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To: Cabinet – 14 May 2007

Subject: DfES consultation on schools, early years and 14-16 funding

Classification: Unrestricted

Summary: To inform Cabinet Members of the current DfES consultation and possible implication for KCC

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## **Introduction**

1. (1) The DfES has published a consultation paper on the shape of the school funding system for the period 2008/09 to 2010/11. There are 40 questions in the document and the closing date for responses is 1 June 2007. There is little available in the way of financial modelling by the DfES on the impact of some of the proposals made, so at this stage it is difficult to come to a clear view on some of the options put forward. The DfES held a conference on the consultation paper which was attended by officers and representatives of the Schools Funding Forum. Whilst this provided little in the way of any additional detail it did provide a clear indication as to the preferences that the DfES have on some of the options proposed.

(2) The consultation paper covers a wide variety of issues ranging from those which will affect the amount of DSG received by Local Authorities to detailed issues such as proposals to change the decision making process within the Schools Funding Forum. This paper largely concentrates on the more significant issues especially those that could affect the overall financial position of KCC, schools and early years providers.

## **The distribution of DSG to Local Authorities**

2. (1) The current methodology took as its baseline the Schools Budget for 2005-06 and in both 2006-07 and 2007-08 simply increased that level of budget by a minimum amount per pupil with any other funding available over and above that distributed according to formula reflecting government priorities. This is known as the “spend plus” approach.

(2) The DfES are asking the question as to whether this should continue or if there should be a return to a formula based upon the old Schools Formula Spending Share (SFSS) methodology with the use of floors and ceilings during any transition period. Whilst we need to do a detailed analysis of this our initial view is that any return to the SFSS approach would probably disadvantage KCC. In all probability it would mean that we would see funding moving away from Kent to other parts of the country –

the issue we were facing with schools and other services prior to the introduction of DSG in April 2006 which, in effect, reduced the impact of that process on them and the other LA services funded via DSG, including Early Years.

(3) The DfES also raise the issue of moving from a January to an autumn pupil count for DSG. This would allow final DSG figure to be known earlier (currently we do not receive the final figure until 3-4 months after the County Council has set its budget and we have issued budgets to schools) but it would be based on less up to date data. Authorities' would also be required to use an autumn count in their local fair funding formulae, in order for the distribution from government to authorities and from authorities to schools to use the same pupil numbers. In principle the move to an autumn count would be an improvement but there is no proposal to make changes for the Early Years (EY) count and currently that is the most problematic part of estimating DSG. The DfES are clear that they could not make changes to the EY count until 2011/12.

### **Efficiency savings**

3. (1) Various parts of the consultation paper talk about the need for efficiency savings to be made within the DSG especially by schools – though there is no detail. We know that the Treasury is looking for efficiency savings as they have been quite explicit about looking for a 3% saving on the DSG. Whilst the consultation paper is short on detail the DfES were a little more forthcoming at the conference and talked about a figure of 1% but possibly only applied to the non-staffing elements of the DSG. This gives us a range for possible efficiency savings of £22.7m (3% on total DSG) to £1.5m (1% on the non-staffing elements of the DSG) so is not that helpful.

(2) Clearly anything nearer to the 3% figure would have major implications for schools, early years and the LA elements of the DSG. It would put significantly more schools into deficit with all the subsequent resource implications for CFE. At that level the Schools Funding Forum would undoubtedly look to “squeeze” the LA and early years element of the DSG (though there are limits to what they could do in that respect) and probably look to KCC to “top up” the schools part of the DSG. Whilst this is technically possible this would clearly impact upon Council Tax and other services and to date we have been clear with schools that KCC will not add to the DSG. To put the 3% into context, £22.7m is more than the total cost of the Teachers pay award for 2007-08. The DfES are clearly looking to make some reduction in the DSG for efficiency but in our view are ignoring the fact that schools will have to make such savings anyway in the face of falling school rolls over the next few years so this has the potential to be a double hit on schools/DSG.

(3) In terms of delivering efficiency saving the DfES also raise issues in respect of the Minimum Funding Guarantee (MFG). The DfES say they will continue with an assessment of cost pressures such as pay and non-pay pressures when setting the MFG but they consider the arguments for a lower MFG, set at a level which would take account of the scope for making efficiency savings on non-pay costs. This appears to be the way in which the DfES would ‘square’ reducing the DSG to deliver Gershon efficiency savings.

### **Deprivation**

4. (1) Various issues are raised in the paper about how Local Authorities target deprivation through their local schools formulae but there are some issues raised about how deprivation data is used for the national distribution of DSG. In respect of both of these points there are questions about how to update the current data and whether, on a

national basis, there should be funding to target pockets of deprivation. We need to carry out more analysis of this but it could be beneficial to KCC if funding was available for pockets of deprivation not currently recognised under existing methodology.

(2) The other, possibly more significant issue raised, is whether other indicators of deprivation such as Mosaic or Acorn should be used in the calculation of the national distribution of DSG instead of the current Index of Multiple Deprivation. No detail is available from DfES to enable us to form a view on the impact of this for KCC but it is something we are discussing with colleagues in Environment & Regeneration who have expertise on this issue.

## **Academy Funding**

5. (1) The DfES have proposed an alternative way of calculating the funding to be removed from a local authority when an Academy is established. The alternative put forward would remove the relative advantage we have had from the current system and could possibly become a pressure on the DSG as the number of Academies in Kent increases.

## **Central Expenditure Limit**

6. (1) Over the past 10 years there have been a variety of methods employed within the schools funding framework to limit local authority expenditure. The current methodology within the DSG is now very complex and the DfES are keen to simplify it. However the one proposal they have put forward will in all likelihood, simply put a further squeeze on the LA element of the DSG and whilst, in theory, the Schools Funding Forum could allow a greater increase in LA funding within the DSG this is extremely unlikely given the impact of falling rolls and tighter budgets.

## **Early Years**

7. (1) The DfES discuss how the free entitlement to early years provision can be implemented to bring the funding system for the maintained and PVI (private, voluntary and independent) sectors into line. This is within a context of developing the wider commissioning role of authorities for Under 5s and delivering the increase in the early years funding entitlement from 12.5 to 15 hours per week.

(2) There are a range of issues in the paper concerning early years. The DfES clearly wish to move to a position whereby the basis of calculating the funding for the maintained and PVI sectors is the same though this is not the same as moving to equal funding. The DfES have also put forward a more radical proposal to develop an early years formula that within authorities would mean standard funding between the PVI and the maintained sector. This would have implication for both sectors given the expected budgetary constraints on the DSG. If this option is adopted by the DfES there will need to be detailed discussions with both sectors as to the nature of the formula. A further issue is to give the PVI sector the stability of multi-year budgets in the same way as schools. Whilst perfectly possible there are some resource issues for CFE in doing that. The proposal that is possibly of more concern in the longer term is the one to identify Early Years funding within the DSG separately - which was the approach adopted by the DfES in respect of Youth Services in the old Schools Block system that led to that funding effectively being "ring-fenced". The concern is that this could further reduce the already limited local flexibility.

## **Funding for 14-16 Specialised Diplomas**

8. (1) The DfES set out proposals for funding specialised diplomas for 14-16 in the period 2008-11. It proposes that this should be by specific formula grant outside the DSG and goes on to consider the best way of distribution at local level.

(2) The new specialised diplomas (as set out in the LSC consultation “Delivering World-class skills in a Demand-led system”) are being rolled out across authorities during the period 2008-11 but the way in which this will happen does not allow funding to be predicted across authorities for the three year period hence the proposal to pay a specific formula grant to authorities; varying according to diploma lines to be offered, areas of the authority where they are to be offered, with possible top ups for additional costs and sparsity; This seems the most sensible way forward in what will be a difficult period in respect of 14-19 funding. A new specific Grant may be the most sensible way forward in this transitional period.

(3) There are three possible models for delivering the funding to individual 14-19 institutions which will offer the diplomas: DfES propose that the choice of which to use should be up to local discretion. These models are:

- Allocation of both specific grant and an allowance from average weighted pupil units to be made at authority level;
- Authorities to contribute the funding from the specific formula grant; with schools contributing to 14-19 institutions from their budgets;
- Delegating everything to schools which will then pay for the provision out of school budgets, based on planned provision.

More work with schools on these options needs to be done.

(4) There is also discussion on the delivery costs of specialised diplomas and the extent to which these can be funded by economies of scale within schools due to reduction of dual provision. The DfES view of the efficiencies schools can achieve was somewhat overstated at the London launch of the proposal and the view of many Heads present was that there is not an understanding within the DfES of how all this works at school level.

## **Specific Grants**

9. (1) There are some limited proposals for mainstreaming specific grants but none that affect the period 2008/09 to 2010/11. The paper concentrates on the issue of merging some grants. In isolation this would not be too great an issue but any mainstreaming in the future could cause us difficulties if the national distribution methodology for DSG is changed and moved to a formula basis.

## **School Reserves**

10. (1) There is a proposal that LA's should make a 5% levy on all schools with reserves regardless of the reasons those reserves are being held for. This is in addition to the Balance Control Mechanism that the DfES required all authorities to introduce from 1 January 2007. If taken forward this will be very contentious with schools but it was made clear by DfES officials that Ministers are keen to do more to tackle the level of school reserves as they now stand at £1.6bn nationally. In Kent such a levy would generate around £3m but it all has to be recycled out to schools and cannot be used by the LA as far as we can tell.

## **Recommendations**

Cabinet is asked TO:

(a) Note the latest DfES proposals in relation to schools, early years and 14-16 funding and to give views as to the way forward

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*Background Documents:*

*None*