

ROTHERHAM BOROUGH COUNCIL – REPORT TO SCHOOLS’ FORUM

1.	Meeting:	SCHOOLS’ FORUM
2.	Date:	23rd April 2010
3.	Title:	DCSF consultation on the future distribution of school funding
4.	Programme Area:	Children & Young People’s Services

5. Executive Summary

The full DCSF consultation document is available at:-

http://www.teachernet.gov.uk/_doc/14743/8637-DCSF-Consultation%20School%20Funding.pdf

- A Government wish to return to a formula-based method of allocation of the Dedicated Schools Grant (DSG) in 2011, so that allocations better reflect actual characteristics of pupils.
- The Government are clear that the five elements of the formula will be: -
 - (i) Basic entitlement for every pupil.
 - (ii) Additional money for pupils with Additional Educational Needs (AEN).
 - (iii) Funding for provision for High Cost Pupils (HCP).
 - (iv) A sparsity factor to support LA's to maintain small schools in sparsely populated areas.
 - (v) An Area Cost Adjustment (ACA) for LA's who have higher labour costs.
- Allocations will be calculated in four separate blocks and will be allocated on fixed annual Guaranteed Units of Funding per pupil for each year of the spending period for each LA.
 - (i) Early Years settings.
 - (ii) Reception to Year 6.
 - (iii) Year 7 to 11.
 - (iv) High Cost Pupils.
- Also proposing the introduction of a Local Pupil Premium (LPP), in order to ensure that the very significant resources in the system for deprivation reach the pupils who need them.
- Needs in individual schools best assessed at local level... intend to continue to distribute money to schools through LA's using their local formulae.
- Mainstream as many of the current separate specific grants (£4.5 billion) as possible into the DSG, so it will form the vast majority of funding for schools.

- The future DSG is seen as: -
 - a) Dedicated Schools Grant
 - b) School Development Grant (SDG).
 - c) Schools Standards Grant (SSG).
 - d) School Standards Grant Personalisation (SSG(P)).
 - e) School Lunch Grant.
 - f) Ethnic Minority Achievement Grant (EMAG).
 - g) Extension of the Early Years Free Entitlement.
 - h) Extended Schools – Sustainability and Subsidy.

- There will be further proposals for a grant to support school improvement, which will be outside of the DSG funded by re-directing resources from the National Strategies and other central programmes i.e. National Challenge.
- Specialist school funding will continue to be allocated separately outside of the DSG.
- Mainstreaming of grants will result in movements in funding so LA's will require local transitional arrangements, at least for 2011/12.
- The Minimum Funding Guarantee (MFG) per pupil for schools would apply to a base that includes both funding through the DSG and grants mainstreamed.

6. Further consultation detail

The DCSF stress that the consultation paper which is organised into 8 chapters (85 pages) 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. They 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 LA's and to send in their views. They will continue to talk to stakeholders and will develop firm proposals which will be published later in the year, so that indicative allocations for LA's can be given by November 2010.

The formal consultation period closes on 7th June 2010.

Chapter 1 'Towards a New Formula' – formula principles and structure

- Explains the significant changes in the system of funding schools since 1997. Outlines the shift from using 'Schools Formula Spending Shares' from 2002-2006 to implementation of the Dedicated Schools Grant from 2006-07 to the present date and the 'Spend Plus' methodology.
- Aim is to return to a system where allocations better reflect current need.
- Fairness principle - does not mean that everyone will get the same. Should reflect that different pupils need different levels of support and that different areas will have different cost pressures. Differences in funding between LA's must be justified using robust evidence.
- Needs in individual schools are best assessed at the local level. Intend to continue to distribute money to schools through LA's using their local formulae.

- Supporting deprived pupils to raise achievement and to ensure the funding to support schools to meet the needs of deprived children is clearly identified. By 2014-15, all money allocated nationally for deprived pupils must reach those pupils through the operation of a **Local Pupil Premium**.
- Mainstream as many of the current separate specific grants (£4.5 billion) as possible into the DSG, so it will form the vast majority of funding for schools.
 - a) DSG.
 - b) School Development Grant (SDG).
 - c) Schools Standards Grant (SSG).
 - d) School Standards Grant Personalisation (SSG(P)).
 - e) School Lunch Grant.
 - f) Ethnic Minority Achievement Grant (EMAG).
 - g) Extension of the Early Years Free Entitlement.
 - h) Extended Schools – Sustainability and Subsidy.
- EMAG will not be ring fenced with schools being able to target other under achieving groups. LA's should be able to retain centrally a portion of the funding to run a centralised service.
- There will be further proposals for a grant to support school improvement, which will be outside of the DSG funded by re-directing resources from the national strategies and other central programmes.
- Specialist school funding will continue to be allocated separately outside of the DSG.
- The mainstreaming of grants will result in some movement of funding and will require local transitional arrangements to manage the impact on schools' budgets.
- The MFG will apply to a base including both DSG and grant funding.
- Five formula elements proposed:-
 1. A basic entitlement
 2. Additional Educational Needs (AEN)
 3. High Cost Pupils (HCP)
 4. Sparsity
 5. Area Cost Adjustment (ACA)
- Overall front line funding for schools to increase in real terms by an average of 0.7% p/a in 2011-12 and 2012-13.
- Allocations will be calculated in 4 separate blocks: -
 - a) Early Years settings
 - b) Reception to Year 6
 - c) Year 7 to 11
 - d) High Cost Pupils
- At the beginning of the spending period Guaranteed Units of Funding (GUF) per pupil will be issued for each of the 4 blocks for each year of the period for each LA. This will allow multi year budgeting to continue.

Consultation Questions: -

Q1a. Do you agree with the principles we are applying to the formula?

Q1b. Do you agree with the proposals to mainstream the grants specified into DSG?

Q1c. Do you agree with the proposed elements of the formula?

Chapter 2 'The Basic Entitlement'

- Intended to cover the general costs of running a school – around 75% of current DSG.
- Two approaches considered:- a judgemental approach or a bottom-up approach.
- **A judgemental approach** – funding is based on how best to divide up the overall sum planned by the Government into its main formula components. An amount per pupil is derived for each of the formula components. Evidence of funding differentials between phases would be drawn from the section 251 outturn statements to inform the basic entitlement. Fewer assumptions have to be made about the detail of the approach.
- A bottom-up approach or '**activity-led funding**' (ALF) – funding is based on how much a school needs to spend to provide for pupils before any adjustments are made. It involves listing and costing the core activities that schools undertake. Previous work by the Education Funding Strategy Group in 2003/04 had identified 6 cost drivers in an ALF model: -
 - Teaching.
 - Management.
 - Support Staff.
 - ICT.
 - Premises.
 - Other non-staffing costs.
- The ALF approach is complex and requires assumptions that reflect a national average position for the system as a whole. The national position will not necessarily reflect all local circumstances.
- PwC were commissioned to determine the feasibility of an ALF approach and SERCO were commissioned to develop a working model for potential use in the DSG allocation process.
- Particular issues include: -
 - The role of the management team in schools – how much teaching resource is there in each school i.e. nos. of DHT's/AHT's/Heads of Department in the phases per 1,000 pupils and time spent on classroom teaching/support of AEN/administration.
 - Teaching assistants not assigned to SEN/EAL – how many in post and activities associated with AEN.
 - Use of other non-teaching staff – how many bursars, secretaries, administrative, clerical, lunch time supervision and time spent associated with AEN.

- Non pay costs – energy, maintenance, etc which will differ across the country depending on size of school, economies of scale, age of building, deprivation and the AEN requirements.
- In summary: -
 - ALF is complex but has the advantage of making the funding basis clearer to those setting budgets but could appear prescriptive.
 - ALF could lead to insufficient funding being allocated to AEN if the basic need cannot be calculated to exclude these and is set too high.
 - The judgemental approach is much simpler in construction but is not based on a clear description of activity the basic entitlement is covering but it would represent the pattern of historic expenditure between the phases.

Consultation Question: -

Q2a. *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’

- 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.
- 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.
- The proposed methodology for distributing AEN funding is to make an assessment of the national incidence of additional educational needs and use proxy indicators to assess the likely incidence of these needs in each local authority.
- The PwC research identified the following areas for AEN and methods for distribution:
 - Behavioural, Emotional and Social Interaction (BESI) - Deprivation
 - Home Environment (HE) - Deprivation
 - Cognition and Learning (CL) – Underperforming Groups
 - Communication and Interaction (CI) – Flat rate per pupil
 - Sensory and Physical (SP) – Flat rate per pupil
 - English as an Additional Language (EAL) – English as an additional language
 - Other - Flat rate per pupil

- Within this distribution mechanism there are options for the indicators to be used. Where possible, the aim is to use indicators that best represent the pupils to be targeted with the additional funding. 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

- Funding allocated nationally for deprived pupils should be spent on deprived pupils locally. 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.

- The Government will require all local authorities to operate a Local Pupil Premium from 2012-13 onwards. This means that an amount of money in a school's delegated budget must relate directly and explicitly to deprived pupils within the school.

- The LPP is to become the main vehicle for the distribution of deprivation funding but for stability purposes will not be subject to an in-year adjustment. There may be implications for the MFG. The s251 reporting tables will be amended to include information on the reporting of deprivation allocations.

Consultation Questions: -

- Q3a. *Do you agree with the proposed methodology for distributing money for additional educational needs?*
- Q3b. *Which is your preferred indicator for distributing money via deprivation? Why?*
- Q3c. *Do you agree with the indicators, other than for deprivation, that we have proposed for each need?*
- Q3d. *Will the Local Pupil Premium mechanism help funding to be more responsive to changes in pupil characteristics?*
- Q3e. *Is it right that LA's should each develop their own pupil premium mechanism?*

Chapter 4 'High Cost Pupils'

- 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. The best way of doing this is through a separate high cost pupils funding block.

- PwC estimate that 1.5% of pupils in mainstream are high cost.

- PwC AEN research work suggests looking at 4 SEN groups – no SEN provision; school action; school action plus; statements of SEN.
- The number of pupils deemed as HCP is much higher than in 2002 with costs increasing at a much higher rate than in other areas of the education sector.
- Proposal is to allocate in the same way as that for AEN i.e. based on the pupil need types in the PwC survey but using specific data and identifying the most appropriate distribution methodology. This will be for all providers including non maintained and independent school SEN provision. This is as follows: -
 - Behavioural, Emotional and Social Interaction (BESI) – 25% Deprivation; 75% Flat Rate.
 - Home Environment (HE) – 100% Deprivation.
 - Cognition and Learning (CL) – 100% by not achieving more than L2 at KS2.
 - Communication and Interaction (CI) – 90% Flat Rate per Pupil; 10% Deprivation.
 - Sensory and Physical (SP) – 80% Flat Rate per Pupil; 20% Disability Living Allowance.
 - English as an Additional Language (EAL) – 100% EAL Direct.
 - Other – 100% Flat Rate per Pupil.
- It is proposed to retain the current inter LA recoupment system for pupils with statements educated outside their resident authority and encourage voluntary recoupment for school action and school action plus categories who have similar levels of need to statemented pupils.
- The Government also considered whether better value for money could be achieved through joint commissioning by local authorities but recognised that further work was required before such a system could work effectively.
- In summary the proposed methodology for allocating resources for High Cost Pupils is the same as for AEN as detailed above.

Consultation Question: -

Q4a. Do you agree with the methodology for distributing money for HCP?

Chapter 5 ‘Sparsity’

- 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. 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.
- Government support predominately rural areas through a factor based upon the sparsity of the early years and primary pupil populations.
- The DCSF propose to use data from the home post code data in the annual school census with threshold factors on persons per hectare.

- 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.
- The Formula Review Group considered the case for small secondary schools as well as primary and identified 3 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 others schools.
 - If not, whether that means that small secondary schools are unable to deliver sufficient choice in the KS4 curriculum.
- There is no clear threshold for defining a small secondary school and the research demonstrated that no of these were the case so there are no proposals for a secondary sparsity factor.

Consultation Questions: -

Q5a. 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?

Q5b. Which method for calculating the sparsity factor do you think will best enable additional funding to reach those LA's that need to maintain small schools – the broad or narrow option?

Q5c. Do you agree that there should not be a secondary sparsity factor?

Chapter 6 'Area Cost Adjustment'

- 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.
- 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 challenge.
 - The merits of different approaches to an ACA.
- 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;
 - a hybrid method which combines two or more of the above approaches.
- The DCSF consider that neither the cost of living approach nor a pure specific cost approach is a realistic option for the ACA. The appropriateness of house prices as a measure is questionable especially given the volatility in recent years. 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.
 - 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.
 - A General Labour Market (GLM) approach would have to use the same methodology as in the other parts of the local government finance system.
 - A hybrid approach would include: -
 - 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.
 - A GLM based approach for the indirect costs for both teaching and non-teaching staff.
 - 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.
 - 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.
 - The hybrid approach more closely reflects the education sector as it uses the direct financial cost of teachers as part of the calculation.
 - 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 LA's.

Consultation Question: -

Q6a. Which is the fairest method of applying the ACA?

Chapter 7 'Transitional Arrangements'

- 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.
- 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.
- There will be a single set of transitional arrangements applied to a baseline incorporating the DSG and the mainstreamed grants.
- This will require LA's to revise their local formulae so it takes account of the money formerly in specific grants. However, it would be unrealistic for LA's to achieve this in time for 2011/12, so the regulations will allow LA's to include previous specific grant payments as formula factors for 2011-13.
- School level protection: -
 - The Minimum Funding Guarantee per pupil will remain for 2011/12 and 2012-13.
 - 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.
 - The DCSF will consider if the operation of the MFG can be improved.
- Local authority level protection: -
 - There will be a per pupil floor set above the MFG level. No local authority would receive an increase lower than the per pupil floor in either 2011-12 or 2012-13.
 - This will be financed by either a ceiling on large increases for some authorities or by reducing the allocations to all other non-floor authorities or a combination of the two.
- The current DSG distribution includes a cash floor for local authorities, in order to protect them from falling pupil numbers. There is no intention to operate a cash floor in the new system.
- The DCSF 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.

Consultation Questions: -

Q7a. Do you support our plans for the transitional arrangements for mainstreaming grants?

Q7b. *Should floors be paid for by all LA's or just by the largest gaining authorities?*

Q7c. *Do you have any suggestions for how the Minimum Funding Guarantee could be improved?*

Chapter 8 'Further Considerations'

Academies

There are two approaches for the adjustment to the DSG for Academies:-

- Pupil numbers used until 2008 reducing the LA DSG pupil count.
 - Recoupment replicating the LA's local funding formula and a share of central DSG and reducing the DSG accordingly.
- Recoupment will continue to operate for at least 2010/11 but the DCSF are minded to return to the pupil number adjustment.
 - There will be some comparison work on the two methods using data from 2009/10 before a decision is made.

14-19 Funding

- The timing is not deemed right to introduce a common 14-19 funding system now but the ambition remains with it to be considered during the next spending review period.

Contingency Funding

- The DCSF will seek views on whether to continue with the Exceptional Circumstances Grant (ECG) for significant growth in general pupil numbers and EAL. 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.

Service Children

- The review considered whether there is evidence that children of parents from the Armed Services are underachieving and need additional support. Results from 2008 shows such pupils do well compared to their non-service peers so no specific DSG provision is proposed.
- However, there seems to be a case for support for schools which traditionally cater for service families mainly those located near armed services establishments, particularly around potential additional pupils. The DCSF will consider these on an individual basis through a direct claims process.

PFI Schemes

- DCSF looked 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. A questionnaire in the autumn of 2009 to the 100 local authorities with

Home Educated Children

- A scheme is being proposed to allow LA's to make a claim for these children. If the LA confirms they are providing services for such children they would count as 0.1 FTE for DSG purposes. This is allowed now if LA's are providing substantial financial support.

Other Children's Formulae

- The DCSF are minded to ensure that the low achieving ethnic group and sparsity factors in the Children's Services Relative Needs Formula (RNF) are consistent with the factors featuring in the DSG.

Consultation Questions: -

Q8a. If a contingency arrangement for LA's is to continue, funded from the DSG what areas should it cover and what should the criteria be for triggering eligibility?

Q8b. Do you support our proposals for Service children?

Next steps

- There are many decisions of detail to be made and the DCSF want to hear views from all interested parties about both the overall makeup of the formula, and on the options set out. In particular they want to hear principled arguments in favour of or against particular options.
- Later in the year, the DCSF will publish a further consultation on firmer proposals, in particular specifying which options they 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. DCSF would expect schools and local authorities in the meantime to plan based on assumptions about their budget they are able to make.
- DCSF will also consult later in 2010 on changes to the School Finance Regulations for the period 2011-13.
- Consultation responses can be completed:-
 - a) online at www.dcsf.gov.uk/consultations
 - b) by downloading a response form which should be completed and sent to e-mail: dsg.consultation@dcsf.gsi.gov.uk
 - c) by post to: Ian McVicar, SFTU, 3rd Floor, Sanctuary Buildings, Great Smith Street, London, SW1P 3BT

The formal consultation period closes on 7th June 2010.