

School, early years and 14-16 funding consultation

Wednesday 7 March 2007

Introduction

The DfES has published a consultation document on the shape of the school funding system in the period 2008/09 to 2010/11. There are 37 consultation questions. The document and the response form can be found at <http://www.dfes.gov.uk/consultations/conDetails.cfm?consultationId=1466> The closing date for the consultation is 1 June 2007.

Key issues are:

- Easing the conditions which allow the ring-fenced Dedicated Schools Grant (DSG) to be used for Every Child Matters purposes;
- Whether DSG should continue to be distributed through the 'spend plus top ups for ministerial priorities method' or whether there should be a return to a formula along the lines of the previous Schools Formula Spending Share;
- How best to reflect deprivation in the DSG formula;
- Whether the DSG should continue to use January pupil counts or whether the date should be changed to an autumn term pupil count;
- Whether there should continue to be a minimum funding guarantee at school level and, if so, the level at which it should be set;
- how the rules governing both the minimum funding guarantee and increases on 'central spending' should operate;
- Whether local authorities should be allowed to tax excessive school balances;
- How under-5 and post-16 interests should be represented at Schools Forums;
- Under 5s: how to bring funding for the maintained and PVI (private, voluntary and independent) sector closer together;
- How the new specialised diplomas for 14-16 olds will operate at authority level;
- Specific grants besides the DSG.

LGA key messages

- **We remain opposed to payment of school funding through ring-fenced grant; we would like to see school funding returned to being funded in the same way as other services; particularly children's services. The LGA has made proposals to the Lyons Inquiry for there to be a 'single conversation governing all Children's Services spending, whether for schools or wider children's services, with a Children and Young Persons' Partnership Board at local level with flexibility to deliver funds within an agreed framework;**
- **In the meantime, authorities are facing pressures from increases in children's services expenditure, particularly affecting children with complex needs. Therefore any relaxation in the conditions of the Dedicated Schools Grant which will allow it to be used for a wider children's services agenda is welcome;**
- **On the issue of 'spend plus' versus formula; we recognise that different authorities have different views;**
- **There should be a minimum of central direction to authorities. We welcome the fact that DfES has, through delegating decisions on variation to the minimum funding**

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guarantee and the central spending limit to Schools Forums, allowed more leeway for local decision making;

- We see effective targetting of deprivation as a top priority and encourage authorities to discuss, in consultation with Schools Forums and other partners, how deprivation is allowed for in local formulae. We would be opposed to any direction to authorities which would override local decision-making;
- Whilst there should be a transparent assessment of spending pressures we would wish to see any minimum funding guarantee set at a level which does not constrict local movement;
- We would like to see a minimum of funding in narrow ring-fenced grants; although there remains a case for narrow ring-fenced grants where expenditure is lumpy or in the case of a pilot project, or in the case of grants like the Ethnic Minorities Achievement Grant. Any grants which come to an end should be fully taken account of in the base used to calculate DSG increases.

Chapter One – Introduction

This chapter introduces the consultation paper. It sets out the main funding streams for school in 2007/08; Dedicated Schools Grant, Sixth Form Funding through the LSC, School Standards Grant, School Development Grant and other grants. Sixth form funding is not covered in this document; it is the subject of a separate consultation “Delivering World-class skills in a Demand-led system, which was launched on 5 January 2007 and ends on 30 March 2007.

- The DfES, in a consultation document on the terms of reference for the review published in April 2006 set out five **objectives** for the review: simplicity, flexibility, stability, equity and value for money; it noted that there could be tensions between these objectives; for example the minimum funding guarantee, which promotes stability, may conflict with a fairer distribution at local level;
- These objectives fit in with **wider DfES policy commitments**; including the commitment to extend the free offer for early years education from 12.5 to 15 hours, extended schools, money for personalised learning within the DSG and a long-term goal to raise average per pupil resource and capital funding for state schools to 2005-06 private sector levels in real terms.
- DfES expect overall increases in forthcoming the Spending Review to be lower than the 6-7% annual growth seen in recent years; this will affect the level at which any Minimum Funding Guarantee is set.

LGA view

- In our response to the earlier DfES consultation, we commented that we agreed that the aims of simplicity, flexibility, stability, equity and value for money are important. In important aspects the introduction of the DSG has run counter to these objectives. For example schools now have to consider whether activities, such as extended school provision can be funded within the ring-fenced Dedicated Schools Grant or other funding streams. This has made the system less simple. We also agreed with CIPFA that accountability should also be an aim of the review.

Chapter Two – Distribution of Dedicated Schools Grant

This sets out how DSG can best be used to facilitate joint working in support of Every Child Matters; how Dedicated Schools Grant should be distributed to authorities; how best to fund deprivation; how best to fund academies; whether to move to an autumn pupil count for DSG and whether to pay a grant in exceptional circumstances.

Key points include:

- DfES propose simplifying the rules that allow Schools Forums to agree to the use of DSG for wider children’s activities by removing one of the two tests that needed to be satisfied for this to happen. This will mean that authorities will have to demonstrate that there should be educational benefit, but will no longer have to satisfy the so-called ‘proportionality test’;
- The document sets out two main methods of distributing DSG to authorities

- To continue with the '**spend plus**' or budget plus top ups method; this would be based on a common per pupil increase over baseline plus top ups for ministerial priorities or, for example for authorities which spent under the previous Schools FSS formula;
- To return to a **formula**-based method of distribution; which would be based on the Schools Formula Spending share formula which influenced distribution before the DSG was established: an amount per pupil with top ups for deprivation, sparsity and area costs. Past spending would be taken account of in damping rules but would not otherwise be used in the formula;
- The document sets out how both these methods would operate and what it would mean to different authorities. The pros and cons of each are set out as follows:
 - **Spend plus** is good for stability; and allows earmarking for particular issues; but distribution is hard to explain against objective criteria;
 - A **formula** is good for explaining distribution and identification of funding for deprivation is more transparent; but it makes it harder to mainstream specific grants and would require damping.
- If the formula influences distribution; the document discusses options for updating the current **deprivation indicators** - one option would be to use the Index of Multiple Deprivation; another to use commercially produced indicators which could link postcodes from the School Census to small area characteristics. There is also a discussion on targeting pockets of deprivation within otherwise relatively affluent areas;
- The document discusses issues around moving from a January to an autumn **pupil count** for DSG; this would allow final DSG figures to be known earlier but they would be less up to date and would be based on data which will be collected for the first time in Autumn 2007. Authorities' would also be required to use an autumn count in their fair funding formulae, in order for the distribution from government to authorities and from authorities to schools to use the same pupil numbers;
- The DfES asks for views on moving to a new method of calculating **under 5 pupils**; either based on a headcount or on provision. This will not affect the pupil numbers to be used from 2008 to 2011, but requires planning for now if it to be introduced at a later date;
- There is a discussion on funding for **academies**; the options are to continue with the current system of adjusting pupil numbers before DSG distribution to authorities, or to distribute the grant to authorities which would then operate a recoupment model with the DfES for the academies in their area;
- There is a discussion around whether there should be an '**exceptional circumstances grant**' over and above the DSG which would not be fixed for the 3 year period; this could be used, for example, for authorities which received influxes of pupils with additional needs.

LGA view

- We welcome any relaxation in the conditions of the Dedicated Schools Grant which will allow it to be used for a wider children's services agenda;
- We recognise that there are likely to be different views in different authorities over the method to use for DSG distribution. Some authorities, particularly those with Schools Budgets above the previous FSS formula would support 'spend plus'. On the other hand, schools in authorities which were spending below FSS would support a formula as it is based on objective data and does not rely on historic spend. Authorities which gained in the 2003/04 formula review have also made the point that their schools' budgets were limited by the damping within the Schools' FSS formula; this affected their 2005/06 baseline and those in lower funded areas would like a higher basic entitlement;
- The LGA is against ear-marked top-ups. Authorities in consultation with schools forums take account of local and national priorities in setting budgets for schools. In the two year funding settlement for schools announced in December 2005, DfES did not insist that authorities allocate schools budgets slavishly in line with the top up criteria; this would have severely circumscribed local discretion. We would not like to see any more prescription.

Chapter three – School Funding from 2008/09

This chapter focuses on the flow of funding from local authorities to schools. It discusses the rules for how three year budgets will operate, the Central Expenditure limit, deprivation funding in local authority formulae, how the minimum funding guarantee should operate and the composition of Schools Forums.

Key **points** include:

- DfES say they will examine how much 2007/08 final school budgets have **changed from their indicative levels**, this could lead to stronger guidance to authorities or amendments to regulations constraining changes in the second or third years of a three year budget period;
- The rules governing the **Central Expenditure** limit could be made simpler; so they are easier to understand; for example regulations could set a minimum level of individual school budget increase;
- DfES note that authorities and Schools Forums are reviewing the provision for **deprivation** within fair funding formulae. They say that Children's Services Advisers will monitor the progress of these reviews. Authorities will be required to submit a statement setting out the progress they expect to make over the 2008-11 period. DfES might consider, as one of a number of options; placing a condition on local formulae relating to deprivation funding; this would take into account the composition of the area;
- There are proposals to change the way the **Minimum Funding Guarantee** operates; so that marginal increases or decreases on school rules had the same effect. They also propose to allow Schools Forums to agree with authorities variations to the MFG which affect up to 50% of schools, as opposed to 20% as is the case at present;
- On the **level of the MFG**; DfES say they will continue with an assessment of cost pressures such as pay and non-pay pressures. They consider the arguments for a lower margin between MFG and the basic DSG increase; They also state that the MFG might be set at a level which would take account of the scope for making efficiency savings on non-pay costs;
- There is discussion over the best ways of authorities working to ensure that **school balances** are not excessive; one idea would be for there to be a **levy on balances** which would be able to be recycled among other schools in the authority. DfES could also issue extra guidance to authorities;
- There is discussion on the role and operation of **Schools Forums**. Possible changes are: allowing senior staff besides heads such as bursars to be members of Schools Forums and having more non-schools members from the early years and 14-19 sectors.

LGA view

- **There should be a minimum of central direction to authorities on distribution to schools; this should be determined in consultation with local partners and Schools Forums;**
- **We see effective targetting of resources for deprivation as a top priority but would be opposed to any direction to authorities which would override local decision-making;**
- **Whilst there should be a transparent assessment of spending pressures we would wish to see any minimum funding guarantee set at a level which does not constrict local movement;**
- **We wish to see DfES publish a clear statement on the progress against efficiency targets set for schools in the SR2004 period. Authorities have made savings of over £3bn from 2004/05 to 2006/07 across all local government services; we have yet to see any figure for savings within schools;**
- **We welcome consideration of representation of wider children's interests in Schools Forums – thought needs to be given as to how this fits into wider partnership arrangements at local authority level.**

Chapter Four – Funding Specialised Diplomas at 14-16

This chapter sets out proposals for funding specialised diplomas for 14-16 in the 2008/11 period. It proposes that this should be by specific formula grant outside the DSG. It also considers the best way of distribution at local level and how the costs might be set through the LSC's funding methodology.

Key **points** include;

- 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 in the 2008/11 period; this will not allow funding to be predicted across authorities for the three year period. The alternative is 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;
- There are **three possible models** for delivering this to 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.
- 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.

LGA view

- **We agree that authorities and local partners should have discretion on which model to operate. We query the scope for large scale savings in the short term.**

Chapter 5 – Funding the Free Entitlement for Under 5s

This chapter discusses 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.

Key proposals include:

- Standardising the **methods for calculating the unit of funding** for maintained and PVI settings over the coming CSR period. This does not necessarily mean that there will be convergence between the maintained and PVI sectors, but that the same set of factors should be used when calculating the rates for each. The document asks how long it would take in authorities to do this;
- Applying consistent methods for calculating **pupil numbers** in each setting;
- Considering bringing the **budget calculation** arrangements for maintained and PVI settings closer together. The document sets out a number of options on how this could be done;
- Introducing a **single formula** at local level for funding all free entitlement provision; this is for pre-compulsory education age;
- Identifying early years funding **separately** within the DSG;
- Including more **representation** of under 5 interests on Schools Forums;

LGA view

- **The LGA and advisers from authorities are discussing options with the DfES. Many authorities have progressed with some of the key proposals here, so there is much good practice that can be drawn upon. We would wish to see a minimum of central direction.**

Chapter 6 – Other Specific Grants

This chapter discusses options for merging the funding streams outside the DSG; the School Development Grant (previously included in the Standards Fund); the School Standards Grant and the School Standards Personalisation Grant; which was introduced in the 2006 Budget. The SSG is distributed on a banded basis; the SSG(P) includes factors relating to deprivation and prior attainment.

The key proposals include:

- To keep the **School Development Grant** separate from other grants; given its different distribution and wish to avoid turbulence but to give more discretion to authorities on how this should be

distributed to schools; there are various options for floors; at a cash freeze or slightly below 2007/08 distribution;

- To merge the **School Standards and School Standards Personalisation Grants**; this could be done with a minimum of turbulence;
- To pay non-DSG specific grants to **academies** direct from the DfES rather than through authorities.

LGA view

- The LGA considers that schools should have as few sources of funding as possible, with narrow specific grant funding restricted to demonstration projects, or areas where expenditure is 'lumpy' between authorities. Any grants which come to an end should be fully taken account of in the base used to calculate DSG increases.

Chapter Seven – How to respond and further information

- The closing date of the consultation is 1 June 2007. The LGA will be putting together a response to the consultation and would appreciate it if you could send us a copy of any response you send to the Department as well as any additional points or broader issues that you feel the LGA should take up. Please send responses and other comments to LGconnect on info@lga.gov.uk by 18 May 2007.

For further information please contact Mike Heiser on 020 7664 3265 or mike.heiser@lga.gov.uk or LGA website at www.lga.gov.uk LGConnect, tel 020 7664 3131, fax 020 7664 3030, e-mail info@lga.gov.uk.