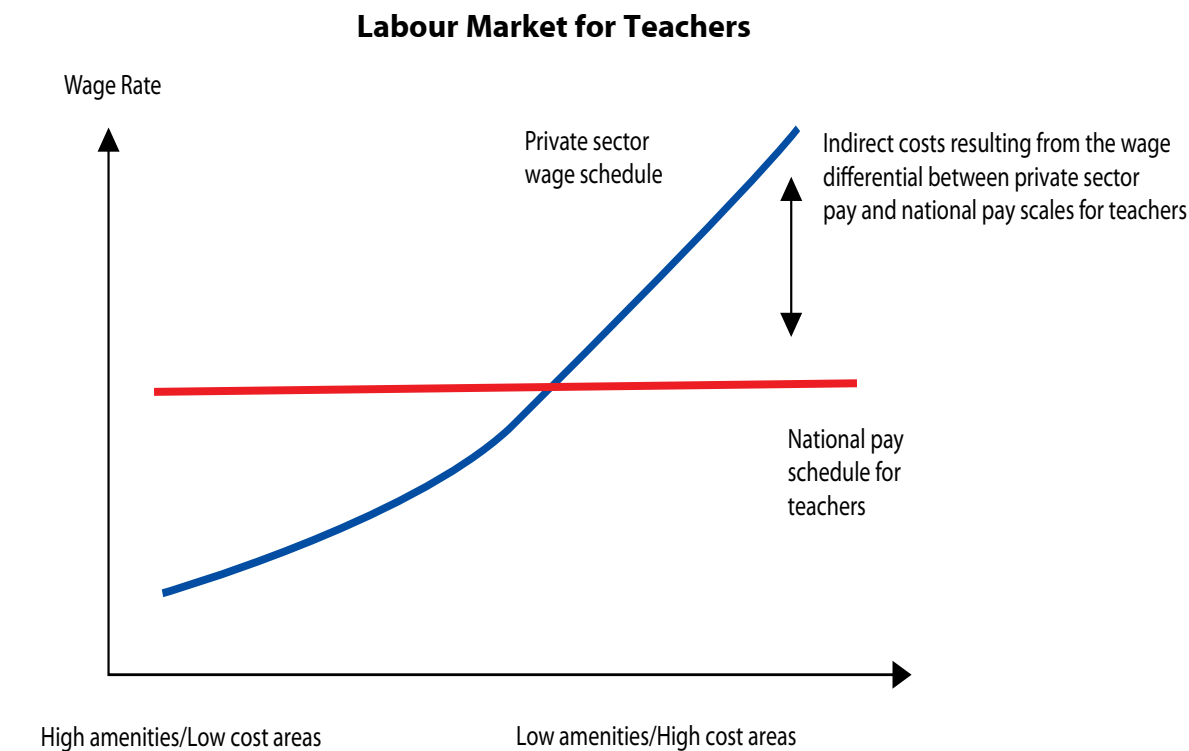
- 6.18** The GLM approach works on the basis that the school labour market operates as part of the wider labour market. Therefore, were we to proceed with this approach, we would

consider it appropriate to do so applying the same methodology as used for other parts of the local government finance system. We would:

- include both public and private sector employees in the calculation;
- apply the ACA to the 49 England geographical areas;
- not include a geographic smoothing mechanism which has the effect of minimising differences in different geographical areas; and
- include a lower limit which identifies a number of geographic areas as having no cost adjustment.

6.19 The Department for Communities and Local Government are intending to consult later in the year on the operation of the ACA across the wider finance system. We would expect to follow any changes proposed by CLG.

6.20 An ACA is intended to adjust for differences in the unit costs of labour faced by schools, after controlling for variations which reflect other factors such as age, sex, educational level and occupational mix. While this will mainly reflect the actual costs of paying teachers, there is an argument that some local authorities will face indirect labour costs where the pay offered does not reflect pay rates in the local labour market. These costs may be financial but there may also be a cost in terms of lost quality. The chart below reflects this theory:



6.21 Teachers' pay is determined nationally on the recommendation of the STRB. There are four pay bands which to some extent reflect differences in labour market variations across the country. But local labour markets might require schools to make further adjustments. For instance, in areas of low cost or high amenities, which would compensate for lower

wages, staff turnover and therefore indirect costs would be lower. Conversely in high cost, low amenity areas, which pay below the market rate for teachers, indirect costs will be higher resulting from higher staff turnover, higher recruitment costs and more reliance on agency staff. To counteract this additional pay flexibilities were introduced, enabling governing bodies to have some local control over their teachers' salaries. They are not however extensively used and this results in a flatter structure for teachers' pay than the local markets. We would continue to encourage schools to use pay flexibilities where appropriate.

6.22 A General Labour Market approach would reflect this and attempt to encompass both the direct and theoretical variances in indirect costs of employing school staff.

The GLM ACA is illustrated in Chart 13 in Annex C.

Hybrid approach

6.23 We do not have sufficient data to develop an ACA approach based solely on specific costs. We do however have data in some areas which is of sufficient quality, namely the nationally set teachers' pay bands, to develop such an approach. The hybrid method is an attempt to define a workable approach which includes specific costs as far as possible, using robust data where it exists, and a different approach where it does not. Compared to a full specific costs approach methodology, this has the attraction of being able to allow for differences in recruitment and retention costs without requiring an extensive data gathering exercise. When compared to a full GLM approach, it has the advantage of reflecting the specific costs of a large part of the workforce whilst retaining the link to the economic theory that applies to the remainder of the workforce.

6.24 In the hybrid approach, the direct costs actually being incurred by employing teachers form the main, specific costs approach part of the Area Cost Adjustment. The remainder, using the GLM approach, covers the direct costs of non-teaching staff as well as the indirect costs associated with teachers.

6.25 The hybrid option therefore involves:

- A specific cost approach using the teachers' pay bands to cover the direct financial costs of teachers;
- A GLM based approach to cover the direct financial costs of non-teaching staff; and
- A GLM based approach for the indirect costs for both teaching and non-teaching staff.

6.26 Details of how the hybrid method operates are set out in Annex B. It involves deriving a national index of the direct financial cost of each group of teaching staff. A key issue is determining the split of pay between teachers and other staff, which we have calculated to be 68:32.

6.27 For the specific costs element of the hybrid approach we have:

- taken the number of teachers at each spine point to produce a national profile of salary costs

- we then determined the actual costs of employing the national profile of teachers within each of the pay bands
- the relative costs to the Rest of England pay band then allow for the specific costs element of the hybrid ACA to be constructed

6.28 For the GLM element of the hybrid approach, we have made the same assumptions as for the main GLM approach, namely:

- using 49 geographical areas
- not including a smoothing mechanism; and
- including a lower limit.

The hybrid ACA is illustrated in Chart 14 in Annex C.

GLM versus hybrid

6.29 A decision between the two options comes down to a judgement of whether teachers are seen as part of the wider labour market, and therefore labour market movements are judged to reflect adequately changes across the country in the direct and indirect costs of teachers; or whether the variation in teacher costs across the country is sufficiently different to the general labour market to warrant separate treatment, as is the case for doctors and dentists when compared to other NHS staff.

6.30 For the GLM approach, PwC research suggests that if you also include the theoretical indirect costs of teachers, by looking at recruitment and retention differences across the country, then GLM is preferable because it is capable of adequately reflecting differences across the country in the total staff costs for the education sector. It is the current approach used for education, and by a number of other departments.

6.31 The GLM approach assumes that there is a significant gap between the pay bands for teachers and private sector wages which results in indirect costs for schools in terms of additional recruitment and retention costs and other costs such as more frequent use of agency staff. However, evidence drawn from analysis of school expenditure from section 52 outturns and other sources indicates that schools are not incurring substantial costs of this type.

6.32 It can be argued that the hybrid approach more closely reflects the education sector as it uses the direct financial cost of teachers as part of the calculation, whilst also recognising the indirect costs of teachers as indicated by schools' actual levels of spending. It is a more complex system to operate and involves a calculation of the relative weights of the specific cost and GLM elements of the process. However, it is also more intuitive as it does have a direct link between the teachers' pay bands and the funding for differential labour costs. There is sufficient data from section 52 to derive a reasonable weighting between the two elements of the hybrid – which we have estimated at 68 per cent for teachers salaries and 32 per cent for other staff costs.

6.33 The hybrid approach would allocate fewer resources than the GLM method because 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 local authorities. It also means that for the purposes of comparing the two, the hybrid indices need to be raised by about 1.5 per cent to give comparability with the effects of GLM.

Improving the link between pay bands and funding

- 6.34 A further consideration, which has been relevant to our development of a hybrid option, is the link between the ACA and the teachers’ paybands. The current GLM geographies do not align with the paybands. This has been a particular issue for London, as identified above, and we have been considering the extent to which the above options are able to reflect decisions on the payband relativities and geographies. It is clear that the hybrid approach is best able to do this. By feeding any changes made to the paybands directly into the specific cost element of the hybrid approach, the ACA can directly reflect these changes. Therefore, should the paybands change in the future, it would be straightforward to reflect these changes in the hybrid option.
- 6.35 The position is less clear cut for the GLM approach. We use the CLG approach to defining the geographies and this currently operates for 49 areas. CLG are proposing to consult later in the year on their proposals for options for ACA methodology from 2011 and we would need to reflect CLG decisions if the GLM approach was chosen for this purpose. Moreover, the GLM approach has no way of reflecting changes in relativities between the pay bands.

Rates

- 6.36 We considered whether there is a case for an element of Area Cost Adjustment to be based on variation in the levels or rates payable by schools. Our investigation showed that there is some regional variation but it is not systematic, and there is also variation between authorities within each region. Expenditure or rates is also influenced by the proportion of aided and foundation schools, which receive rate relief, in each area. Given this outcome, and the relatively small amount of expenditure represented by rates within the DSG, we do not intend to pursue further the idea of a separate ACA factors for rates. Additional detail is provided at Annex B.

Questions

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

Chapter 7

Transitional arrangements:

Protecting schools and local authorities from significant fluctuations in funding

Background

- 7.1** One of the reasons for a move back to a formula based approach is that the current system of Spend Plus, whilst providing stability and predictability, has led to a disconnection between pupils' characteristics and the amount of funding the local authority receives in respect of those pupils. In 2010-11, the Guaranteed Units of Funding per pupil will be largely based on how much local authorities spent five years previously. In addition, the 2 per cent cash floor, which supports local authorities with falling pupil numbers, takes some authorities even further away from their previously assessed level of need per pupil.
- 7.2** This of course means that introducing a needs based formula in place of the current Spend Plus approach is going to result in significant distributional changes. It would not be right to introduce sudden changes in local authority budgets. We recognise that local authorities and schools will need time to prepare. Therefore the implementation of the formula is going to require transitional arrangements.

Specific grants

- 7.3** As we are mainstreaming specific grants into the DSG we propose to have a single set of transitional arrangements that applies to a baseline incorporating both the DSG and these grants. We consider this approach is preferable to separate transitional arrangements for grants that are being mainstreamed.
- 7.4** This approach would almost certainly require local authorities to revise their local formulae so that it takes account of the money that was formerly in specific grants. However, it would be unrealistic to expect local authorities to change their formulae in time for 2011-12. Therefore local authorities need to be able to distribute funding through their existing formulae but taking into account the current levels of grant that schools receive. In addition, the Minimum Funding Guarantee would restrict the degree of movement towards new local formulae over the period. **We therefore propose to amend the School Finance Regulations to enable local authorities to include previous specific grant payments as formula factors for 2011-13.**

School level protection

- 7.5** We intend to set a Minimum Funding Guarantee per pupil in each of the years 2011-12 and 2012-13. This means that all schools will receive a guaranteed cash increase per pupil, subject to exclusions such as resources assigned to individual pupils and adjustments for

marginal pupil number changes. Schools Forums will retain the power, to make adjustments to the operation of the Minimum Funding Guarantee, where it affects fewer than 50 per cent of the pupils.

- 7.6 The Minimum Funding Guarantee would apply to a school’s total budget, including both money from the DSG and additional funds previously allocated through specific grants that we are rolling into the DSG.
- 7.7 We will also take this opportunity to consider if the operation of the Minimum Funding Guarantee can be improved.

Local authority level protection

- 7.8 In order to protect local authorities from significant potential losses in the formula, we intend to have a per pupil floor set above the Minimum Funding Guarantee. No local authority would receive an increase lower than the per pupil floor in either 2011-12 or 2012-13.
- 7.9 This floor will need to be paid for by either a ceiling on large increases for some authorities or by reducing the allocation to all other non-floor authorities (or a combination of the two).

Cash floors

- 7.10 The current DSG distribution includes a cash floor for local authorities, in order to protect them from falling pupil numbers. In addition, local authorities’ own formulae commonly include cash floor arrangements at school level. However, in a formula-based system the operation of a cash floor is likely to move authorities with falling rolls away from the formula rather than towards it, and could restrict attempts to move all authorities on to the formula over time. We therefore do not intend at this stage to operate a cash floor. However, we recognise that there may be issues for those local authorities that both stand to lose under the new formula and which have declining pupil numbers, and will consider whether any protection needs to be offered for local authorities in that position.

Questions

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

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

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

Chapter 8

Further considerations and conclusion

Other issues and next steps

8.1 We have considered a number of other issues as part of the review.

Academies

8.2 As we move towards the target of 400 Academies the review considered how best to adjust the DSG for the conversion of maintained schools into Academies. Two approaches have been used so far for this adjustment:

- **Pupil numbers:** the approach used until 2008 of adjusting by taking 7/12 of the pupils at the preceding January (for September conversions) out of its DSG pupil count and the full number from the next financial year; and
- **Recoupment:** each local authority currently has to calculate an appropriate budget share for the Academy as if it was still a maintained school and a relevant portion of central expenditure. The total of these two components for all Academies in each local authority is recouped from their DSG allocation. This approach was adopted for Academies converting after 2008 following concerns that adjusting the pupil count did not accurately reflect the funding which the authority would have provided to the Academy.

8.3 Recoupment will operate at least for 2010-11 but in the longer term, the Department is minded to return to the pupil number adjustment system for both newly converted and existing Academies. Our analysis suggests that the difference between the two systems is small in financial terms and the rising number of Academies means we need as simple a system as possible. A further difficulty with the recoupment approach is that recoupment data is received centrally very late in the financial year and this threatens to hold up the finalising of DSG beyond the financial year to which it applies, making accountability particularly difficult. A further year of comparison between the two systems will be undertaken using data for 2009-10 to inform a final decision.

Impact of Academy conversion on centrally retained services

8.4 We also considered the issue of whether increased Academy conversion was having a significant effect on the viability of central services. An analysis by the Department suggests no significant difference to the trends between groups of local authorities with Academies and those without. An important element within the local authority central services block is funding for high cost pupils. Our proposals involve funding for such

pupils remaining with the resident local authority and this will be unaffected by the number of Academies, so this proposal should greatly reduce any effect of Academy conversion on such services. We do not see a case therefore for adjusting the DSG. As with the adjustment issue above, a further year of analysis will be undertaken using data for 2009-10 to inform a final decision.

14-19 funding

- 8.5** The review considered whether there was scope for developing a common 14-19 funding system. We concluded that the timing was not right to introduce such a funding system now. This decision was announced in the 21st Century Schools White Paper *Your child, your schools, our future: building a 21st century schools system*. Important considerations were the timing of the full roll out of the duty to participate in education or training until the age of 18, which will not be until 2015, and the need to allow more time for Diplomas for 14-19 year olds to bed in. It is early days for our Diploma strategy with the first five Diplomas only coming on stream in 2008-09. Likewise, Foundation Learning is currently only in the second year of piloting and developmental delivery. The ambition remains to develop a national 14-19 funding formula over the longer term, and we intend to consider it during the next spending review period.

Contingency funding

- 8.6** In 2008 we introduced the Exceptional Circumstances Grant (ECG). Its purpose is to assist those authorities who experience:
- significant growth in the number of pupils between the January school census and the start of the academic year; or
 - significant growth over the spending period in the number of pupils with English as an additional language.

This grant is funded from the overall DSG settlement. In 2008-09 and 2009-10, no authorities received ECG for a general increase in pupil numbers, although several have received funding for increases in the proportion of pupils with EAL.

- 8.7** We are seeking views on whether there is a case for a similar arrangement from 2011, funded from the DSG, and if so how it should operate and what circumstances should be covered.

Service children

- 8.8** The review considered whether there is evidence that children of parents from the Armed Services are underachieving and need additional support. This follows a commitment in the Ministry of Defence's Command Paper *The Nation's Commitment: Cross-Government Support to our Armed Forces, their Families and Veterans*, to review the educational performance of Service children in England and identify where there is underachievement. The paper said that any disadvantage identified would be addressed, which could be through the DSG review where appropriate. The Department is now able

to identify Service children flagged in the annual school census and has analysed the results for 2008. These show that such pupils do well compared to their non-Service children peers. This does not therefore suggest the need to make specific provision for Service children in the DSG formula. We will keep the position under review, taking account of attainment data in subsequent years.

- 8.9** We consider that there is a case for support for schools which traditionally cater for Service families, mainly those located near armed service establishments. Such schools are prone to pupil number fluctuations, and therefore funding, due to troop movements, and can affect their stability and sustainability. We are considering whether to allow local authorities with such schools to make a claim for additional pupils to be counted for DSG purposes where numbers have fallen significantly from one year to the next as a result of armed forces movements. These claims would be made directly to the Department and would be considered individually on their merits.

Private Finance Initiative (PFI) schemes

- 8.10** The Department has been looking into the revenue cost of running PFI schemes to assess what, if any, pressures they are placing on local authority budgets. Not all local authorities have PFI schemes and the nature of such schemes will vary across the authorities that operate them. We issued a questionnaire in the autumn of 2009 to the 100 local authorities with such schemes, seeking information on the way in which they fund them, from what sources and how they account for the funding in their financial returns. Local authorities had until the end of January 2010 to respond. We are analysing responses and will consider whether PFI issues need to be taken into account in the future distribution of funding among local authorities.

Home educated children

- 8.11** The Badman report on home education recommended that local authorities should give access to certain services to home educated children whom they do not otherwise fund. As announced in the Government response to the Badman report, we propose a scheme which would allow local authorities to make a claim for these children, who are receiving limited services, to be counted for DSG purposes. The local authority would need to confirm that it is providing services to these children. The children would count as 0.1 pupil each for DSG purposes.
- 8.12** We have already clarified in guidance to local authorities that they can include home educated pupils in their DSG count where they are providing substantial financial support, for instance for SEN or the cost of a pre-16 pupil's attendance at an FE college.

Other children's formulae

- 8.13** Whilst the Department is not at the current time carrying out a full review of the children's services relative needs formulae (RNF), administered by CLG, some of the factors included in these formulae are affected by the research and evidence generated

through the DSG review. The youth and community formula includes secondary low achieving ethnic groups as a factor, and ward sparsity features in the Local Authority Central Education Functions formula. Both of these indicators are potentially changing, as set out in the consultation paper. Also the deprivation measures that feature in the youth and community, Local Authority Central Education Functions and children's social care formulae do not match either of the options we are consulting on in this DSG review. The Department is minded to ensure that the low achieving ethnic group factor and the sparsity factor (which is specifically linked to home to school transport) which feature in the children's RNF formulae are consistent with the factors featuring in the DSG formula. However we feel the deprivation formula which is used in children's RNF formulae should be consistent with that used throughout the rest of the RNF formulae.

- 8.14** The Department for Communities and Local Government will be consulting on the impact of these changes in their consultation on the RNF formulae.

Questions

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?

Do you support our proposals for Service children?

Conclusion and next steps

- 8.15** This consultation sets out our broad plans for a new formula to distribute the Dedicated Schools Grant from 2011-12 onwards. But there are many decisions of detail to be made.
- 8.16** We want to hear views from all interested parties about both the overall makeup of the formula, and on the options that we have set out. In particular we want to hear principled arguments in favour of or against particular options.
- 8.17** Later in the year, we will publish a further consultation on firmer proposals, in particular specifying which options we will choose for the various elements of the formula taking into account responses to this consultation. This consultation timetable will enable indicative allocations to be given to local authorities in November. We would expect schools and local authorities in the meantime to plan based on assumptions about their budget they are able to make.
- 8.18** We will also consult later in 2010 on changes to the School Finance Regulations for the period 2011-13.

Consultation responses can be completed online at:

www.dcsf.gov.uk/consultations

or by downloading a response form which should be completed and sent to

e-mail: dsg.consultation@dcsf.gsi.gov.uk

or by post to:

Ian McVicar
SFTU
3rd Floor
Sanctuary Buildings
Great Smith Street
London
SW1P 3BT

Additional copies

Additional copies of the word version of this consultation and the response form are available from www.dcsf.gov.uk/consultations

The deadline for responses is 7th June 2010.

Annex A

Methodology underpinning the current funding arrangements

1. Until 2005-06, local authorities' core funding for schools and other pupil provision was provided in the same way as for all other local services through the local government finance system. To work out each council's share of Formula Grant the Government calculated a Formula Spending Share (FSS). The FSSs were based on mathematical formulae that included information on the population, social structure and other characteristics of each authority. The distribution of Formula Grant was determined by the Formula Spending Share formulae, the amount of council tax the authority was assumed to be able to raise and the floor damping scheme. The decision as to how much was spent on each service was a matter for local authorities, though there were strong expectations that increases in school funding allocations should be passed on.
2. The system recognised that different areas have different needs either because of geography or because of the particular needs of pupils, and the formula recognised the costs of:
 - the level of educational disadvantage (that is, social deprivation and other additional educational needs including Special Educational Needs) in each area, helping to ensure that all children have an equal opportunity to succeed;
 - area costs – recognising the higher cost of recruiting and retaining teachers and other school staff in some areas;
 - sparsity – recognising the fact that very small primary schools, necessary in rural areas, are more expensive to run.
3. This resulted in justifiable differences in the level of funding per pupil each authority area attracted, particularly between those areas with high levels of disadvantage and those with relatively little disadvantage, and those with comparatively low or high area costs.

Spend Plus funding mechanism

4. The system changed in 2006-07. The ring fenced Dedicated Schools Grant was introduced to ensure that the significant increases the Government was providing for schools and early years settings in every area each year reached the frontline. It has been distributed to local authorities using the Spend Plus methodology:

- The “Spend” element gives each local authority the same basic increase per pupil over their level of DSG per pupil for the previous year, with local authorities’ planned spending in 2005-06 as the baseline for the first DSG allocations in 2006-07.
 - The “Plus” element is top-ups earmarked for ministerial priorities, distributed using appropriate formulae. The major top-up for 2008-11 supports the roll-out of personalisation to all pupils.
 - Local authorities which had previously decided to spend below their Schools Formula Spending Share will have had their grant brought up to that level by 2010-11. One purpose of doing this was to facilitate the change back to funding by formula.
5. To increase the certainty of funding the Government also brought in multi-year settlements. The Spend Plus methodology was used to determine a Guaranteed Unit of Funding for every local authority for each year of a multi-year settlement. This is the amount the authority knows it will receive for every full time equivalent pupil in the January immediately before the financial year in question. This has enabled local authorities to set multi-year school budgets.
 6. The Spend Plus methodology was chosen for the first DSG allocations for 2006-08. The consultation on how to allocate funding for 2008-11 indicated strong support for its continuation as the method for distributing DSG for that period. However, it has required the setting of a base year to which future increases are applied, in this case 2005-06, and so does not allow for changes in relative need between local authorities after that time to be reflected. Whilst it has succeeded in bringing stability and predictability to the system, allocations are not directly based on the characteristics of the schools and pupils they are serving.

Previous formula

7. While the Spend Plus methodology is not adjusted for year on year changes in pupil characteristics between authorities, it does reflect to some extent differences in what local authorities were receiving for, and therefore spending on, various elements under the previous formula allocations in 2005-06.

Funding arrangements for reflecting the basic entitlement

8. The basic entitlement in the previous formula consisted of two components: the minimum entitlement and an AEN element – since every local authority was assumed to have a certain amount of AEN. The AEN element is the funding within the basic entitlement that pays for the threshold proportion of AEN pupils. This is described in more detail in the AEN section below. The minimum entitlement reflected a decision on how best to divide up the funding available from the Government across the formula elements. The minimum entitlement was adjusted to remove the element determined for AEN, high cost pupils, and sparsity costs in the primary sector. The remaining sums were available for the minimum entitlement and associated area costs. The AEN element in the

basic entitlement was calculated separately and added to this minimum entitlement to give the total basic entitlement.

Funding arrangements for reflecting pupils with AEN

9. The formula applied in 2005-06 was informed by research undertaken by PwC in 2002. The AEN factor had three elements:
 - cost – the amount that each AEN pupil attracts;
 - incidence – an estimate of the number of pupils with AEN in each local authority; and
 - threshold – a minimum threshold set at the level to reflect what is assessed to be in the basic entitlement.
10. Four categories of need were identified in 2002 – learning needs related to English as an Additional Language, specific learning needs such as autism, social needs and other learning needs. The types of cost of providing for pupils with AEN were:
 - school cost – cost of paying for additional resources such as teaching assistants;
 - opportunity costs – diverting resources such as teacher time towards AEN pupils in place of support that would ideally be provided by, for example, a learning support assistant;
 - unmet need – the assessed cost of needs for which schools said they were unable to provide. PwC recommended capping these needs at £1,800 per pupil.
11. The final formula used for the years 2003-04 to 2005-06 covered all met needs, school and opportunity costs, and half of the unmet need. The unit cost was reduced to reflect additional funding through specific grants for deprivation. An AEN index was developed to provide the best estimate of the proportion of pupils with AEN in each local authority. The index included:
 - a social indicator – in this case Income Support combined with Working Families Tax Credit and Disability Persons Tax Credit; and
 - an EAL and ethnicity indicator.
12. The threshold was set at the 10th local authority from the bottom of the AEN index which meant that the bottom 10 local authorities received the same amount of funding and was set at the level assumed in the basic entitlement – around 12 per cent of pupils assumed to have AEN. Local authorities with a proportion of pupils with AEN above the threshold would receive additional AEN funding.

Funding arrangements for reflecting high cost pupils

13. The calculation of the high cost sub block for 2005-06, which was the base year for the Spend Plus system, was informed by the work of the Education Funding Strategy Group, the Group established to consider the formula for the 2003-04 settlement. The main features of this system were:

- a. the client group included all pupils in maintained special schools, hospital schools and pupil referral units; all pupils for whom local authorities paid fees at non-maintained and independent special schools, and all pupils in other maintained schools who had statements.
 - b. funding would not be distributed on the basis of actual pupil numbers as they would be heavily influenced by local authority policy – in particular the variation in statementing policy. It would be distributed by resident child population.
 - c. an alternative measure of the number of children of high cost SEN in mainstream schools was calculated using data on low achievers – pupils performing two levels below that expected for their age.
 - d. this estimated distribution of high cost pupils was highly correlated with a range of socio-economic factors. A composite (proxy) indicator for distributing funding comprising income support and low birth weight was chosen because it had a high explanatory power for the distribution of high cost pupils across local authorities. This was multiplied by the 3 – 15 population.
 - e. high cost pupils at Academies were included, as the resident authority retained funding responsibility for pupils with statements at Academies.
14. The HCP spending share for each local authority was calculated by multiplying a national unit cost by the local authorities estimated number of HCPs.

Funding arrangements for reflecting sparsity

15. The 2003 formula, which was used in 2005-06, recognised that smaller schools cost more, and that it should be the pupil population that determined whether additional funding was actually required. The 2003 system recognised a relationship between sparsity of population and size of school, as well as identifying that small school costs increased significantly per pupil once the size of the school falls below 80 pupils.
16. A unit cost of £165 was established for 2003-04 based on uplifting the previous 2000-01 figure and adding extra for the under 5s. Ordinary sparsity was defined as the resident population of those wards within the area of the authority at the 1991 Census with more than 0.5 but less than or equal to 4 residents per hectare, divided by the total resident population of the authority, calculated using information from the 1991 Census. And super-sparsity was the same but for those wards with fewer than 0.5 residents per hectare.

Funding arrangements for reflecting area cost differences

17. The approach chosen in the 2003-04 formula and which underpins the current Spend Plus methodology was based on the General Labour Market approach used by the Department for Communities and Local Government (CLG). This is based on examining selected wage costs in each area and deriving an index. The CLG Area Cost Adjustment (ACA) includes both a Labour Cost Adjustment and a smaller Rates Cost Adjustment. The Labour Cost Adjustment is based upon the General Labour Market approach which

assumes that to secure and retain staff local authorities need to pay a local 'going rate'. Data from the Annual Survey of Hours and Earnings is used to calculate the Labour Cost Adjustment for each area controlling for age, gender occupation and industry sector.

18. The ACA uses both public and private sector earnings data, recognising that wage flexibility in the public sector, including other professions like police officers, will be lower as a result of the application of national pay scales.
19. The ACA can be calculated using different geographies. The current ACA factor combines smaller geographical areas together to create 49 ACA areas. The Isles of Scilly was not included in the calculation of the 49 geographies but was given a separate grant allocation, given its particular geographical characteristics.
20. The ACA also uses a threshold below which all local authorities are given the same ACA factor. This was included to recognise that all local authorities still have to adhere to national pay rates even if that rate is higher than the going wage rate for the area. The current CLG threshold means that some 72 upper tier and unitary local authorities are on the lower limit.
21. An ACA index was applied to the separate funding sub blocks. The index was added at the end of the process to determine the schools and local authority spending share, after adjustment had been made to reflect deprivation and sparsity (where appropriate). This resulted in some 4 per cent of the total being allocated to reflect area cost differences.
22. Documents relating to the current settlement can be found here: <http://www.teachernet.gov.uk/management/schoolfunding/schoolfunding2008to11/> and for the previous settlement can be found here: http://www.teachernet.gov.uk/management/schoolfunding/2006-07_funding_arrangements/. Details of the previous formula can be found here: http://www.teachernet.gov.uk/management/schoolfunding/2005-06_School_funding_arrangements/

Annex B

Supplementary technical information on the proposed formula arrangements

(i) Additional Educational Needs

1. The proposed methodology for allocating resources for AEN in the formula involves:

1. calculating the number of pupils with AEN nationally and those that are High Cost Pupils and removing the High Cost Pupils;
2. calculating the number of episodes of each need type nationally;
3. scaling the national figure back to the total national number of pupils with AEN (as some pupils will have more than one need);
4. allocating these pupils to local authorities by assigning an appropriate distribution method for each need type; and
5. choosing which distribution indicator to use from the options available – in this case the range of deprivation options.

Calculating the number of pupils with AEN nationally

2. We have used the PwC survey figure that 23 per cent of pupils in mainstream schools have AEN, including pupils with SEN (25 per cent in primary and 22 per cent in secondary). For the AEN element of the funding formula we need to remove high cost pupils, mainly those with SEN, who will be covered separately in the formula. We have used a financial threshold to define high cost, using the figure calculated from the survey of £6,218 per year, which is in addition to basic funding. Using this threshold and data from the survey we estimate that some 1.5 per cent of pupils in mainstream schools are high cost, which means that 21.5 per cent of pupils nationally have AEN (23.7 per cent in primary, 20.3 per cent in secondary and an assumed 25 per cent in Early Years settings). This amounts to some 1,588,000 pupils of the national total of just under 7.4 million pupils.

Calculating the number of episodes of each AEN type nationally

3. The survey also investigated the different types of need that pupils have and from this the following school level incidences of AEN by type for primary and secondary schools have been derived. It should be noted that a pupil may have more than one need.

SCHOOL LEVEL INCIDENCE Single or Multiple Need	Primary Incidence	Secondary Incidence
Behavioural, Emotional and Social Interaction	5%	7%
Home Environment	23%	9%
Cognition and Learning	12%	10%
Communication and Interaction	5%	2%
Sensory and Physical	1%	1%
English as an Additional Language	8%	4%
Other	1%	1%

4. By multiplying each incidence by the number of pupils in primary or secondary phases an estimate of the total number of episodes of each AEN type is produced. These are set out in the unscaled columns below and shows that some pupils will have more than one need.

Scaling the national figure back

5. As we have calculated that 23.7 per cent of primary, 20.3 per cent of secondary and an assumed 25 per cent of the early years pupils have AEN, the data is scaled back so that the total count of pupils is correct. This method captures multiple needs at pupil level. This is shown for primary and secondary below:

PUPIL INCIDENCE	Unscaled		Scaled	
	Primary AEN Pupils	Secondary AEN Pupils	Primary AEN Pupils	Secondary AEN Pupils
Behavioural, Emotional and Social	193,148	199,739	83,222	119,461
Home Environment	888,481	256,807	382,819	153,593
Cognition and Learning	463,555	285,341	199,732	170,659
Communication and Interaction	193,148	57,068	83,222	34,132
Sensory and Physical	38,630	28,534	16,644	17,066
English as an Additional Language	309,037	114,136	133,154	68,264
Other	38,630	28,534	16,644	17,066
Total	3,094,787		1,495,677	

6. The survey did not cover early years settings and therefore the incidence of AEN by need type is assumed to be the same across the early years settings and the Reception to Year 6 blocks. The incidence is summarised below:

	Early Years Settings	R to Y6	Y7 to Y11
Behavioural, Emotional and Social Interaction	9%	9%	21%
Home Environment	42%	42%	26%
Cognition and Learning	22%	22%	29%
Communication and Interaction	9%	9%	6%
Sensory and Physical	2%	2%	3%
English as an Additional Language	15%	15%	12%
Other	2%	2%	3%
Total (ignoring rounding)	100%	100%	100%

Assigning an appropriate distribution method for each need type

7. We know that the incidence of these needs correlates closely to certain indicators e.g. deprivation. We have assumed that local authorities that have pupils with those indicators also have pupils with the corresponding need type. We have linked the above need types to the most appropriate distribution methods. The rationale for this is set out in Chapter 3.

AEN Type	Distribution methods
Behavioural, Emotional and Social Interaction	Deprivation
Home Environment	Deprivation
Cognition and Learning	Underperforming groups
Communication and Interaction	Flat Rate Per Pupil
Sensory and Physical	Flat Rate Per Pupil
English as an Additional Language	English as an Additional Language
Other	Flat Rate Per Pupil

Choosing which distribution indicator to use

8. Three of the need types will be allocated by a flat rate and paragraph 3.17 sets out how the underperforming groups will be defined for the cognition and learning allocation. The main issue is around which deprivation indicator to use for the BES1 and Home

Environment need types. The rationale is set out in the AEN section above and includes the following options:

Option 1 – Out of Work – Tax Credit Indicator

Option 2 – FSM – Free School Meals

Option 3 – Child Poverty Measure

Option 4 – Average IDACI (Income Deprivation Affecting Children Index) score of pupils educated within the local authority

Option 5 – FSM with the additional 500,000 pupils in the most deprived areas by the IDACI score not on FSM

Some underlying datasets used to form the indicators option presented in this document are available in two formats: one based upon children aged under 16, and one based on all children. The distinction comes from over 15s whose families are eligible to claim Child Benefits. Where possible the under 16 measure would be used when data becomes available.

(ii) High Cost pupils

9. We are proposing the same methodology for allocating resources for high cost pupils as the proposed approach to calculating AEN, namely:

1. calculating the national number of high cost pupils;
2. calculating the number of episodes of each need type nationally;
3. scaling the national figure back to the total national number of high cost pupils (as some pupils will have more than one need);
4. allocating these pupils to local authorities by assigning an appropriate distribution method for each need type; and
5. choosing which distribution indicator to use from the options available.

Calculating the number of high cost pupils

10. The main section above set out our proposal to define high cost pupils by means of a financial threshold, set at £6,218. This means that all pupils, in mainstream settings, whose costs are above this amount are deemed to be high cost. This would include some pupils who are classified for SEN purposes as school action and school action plus as well as those who have statements.

11. To arrive at an estimate of the number of high cost pupils in mainstream schools nationally we have used figures from the PwC schools survey of the proportion of each SEN provision group that are considered to be high cost. PwC weights are based on 2008 census data. Using 2009 data gives the following weights:

Statemented	65.66%
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School action plus	4.34%
School action	0.70%
No SEN provision	0.01%

12. The methodology used by PwC takes published statistics on Special Education Needs as a pupil basis which have a different coverage to those that are funded through the DSG. The table below derives the number of pupils deemed to be high cost.

	(a) Primary SEN Pupils	(b) Secondary SEN Pupils	(c) Proportion HCP	(a x c) Primary HCP Pupils	(b x c) Secondary HCP Pupils
No SEN	3,273,880	2,492,840	0.01%	327	249
SA	481,840	398,500	0.70%	3,373	2,790
SA+	261,260	192,300	4.34%	11,339	8,346
Statement	57,910	62,440	65.66%	38,024	40,998
Total	4,074,890	3,146,080		53,063	52,383

13. For each phase, the proportion of pupils that are high cost is found to be 1.3 per cent and 1.7 per cent respectively. Funded pupils within the DSG are used to derive the number of HCPs in mainstream settings.

	Total FTEs	Proportion HCP	HCP FTEs
DSG Primary Pupils	3,862,961	1.3%	50,303
DSG Secondary Pupils	2,853,408	1.7%	47,510

Total HCPs	97,813
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14. In addition we need to include pupils in non-mainstream settings which cover the following:

Maintained, non maintained and independent special provision	87,373
PRUs	24,795
Academies (individually assigned resources)	1,285
Not in school	6,333

Our estimate for 2009 is that there are 217,599 high cost pupils in total of which 97,813 are in mainstream primary and secondary schools and 119,786 are funded in other settings.

Calculating the number of episodes of each need type nationally

15. The table below, which is taken from the PwC survey, sets out the incidence of each need type for high cost pupils in mainstream settings.

Single or Multiple Need	Incidence
Behavioural, Emotional and Social Interaction	47%
Home Environment	35%
Cognition and Learning	59%
Communication and Interaction	53%
Sensory and Physical	28%
English as an Additional Language	7%
Other	29%

16. To calculate the national number of each need type for high cost pupils in mainstream settings we have multiplied the above incidence by the total number of high cost pupils in such settings, namely 97,813. Not unexpectedly the HCP block is showing a much higher incidence than in the AEN survey of cognition and learning, communication and interaction and sensory and physical needs, as these are particularly likely to be high cost.

Scaling back

17. As with the AEN calculation this will result in more episodes than relevant pupils (as many pupils will have more than one need type) and the total has been scaled back to the HCP total.

	Unscaled	Scaled
Behavioural, Emotional and Social Interaction	45,972	17,819
Home Environment	34,234	13,269
Cognition and Learning	57,709	22,368
Communication and Interaction	51,841	20,093
Sensory and Physical	27,388	10,615
English as an Additional Language	6,847	2,654
Other	28,366	10,994
Total	252,357	97,813

Non-mainstream settings

18. We know that there are 119,786 pupils in non mainstream settings overall but are not able to use the PwC survey to allocate them across the particular AEN need types as the survey only covered mainstream settings. We have therefore tried to map the standard SEN categories across to the AEN need types. This has enabled a need profile to be derived for pupils in maintained special, non-maintained special and general hospital schools:

PwC AEN Categories	SEN Categories	Per pupil
Behavioural, Emotional and Social Interaction	Behaviour, Emotional & Social Difficulties	0.148
Home Environment	N/A	
Cognition and Learning	Specific Learning Difficulty	0.553
	Moderate Learning Difficulty	
	Severe Learning Difficulty	
	Profound & Multiple Learning Difficulty	
Communication and Interaction	Speech, Language and Communications Needs	0.217
	Autistic Spectrum Disorder	
Sensory and Physical	Hearing Impairment	0.075
	Visual Impairment	
	Multi- Sensory Impairment	
	Physical Disability	
English as an Additional Language	N/A	
Other	Other Difficulty/Disability	0.006

19. The number of episodes of each need type is then obtained by multiplying the overall number of pupils for each non mainstream school setting by the above profile. However, we consider that:

- the most important need type for PRUs is BESE and have therefore allocated all PRU pupils to that category;
- that pupils in the Not in School category should be in the 'Other' category; and
- that pupils with individually assigned resources in Academies should follow the same profile as those of maintained mainstream settings.

	PRUs	Not In School	Academies	Maintained Special, NMSS, GHS, Other Ind
Behavioural, Emotional and Social Interaction	24,795		234	12,956
Home Environment			174	
Cognition and Learning			294	48,310
Communication and Interaction			264	18,983
Sensory and Physical			139	6,556
English as an Additional Language			35	
Other		6,333	144	568
	24,795	6,333	1,285	87,373

20. Putting the mainstream and non mainstream pupils together we have the following scaled total:

All HCP Pupils By Need Type	
Behavioural, Emotional and Social Interaction	55,804
Home Environment	13,443
Cognition and Learning	70,972
Communication and Interaction	39,341
Sensory and Physical	17,311
English as an Additional Language	2,689
Other	18,039
Total	217,599

Assigning an appropriate distribution method for each need type

21. We have linked the above need types to what we consider the most appropriate distribution methods. As chapter 4 explains, our evidence suggests that there is little association between most of the need types and deprivation and so there is less reliance on deprivation measures in our proposed distribution methodology than for AEN. As the incidence of high cost AEN is more randomly occurring, a large proportion of the distribution for BES1, CI and SP is assumed to be by a flat rate. The proportion of children eligible for Disability Living Allowance has been included for sensory and physical as there is some evidence, recently published, to support this.

AEN Type	HCP	Need incidence
Behavioural, Emotional and Social	25% Deprivation 75% Flat rate per pupil	26%
Home Environment	100% Deprivation	6%
Cognition and Learning	100% by Not Achieving More than Level 2 at Key Stage 2	33%
Communication and Interaction	90% Flat Rate Per Pupil; 10% Deprivation	18%
Sensory and Physical	80% Flat Rate Per Pupil 20% DLA	8%
English as an Additional Language	English as an Additional Language	1%
Other	Flat Rate Per Pupil	8%

Choosing which distribution indicator to use

22. The main issue which would affect the distribution of funding for high cost pupils relates to which deprivation indicator to use. The options are set out in chapter 4. We propose to use the same deprivation indicator as that to be used for the AEN allocation.

(iii) Area Cost Adjustment

Hybrid option

Calculating the direct financial cost of teachers

23. The process involves deriving an index of the direct financial cost of each group of teaching staff which for this purpose includes full time (equivalent) classroom teachers, full time leadership staff, full time Advanced Skills Teachers, FTE unattached and unqualified teachers. Leadership staff for this purpose covers headteachers, assistant head teachers, deputy head teachers and other leadership staff. In order to be consistent with the principle of authorities not affecting the ACA through their own actions, we

need to use a national index – based on the proportion of teaching staff across the different points on the pay band spines (for example for classroom teachers the proportions for England of teachers across the M1-U3 pay spines).

- 24. A weighted average cost per teacher is derived using the proportions identified above multiplied by salary for the teachers across the pay band spines. So for example if 10 per cent of classroom teachers are on the M1 payscale and the salary for the M1 classroom teachers is £25,000, then the weighted average cost per FTE classroom teacher is £2,500. The same approach is followed for each group of teachers and an overall index is determined by calculating an average weighting for all of the groups based on the number of teachers in each group.

Calculating the split of costs

- 25. Also important to this calculation is how to derive the weightings to be applied to the different costs. The ACA will only apply to costs associated with staffing. We have calculated the split between schools’ expenditure on teachers’ pay to other pay to be 68:32, which corresponds to a split between teachers’ pay/other pay/non-pay of 56:26:18.
- 26. This split was calculated using 2007-08 Section 52 outturn data. Expenditure was divided into four categories; the three in the split and amounts to be ignored for the purpose of this calculation, because they are not funded from the DSG. The table below shows the total amounts calculated.

	Total Cost (£m)	Pay Split	Total Split
Teachers’ Pay	18,427.442	68.31%	56.03%
Other Pay	8,547.613	31.69%	25.99%
Non-Pay	5,914.915		17.98%
Ignore	117.472		

- 27. We have used Section 52 outturn data to calculate the split, applying the following assumptions:
 - teaching staff (E01) is all teachers’ pay, except for teaching staff allowances (calculated by PwC to be £235m) which is other pay.
 - supply teaching staff (E02) and agency supply teaching staff (E26) are all teachers’ pay.
 - cost of recruiting teachers (additional line) is other pay, this was calculated to be £67m by PwC.
 - education support staff (E03), premises staff (E04), admin staff (E05), catering staff (E06), other staff (E07) and development and training (E09) are other pay.
 - indirect employee Expenses (E08), supply teacher insurance (E10) and staff related insurance (E11) were split proportionally between teachers’ pay and other pay. This split was calculated to be 68:32.

- it was assumed that building maintenance (E12), grounds maintenance (E13), cleaning and caretaking (E14) and bought-in professional services curriculum/other (E27/E28) would be split between other pay and non-pay. In order to calculate the split we looked at the accounts of a selection of companies that are contracted by local authorities to perform these services (following some similar work by CLG), and calculated that the appropriate splits between other pay and non-pay for these five lines were 15:85, 15:85, 65:35, 40:60 and 40:60 respectively.
- water and sewerage (E15), energy (E16), rates (E17), other occupation costs (E18), learning resources (E19), ICT learning resources (E20), examination fees (E21), admin supplies (E22), other insurance premiums (E23), special facilities (E24), catering supplies (E25) & loan interest (E29) were all non-pay.
- Community focused extended school staff/costs (E31/E32) were ignored on the basis that they are not to be funded from the Schools Budget.

Regional Variations within rates expenditure

28. The expenditure on rates (E17) was explored to see if there was any regional variation. In order to investigate this we took the 2007-08 section 52 outturn data at local authority level and aggregated it up to a regional level. We then divided the expenditure on rates by the number of DSG funded pupils in 2007-08 to get the expenditure per pupil by region. The results are shown in the table below. The highest expenditure is in Outer London, the lowest is in the North West.

Region	Expenditure on Rates per Pupil (£)	Standardised Ratio	Difference from National Average
Inner London	49.03	1.20	0.1%
Outer London	56.09	1.37	14.5%
South East	53.88	1.32	10.0%
South West	47.59	1.17	-2.9%
East of England	48.52	1.19	-1.0%
East Midlands	47.65	1.17	-2.7%
West Midlands	47.81	1.17	-2.4%
North East	48.16	1.18	-1.7%
North West	40.84	1.00	-16.6%
Yorkshire and the Humber	50.75	1.24	3.6%
National Average	49.00	1.20	0%

29. These figures show that there is some regional variation but it is not systematic – the figure for Inner London is lower than for Yorkshire and the Humber. Figures for individual authorities within the regions are also variable, and will be influenced by the proportion of aided and foundation schools, which receive rate relief, in each area. Given this outcome, and the relatively small amount of expenditure represented by rates within the DSG, we do not intend to pursue further the idea of a separate ACA factor for rates.

Current ACA geographies

30. London (excluding City of London) is currently split into three regions in the Department for Communities and Local Government ACA model as described below:

Inner	Outer – West	Outer – Rest
Camden	Barnet	Barking & Dagenham
Greenwich	Brent	Bexley
Hackney	Ealing	Bromley
Hammersmith	Harrow	Croydon
Islington	Hillingdon	Enfield
Kensington & Chelsea	Hounslow	Haringey
Lambeth	Kingston	Havering
Lewisham	Merton	Newham
Southwark	Richmond	Redbridge
Tower Hamlets	Sutton	Waltham Forest
Wandsworth		
Westminster		

City of London is a separate ACA area.

Current London Teacher Pay Band areas are as follows:

Inner	Outer
Barking & Dagenham	Barnet
Brent	Bexley
Camden	Bromley
City of London	Croydon
Ealing	Enfield
Greenwich	Harrow
Hackney	Havering
Hammersmith	Hillingdon
Haringey	Hounslow
Islington	Kingston
Kensington & Chelsea	Redbridge
Lambeth	Richmond
Lewisham	Sutton
Merton	Waltham Forest
Newham	
Southwark	
Tower Hamlets	
Wandsworth	
Westminster	

- 31.** Beyond the Outer London pay band there is the 'Fringe' pay band area which comprises:
- Unitary authorities of Bracknell Forest, Slough and Windsor and Maidenhead in Berkshire;
 - Districts of South Buckinghamshire and Chiltern in Buckinghamshire;
 - Districts of Basildon, Brentwood, Epping Forest, Harlow and the unitary authority of Thurrock in Essex;
 - Districts of Broxbourne, Dacorum, East Hertfordshire, Hertsmere, St Albans, Three Rivers, Watford and Welwyn Hatfield in Hertfordshire;
 - Districts of Dartford and Sevenoaks in Kent;
 - County of Surrey
 - District of Crawley in West Sussex
- 32.** CLG reflect the fringe geographies in the 49 England ACA areas. Outside of the fringe pay band, the rest of the country has a single pay band.

Annex C: Charts

Chart 1: Percentage of Reception to Year 11 pupils in families on Out of Work Tax Credits. This data is calculated for each educating local authority using 2005 tax credit data matched to the January 2009 school census

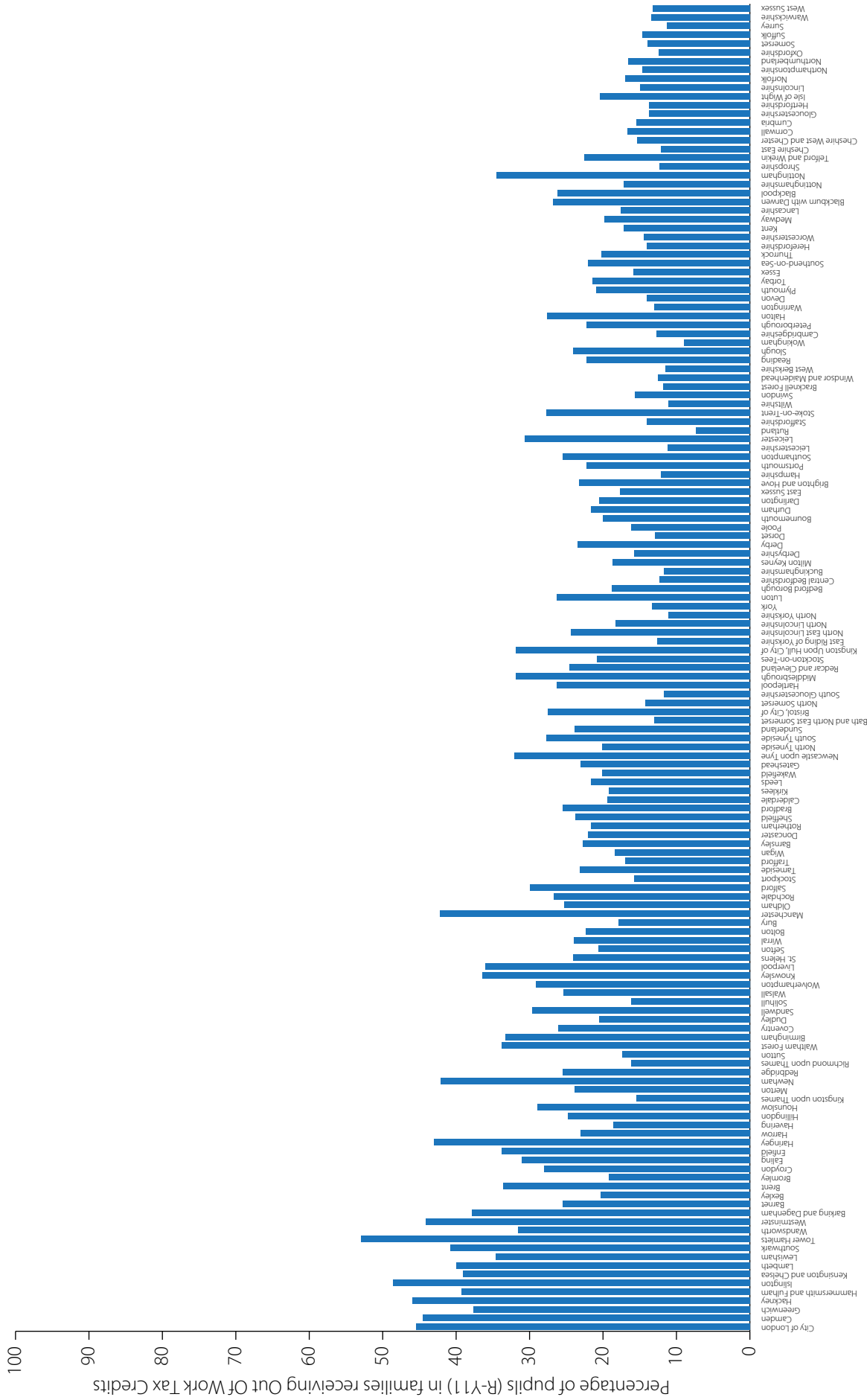


Chart 2: Percentage of Reception to Year 11 pupils known to be eligible for Free School Meals at educating local authority level using January 2009 school census data

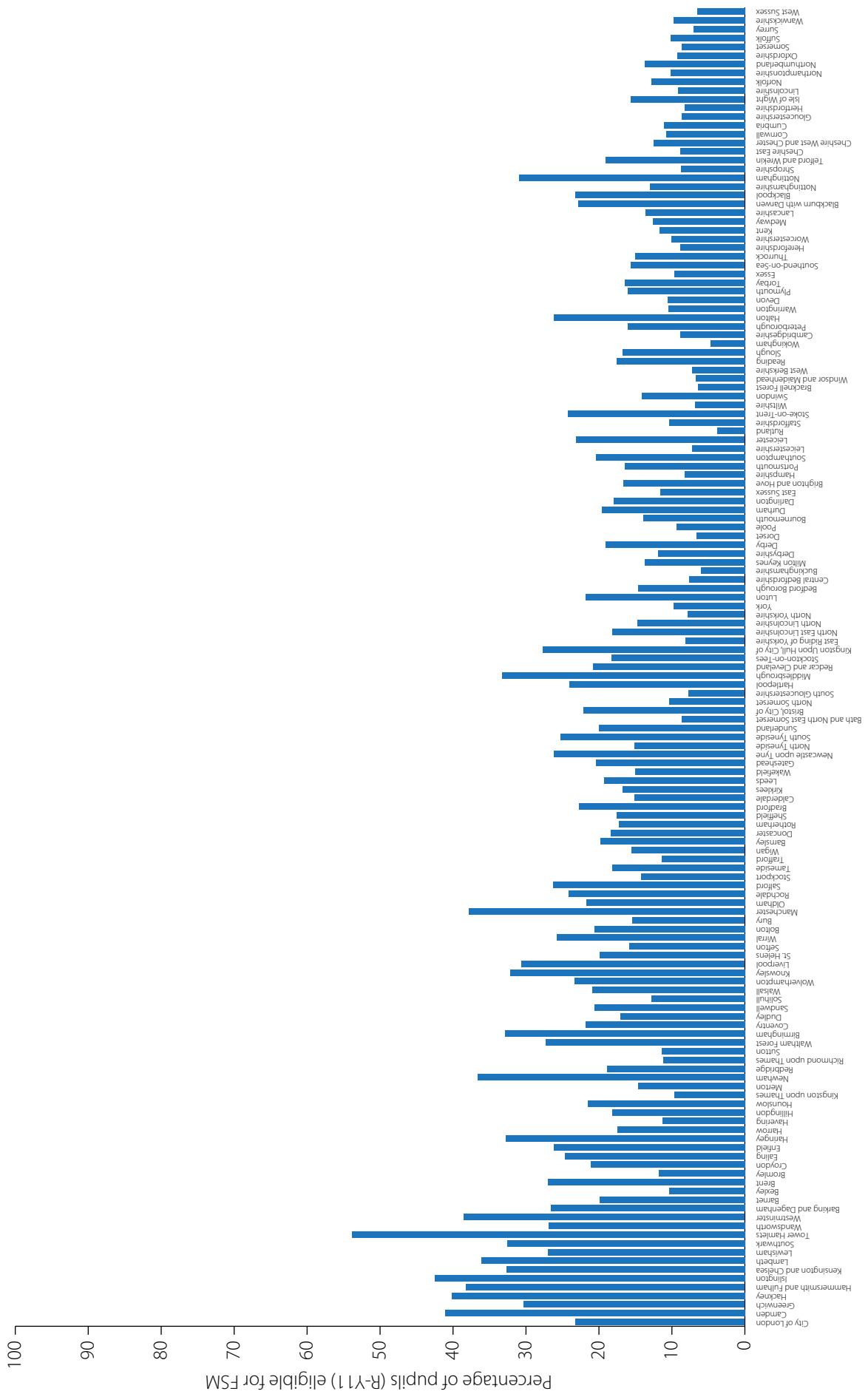


Chart 3: Percentage of Reception to Year 11 pupils deemed to be in poverty as defined by the Child Poverty Unit's under 16 measure and calculated at the educating local authority level using January 2009 school census data

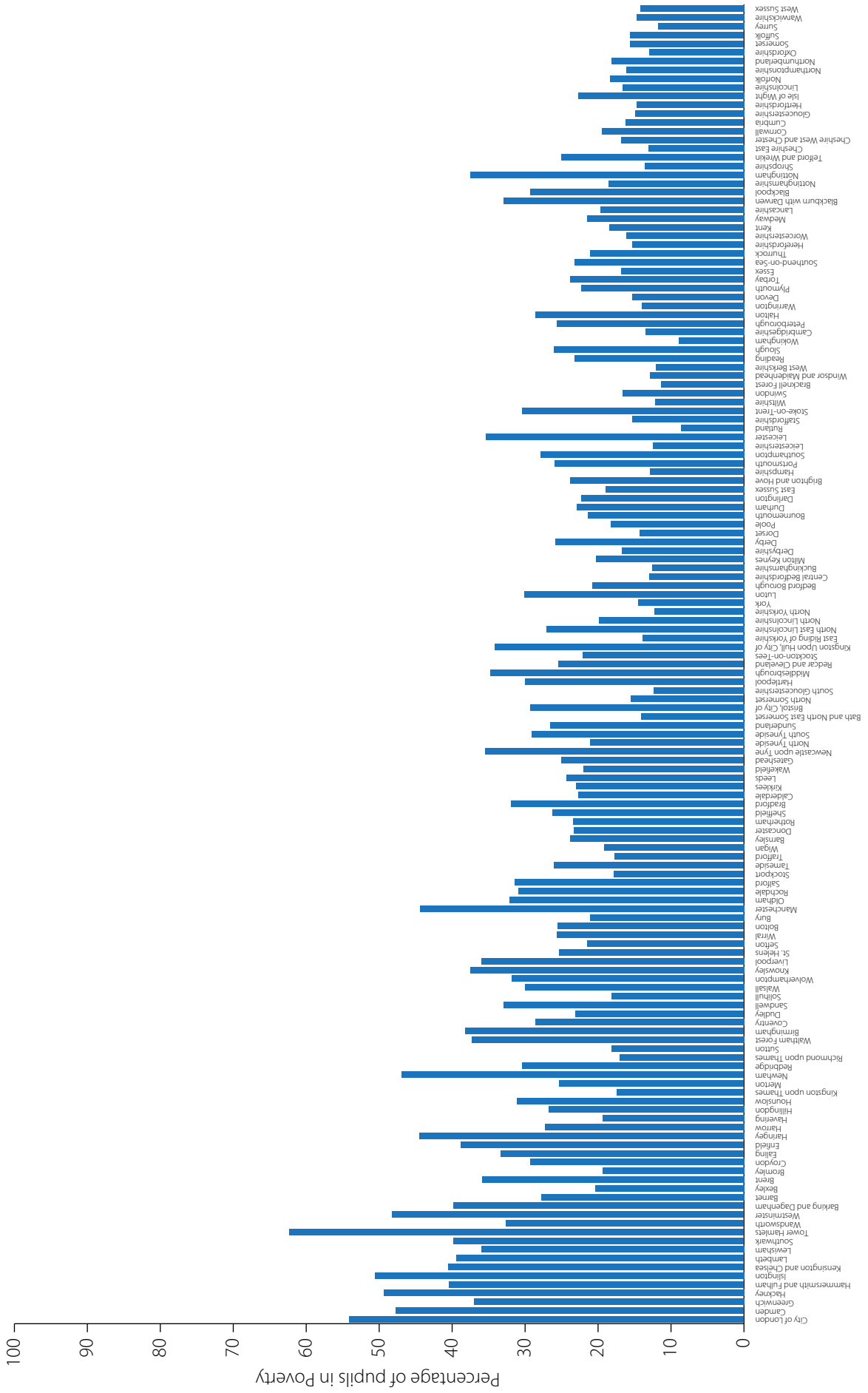


Chart 4: The percentage of pupils deemed to be deprived by calculating the mean IDACI (2007) score of Reception to Year 11 pupils matched to the January 2009 school census at educating local authority level

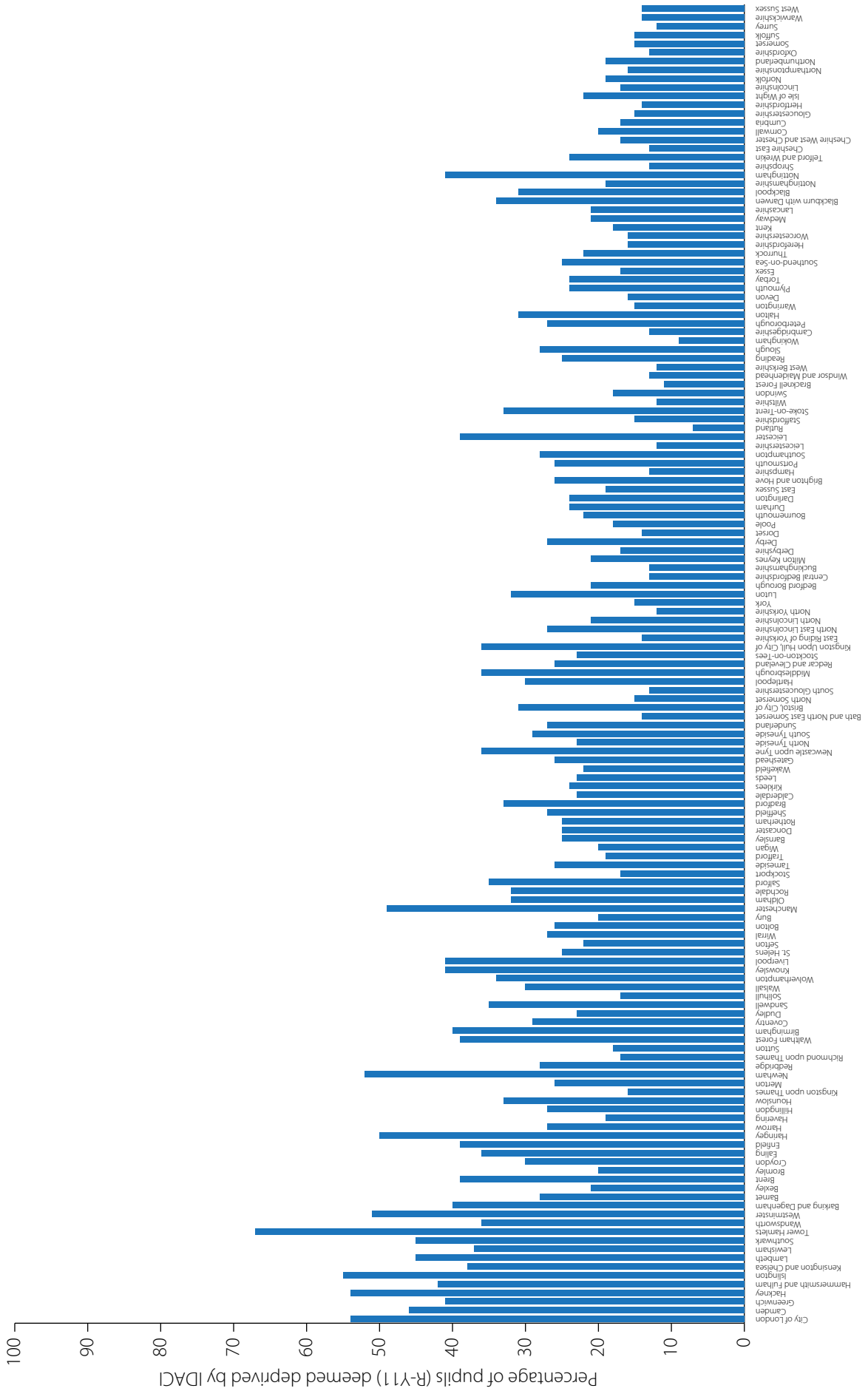


Chart 5: Percentage of Reception to Year 11 pupils known to be eligible for Free School Meals with an additional ~500,000 pupils from the most deprived LSOAs who are not eligible for FSM. This data is presented for the educating authority based upon IDACI (2007) data matched to the January 2009 school census

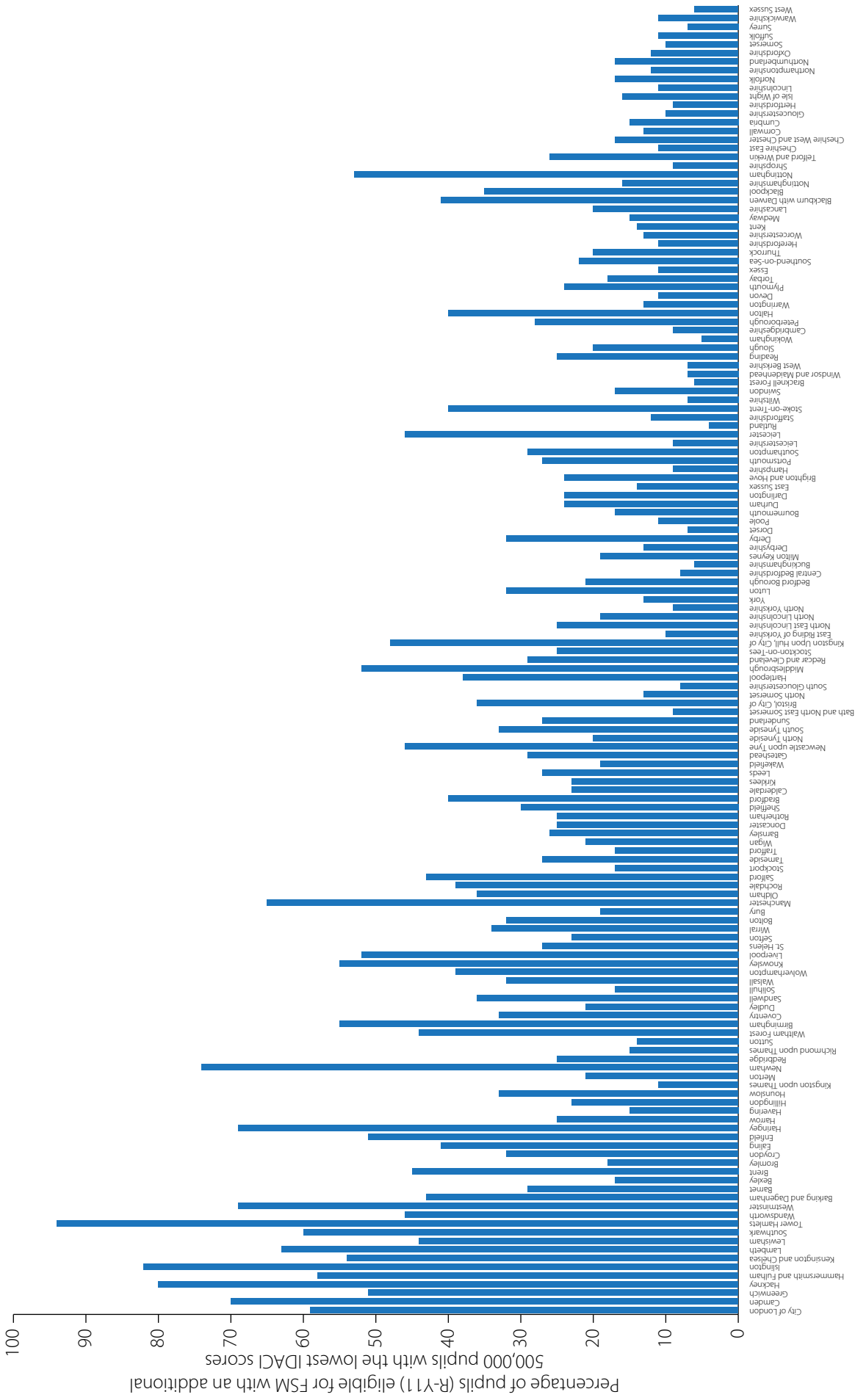


Chart 8: Percentage of pupils achieving no higher than Level 2 in Maths and Science at Key Stage 2 calculated at educating local authority level using final Key Stage 2 data from 2008

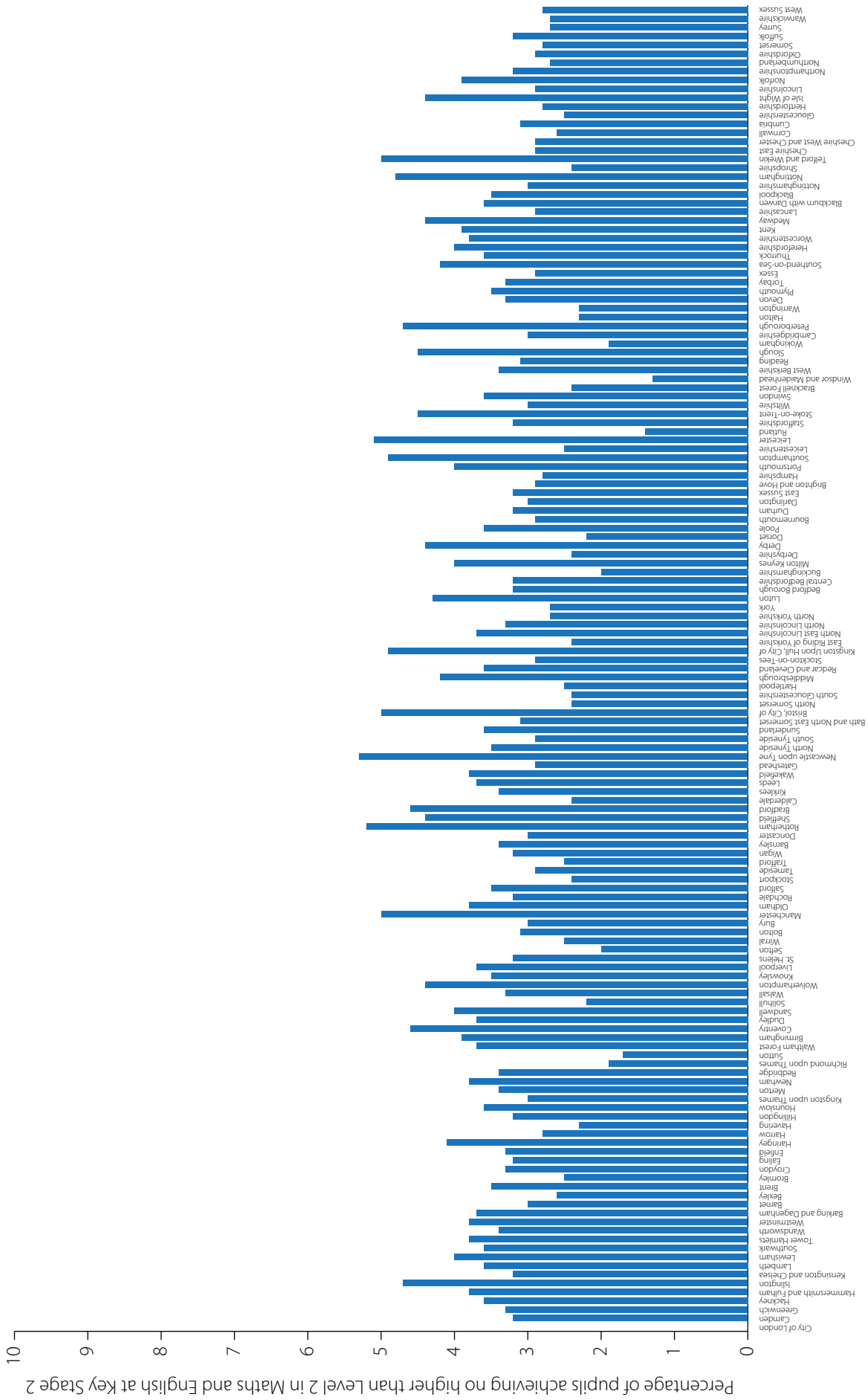


Chart 9: Percentage of under 16s in receipt of Disabled Living Allowance using a 3 year average of 2006, 2007 and 2008 Department for Work and Pensions data (accessed via Neighbourhood Statistics)

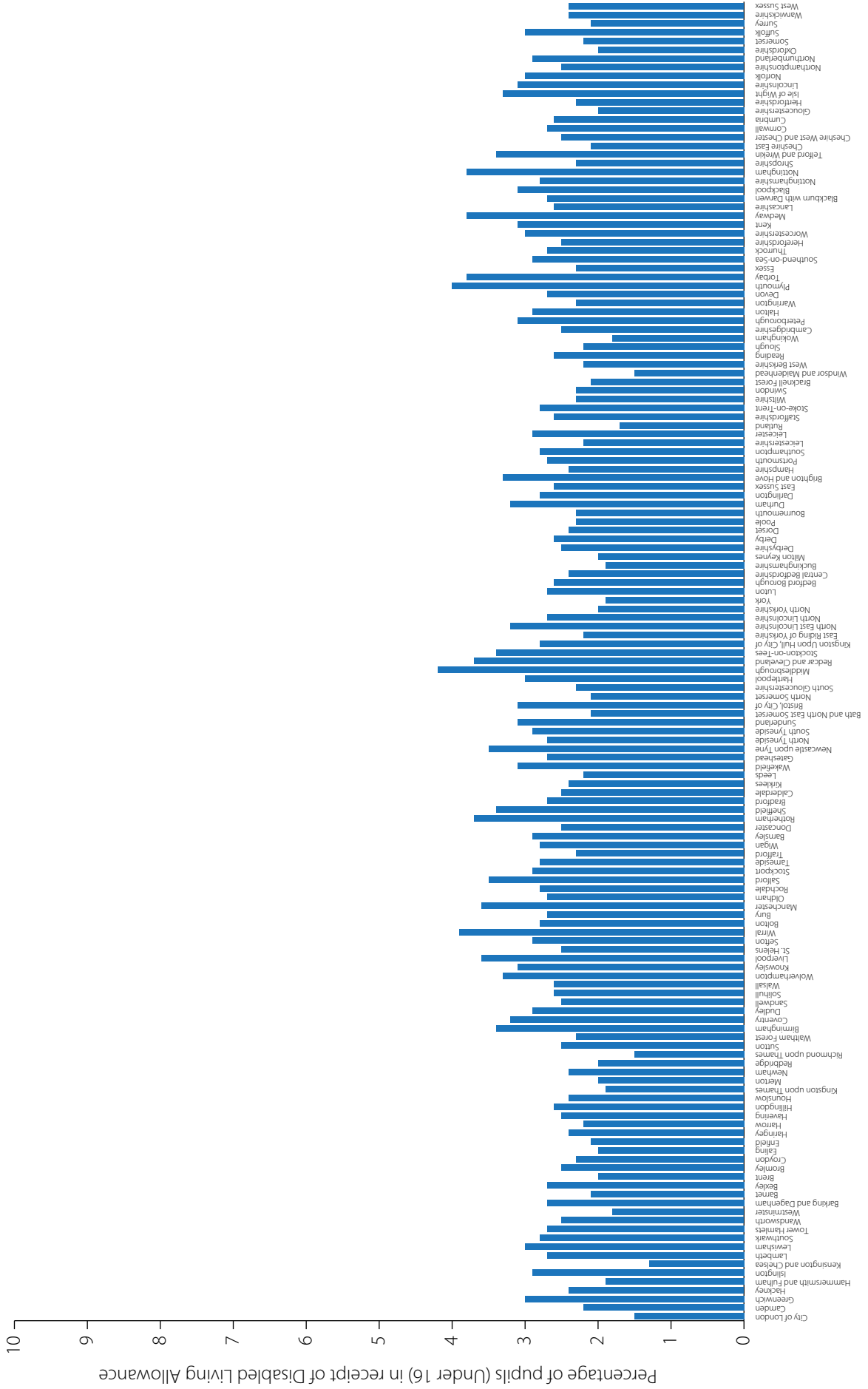


Chart 10: The sparsity measure for each local authority with a non-zero Sparsity Index. This measure is calculated at MSOA level using an average of 2007-2009 school and early years censuses for 3 to 10 years olds. The wide and narrow threshold options are shown

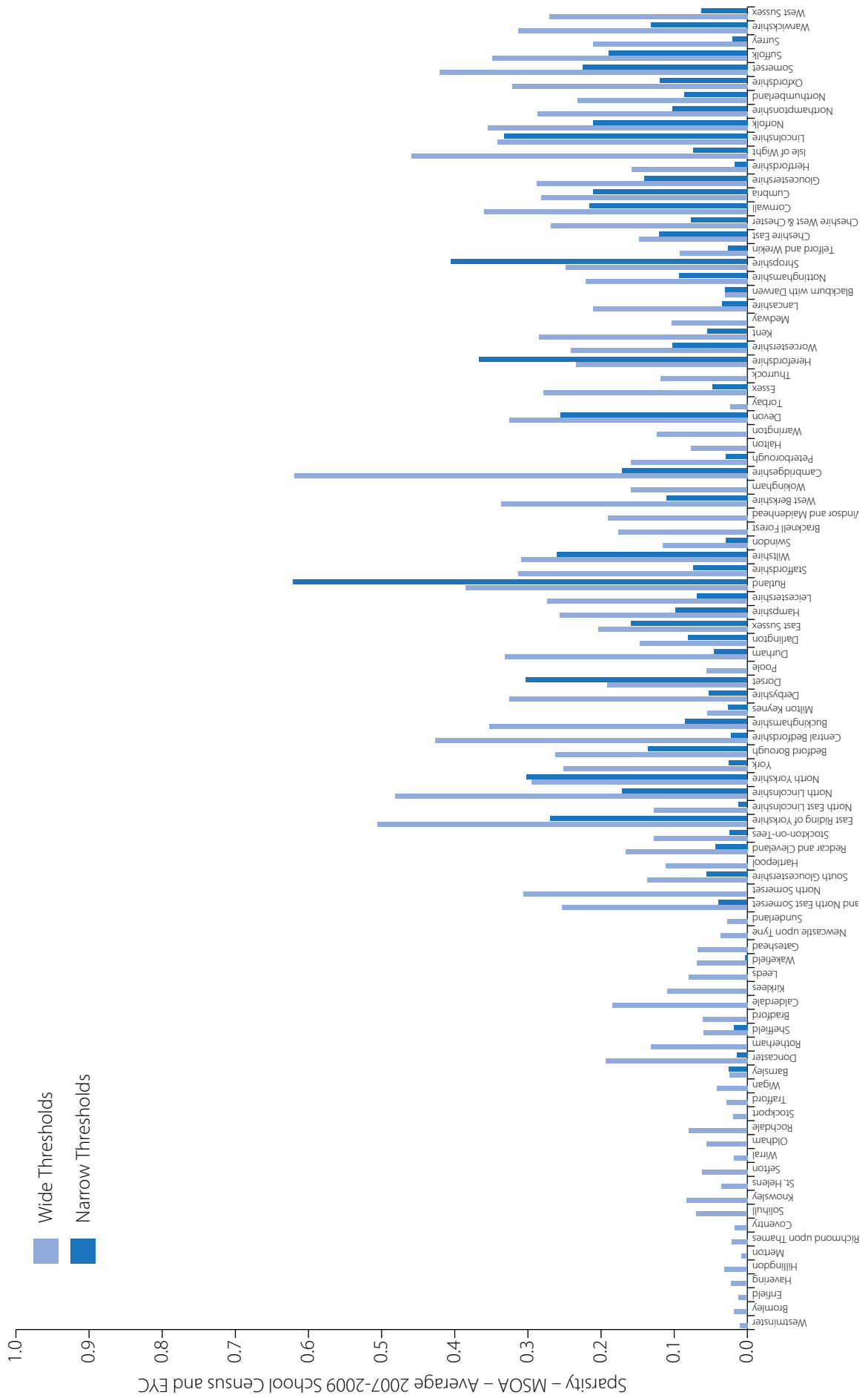


Chart 11: The super-sparsity measure for each local authority with a non-zero Sparsity Index. This measure is calculated at MSOA level using an average of 2007-2009 school and early years censuses for 3 to 10 years olds. The wide and narrow threshold options are shown

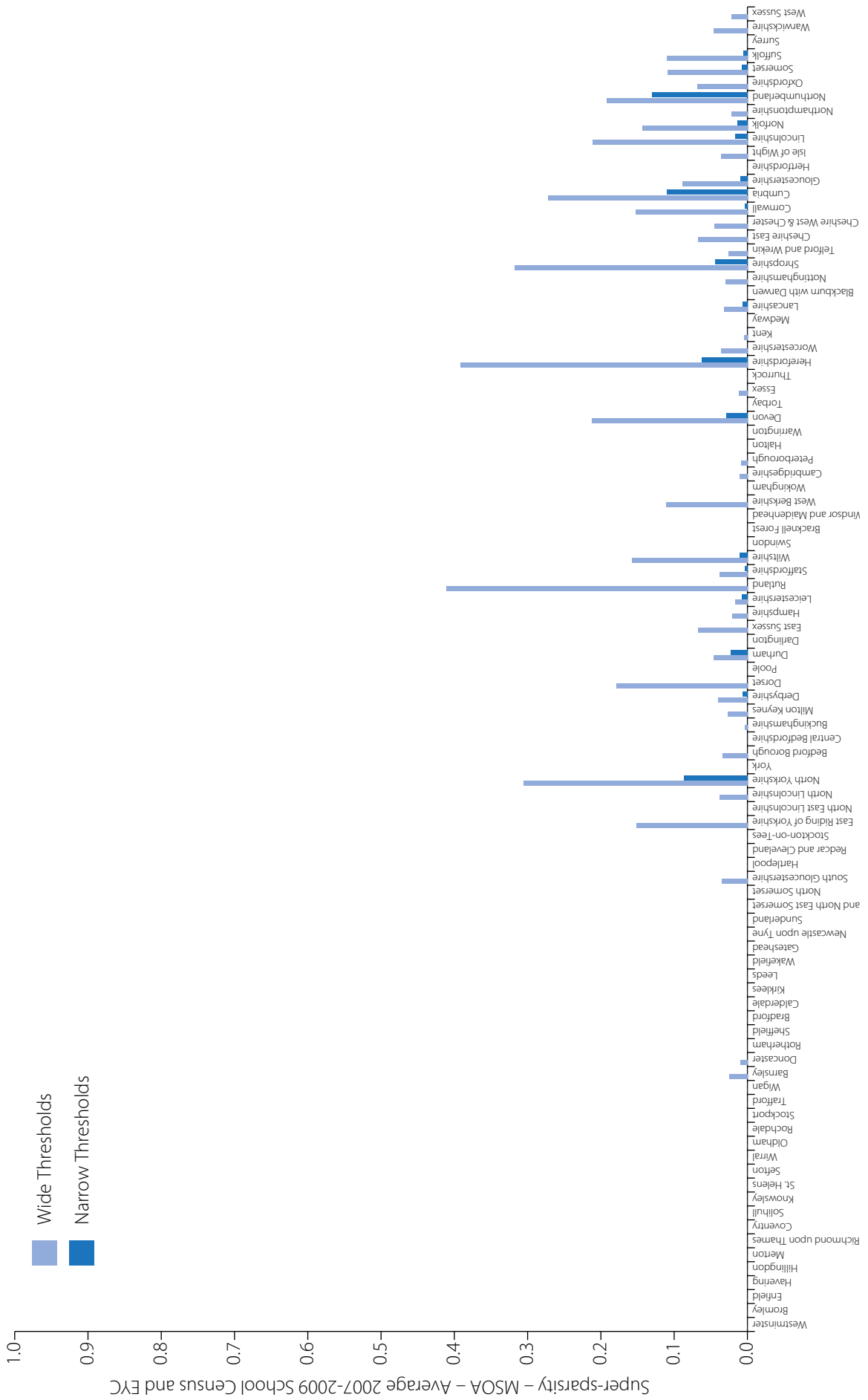


Chart 12: The combined Sparsity Index. This measure is calculated at MSOA level using an average of 2007-2009 school and early years censuses for 3 to 10 years olds. The wide and narrow threshold options are shown

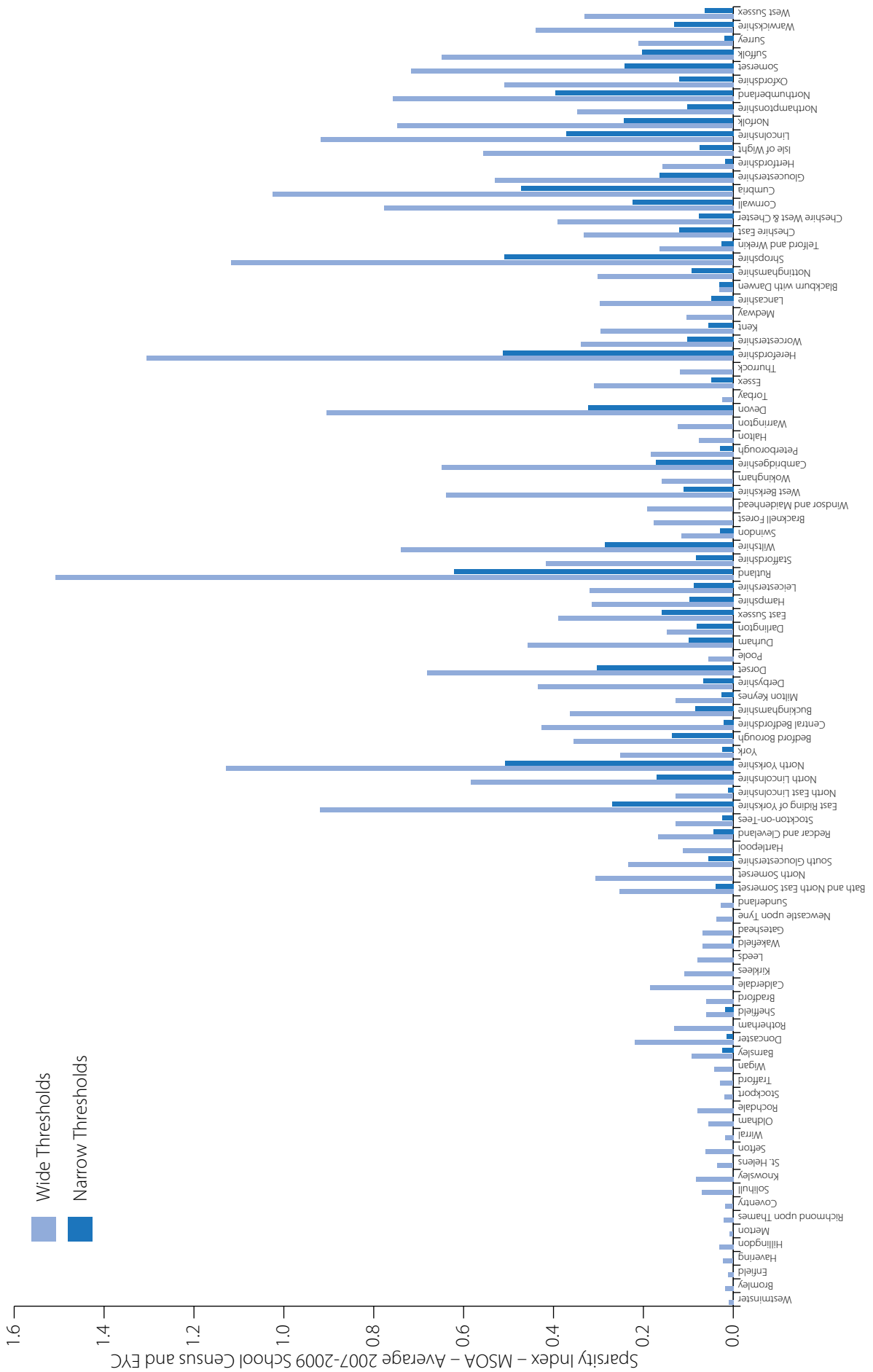
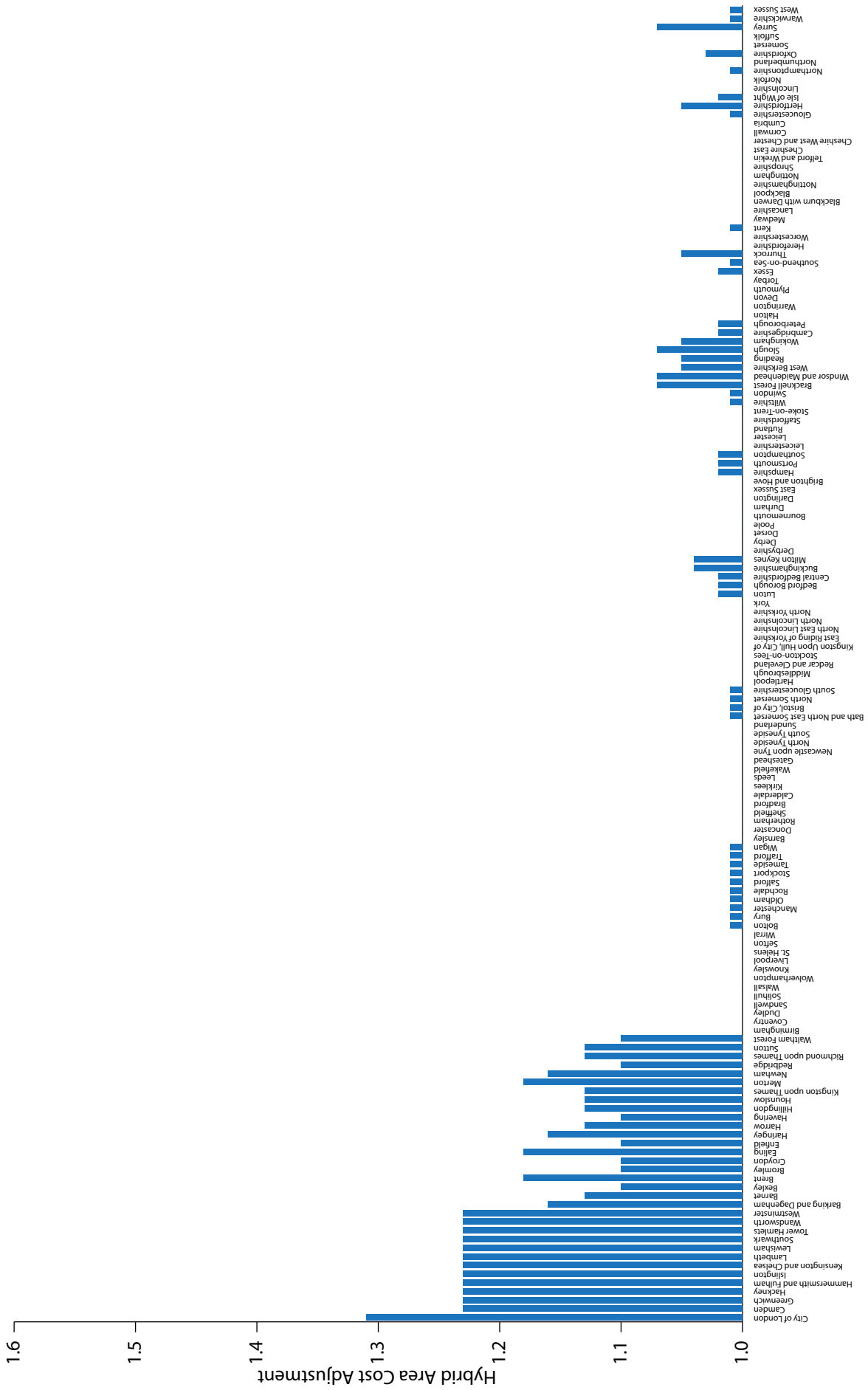


Chart 14: The Hybrid Area Cost Adjustment index for each local authority



Annex D: Consultation Questions

Questions

Chapter 1

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?

Chapter 2

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

Chapter 3

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?

Chapter 4

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

Chapter 5

11. Do you agree that the school census and Middle Super Output Area are the right data source 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?

Chapter 6

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

Chapter 7

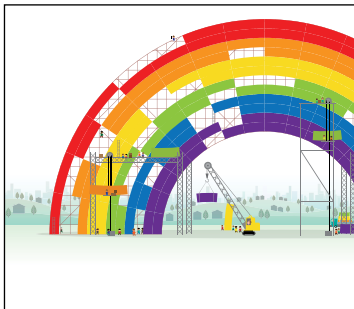
15. Do you support our plans for the transitional arrangements for mainstreaming grants?
16. Should floors be paid for by all local authorities or just the largest gaining authorities?
17. Do you have any suggestions as to how the Minimum Funding Guarantee could be improved?

Chapter 8

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?

Annex E: Links to other useful documents

No	Item	Hyperlink
1	TeacherNet Review site	http://www.teachernet.gov.uk/management/schoolfunding/DSGformulareview/
2	Terms of Reference	http://www.teachernet.gov.uk/docbank/index.cfm?id=12419
3	Papers and Minutes	http://www.teachernet.gov.uk/management/schoolfunding/DSGformulareview/DSGreviewpapers/
4	PwC Research Reports	http://www.teachernet.gov.uk/docbank/index.cfm?id=14194
5	FRG Membership	http://www.teachernet.gov.uk/docbank/index.cfm?id=14625
6	EFSG Archive	http://www.dcsf.gov.uk/efsg/index.shtml
7	Dec. '09 PBR	http://www.hm-treasury.gov.uk/prebud_pbr09_repindex.htm
8	Special Educational Needs and Disability: Understanding Local Variation in Prevalence, Service Provision and Support.	http://www.dcsf.gov.uk/research/programmeofresearch/index.cfm?type=5&keywordlist1=0&keywordlist2=0&keywordlist3=0&andor=or&keyword=2007087&x=51&y=20



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