

REGULATORY AND OTHER COMMITTEE REPORT

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| NAME OF COMMITTEE: | Schools' Forum |
| DATE OF MEETING: | 21 April 2010 |
| SUBJECT: | DCSF' consultation on the future distribution of school funding |
| REPORT BY: | Tony Warnock Head of Finance (Children's Services) |
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| IS THE REPORT EXEMPT? | No |
| IS REPORT CONFIDENTIAL? | No |

SUMMARY

On 15th March 2010, the DCSF published a consultation document setting out proposals for school funding arrangements from 2011/12. The consultation period closes on 7th June 2010.

The purpose of this report is to seek the Schools Forum's views prior to a response being submitted.

DISCUSSION

The 85 page consultation document can be accessed via:

www.dfes.gov.uk/consultations/

It was circulated by Stephen Kingdom (Head of Funding and Technology Unit, School Resources Group, DCSF) with the following introduction, which provides a useful summary of the Government's thinking:

'The Government's priorities for the settlement are to protect frontline provision for schools, to ensure that there is sufficient funding for the schools that need most support, particularly those serving disadvantaged communities, to deliver a fairer funding distribution between local authorities which more accurately reflects current need and to ensure best value for the considerable resources being put into schools. The announcement today provides more detail of the programme of support available to schools to help them secure value for money.'

The consultation document being published today sets out the principles the Government believes should underpin the new funding formula and includes options for the proposed elements of the formula. It reflects the priority the Government is giving to support deprived pupils to raise their achievement, signals the intention to mainstream many specific grants into the DSG and reaffirms the principle that needs in individual schools are best assessed at the local level. This principle is behind the proposal for a Local Pupil Premium. The Secretary of State has also announced the intention to set a Minimum Funding Guarantee and to include a minimum pupil increase for local authorities.'

The Secretary of State provided more detail and context in a covering letter which is set out in Appendix 1. He also published a document about the school funding settlement, entitled: *Investing for the future: school funding 2010-13*.

A list of the consultation questions is attached at Appendix 2.

This is a lengthy and, in places, complex document. The Schools Forum may wish to say in response to the DCSF that the consultation process could be improved by the provision of more detailed briefing sessions over a longer period of time, to help inform their responses. Furthermore, the provision of exemplifications would assist understanding and decision making.

Recognising the complexity of this document, but without wishing to influence the Schools Forum's response, officer comments have been added to the questions in Appendix 2, to help the Schools Forum reach a view.

A key issue for Lincolnshire is the prospect that all of the funding earmarked within the DSG for deprivation will need to be passported through the local funding formula by the end of the next parliament. This is likely to require a significant revision of the current local funding formula.

The DCSF plans to publish an analysis of the responses and subsequent Ministerial decisions, later in the year.

RECOMMENDATIONS

The Schools Forum is asked to:

1. Note the content of this report and the consultation document.
2. Decide whether to respond to the consultation exercise and, if so, to outline its views on each of the questions, for inclusion in that response.

| BACKGROUND PAPERS | | | |
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| The following reports were relied upon in the writing of this report. | | | |
| PAPER TYPE | TITLE | DATE | ACCESSIBILITY |
| DCSF' document | Consultation on the future distribution of school funding | 15 March 2010 | http://www.dcsf.gov.uk/consultations/index.cfm?action=consultationDetails&consultationId=1709&external=no&menu=1 |
| DCSF' document | Investing for the future: school funding 2010-13. | 15 March 2010 | www.teachernet.gov.uk/publications Search using ref: DCSF-00250-2010 |

| APPENDICES | | | |
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| Appendix 1 – Letter from Ed Balls, Secretary of State for Children, Schools and Families Appendix 2 – Consultation questions and officer comments | | | |
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DEPARTMENT FOR CHILDREN, SCHOOLS AND FAMILIES

Schools 2010-13

The Secretary of State for Children, Schools and Families (Ed Balls):

Over the past 12 years, our education system has been rebuilt on foundations of inspirational teaching, great school leadership and sustained record investment.

We now have almost 3,500 Sure Start children's centres compared to none in 1997, nearly 4,000 schools have been rebuilt or refurbished, per pupil funding has more than doubled and over 42,000 more teachers and 212,000 more support staff have been recruited.

As a result, outcomes for children and young people have improved dramatically, we have many more outstanding schools and many fewer underperforming schools and our education system has gone from below average in the world to well above average.

But our ambition is to have a world-class schools system in which there is excellence not just for some but for all and where every pupil gets the support they need to overcome the additional barriers they face.

We set out the next stage of our reforms to achieve this ambition in our White Paper *Your child, your schools, our future: building a 21st century schools system*.

But we also know that we will have to do so in tougher times.

In the Pre-Budget Report, the Chancellor of the Exchequer said that he will protect front-line spending on the police, the health service and in our schools.

In the case of schools, we also know that we will have to make tough choices and identify savings across the Department of Children, Schools and Families (DCSF) budget.

And today I am setting out details of the savings that I have identified so far; providing more information about the real terms rises in school funding to help schools and local authorities plan for the next three years in advance of further details in the autumn; and launching a further consultation following our review of the Dedicated Schools Grant.

The Pre-Budget Report confirmed that from 2011-13 funding for Sure Start will continue to rise in line with inflation; funding for 16-19 learning will rise by 0.9 per cent year on year with an extra £202m this year to meet our September Guarantee; and funding for schools will increase by 0.7 per cent in real terms, which at current inflation levels will mean a cash increase of 2.7 per cent. This comes on top of real terms increases of 2.4 per cent, or cash increases per pupil of 4.3 per cent, in 2010-11.

This means that 75 per cent of the DCSF Budget has been protected and we can:

- deliver our pupil and parent guarantees including one-to-one tuition for all children in primary school and Year 7 who fall behind;
- ensure there is strong discipline and good behaviour in every school;
- meet our September guarantee to all school leavers of a place in college or training;
- maintain our additional teachers and support staff;
- and in addition, take forward our Building Schools for the Future pledge to rebuild or refurbish all secondary schools. We have announced a further tranche of BSF projects: £418.3m will be invested across Buckinghamshire, Cornwall, Gateshead, Lincolnshire, Oxfordshire and Sutton.

By 2013, the Chancellor also said that I will need to find £500m in savings from my non-protected spending, which leaving aside the teachers' pension scheme accounts for 8 per cent of the DCSF's £63bn resource budget.

This is equivalent to a 7 per cent cut and requires tough choices.

I have so far identified savings of over £300m, including: £135m from our NDPBs with significant reductions in funding for Becta and the TDA; £100m by ending start-up funding for extended services now that 95 per cent of schools already offer access to them; £50m by scaling back bursaries for initial teacher training now that we have a steady flow of new teachers; and £5m in savings from communications budgets including by moving Teachers' TV online. At the same time the Department will save a further £8m per year from the costs of its back office functions, by sharing services with other government departments.

We still have further work to identify savings without cutting into programmes such as short breaks for disabled children, music, sport or support for looked-after children because I am determined to do whatever it takes to protect the front line.

Real terms increases in schools funding of 0.7 per cent, or 2.7 per cent cash at current levels of inflation, mean we can resource increasing pupil numbers – a projected further 80,000 pupils - and still increase per pupil funding by 2.1 per cent in cash. This means we can resource our priorities:

- ensure one-to-one tuition can be maintained in KS2 and year 7 and expanded to KS1, delivering our “3Rs” guarantee;
- maintain the subsidy for extended services, supporting a richer and broader school experience for all pupils but particularly those from more deprived backgrounds;
- resource new or improved areas of provision, such as ensuring parents are able to secure a school place from the September following their child's 4th birthday, as recommended by Sir Jim Rose; and
- ensure continued protection of core frontline provision for children in schools and thus delivery of our pupil and parent guarantees.

For the same period, we expect average cost pressures of 1.6 per cent cash per pupil. This means that schools on average will be able to meet their cost pressures from within their overall increase.

The actual level of increase in funding for each individual school will vary. It will depend on each school's own particular needs; local decisions about how best to meet needs; and the conclusion of the consultation I am beginning today on the distribution of the Dedicated Schools Grant.

However, as in the past, we will protect schools by setting a minimum funding guarantee (MFG): a guaranteed per pupil increase in their like-for-like budget. We will, as usual, set the exact level of the MFG in the autumn, but it will certainly guarantee all schools increasing per pupil budgets in cash terms. Of course, the majority of schools will receive higher funding increases than the MFG – as is the case with three quarters of schools this year.

Every school faces different challenges and some schools face greater challenges than others.

We know that results have been rising fastest of all in schools in the areas with the greatest deprivation and the gap has been narrowing.

But we have much more to do and we are determined to tighten the link between deprivation and school budgets so that schools with the greatest proportion of pupils from disadvantaged backgrounds get the additional resources they need.

We have been reviewing the Dedicated Schools Grant to ensure that funding is distributed fairly, transparently and responds to the needs of children and young people, and today have published the *Consultation on the future distribution of school funding*.

Currently, around £3billion is allocated to local authorities as additional deprivation funding through the Dedicated Schools Grant, rising to nearly £4bn including other grants.

In the past, local authorities have not always passed on all of this funding to schools on the basis of deprivation and we have already made it clear to local authorities that we expect them to do so in the future.

But to ensure that all schools who take on pupils from disadvantaged backgrounds get the additional resources they need and still have the flexibility to decide how they use deprivation funding, it is also our intention to require local authorities to use a Local Pupil Premium to distribute deprivation funding, based on their own local decisions of how best to measure deprivation and to increase it gradually before 100 per cent of deprivation funding is passed on appropriately by 2014-15.

During our review, we received some representations that a nationally-set pupil premium should be implemented.

However, a nationally-set pupil premium would not take account of local need, would prescribe a single amount of funding to overcome deprivation across the whole country and would, according to the Institute of Fiscal Studies, require severe and immediate cuts to school budgets or other public services to pay for it.

So it is also our intention that the definition and therefore the level of the pupil premium is agreed locally so that it can properly reflect local need, circumstances and challenges.

It is however vital that all schools make savings to enable schools collectively to meet all cost pressures, ensure investment in our key priority areas, allow progress to be made on delivering a fairer funding system without creating damaging instability for schools funded at the MFG, and use their resources to best effect to maximise investment in improving outcomes for their pupils. So alongside a real terms rise in school funding of 0.7 per cent, (a cash increase of 2.7 per cent), we have also set schools challenging but achievable efficiency targets of 0.9 per cent or £650m across the school system as a whole which will enable them to meet cost pressures and continue to deliver improved outcomes for pupils.

It should be possible for schools, across the piece, to save in excess of this. We believe schools could go further and potentially make efficiency savings of up to £950m, providing up to £300m extra savings which could be recycled by schools to spend themselves on their priorities to support every child.

We published a discussion document on efficiencies – *Securing our future: using our resources well* – in November last year setting out the areas where we believed schools would be most able to achieve efficiency savings.

I know that school leaders around the country have recognised the progress that needs to be made and are responding vigorously to the challenge of identifying efficiency savings in order to switch resources to the frontline. Around 1,800 schools have already taken up the offer of free financial consultancy support that we have made available to all maintained schools and we expect many more schools to attend one of the conferences that we have arranged with the National College, the LGA and other organisations.

We also announced last week that we will fund 1,000 more primary school bursars.

There is no doubt that this is a tougher settlement than in the past and tough choices have to be made by schools, by local authorities and by government.

I have chosen to protect frontline budgets, pass on real terms increases to schools, make tough choices to find savings in the DCSF unprotected budget and support schools to make efficiencies.

I have also chosen not to create excess places that would deprive existing schools of funds they need and not to introduce a national pupil premium that would require severe and immediate cuts to school budgets.

And I believe those are the right choices for our schools and for the future of our country.

I have placed copies of both *Investing for the future: school funding 2010-13* and *Consultation on the future distribution of school funding* in the House libraries.

Consultation Questions and Officer comments

Questions

Chapter 1

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

- These principles have been established for some time. The DCSF has adopted many of them throughout the last decade, e.g. fairness, predictability, etc.
- There is, however, an increasing emphasis on supporting deprived pupils and this may well have a greater impact in Lincolnshire because of the relatively low level of school funding currently distributed through deprivation factors (see below).
- Many of the principles are difficult to challenge, e.g. fairness, reflecting local cost pressures, etc.

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

- LAs and schools have been pressing the DCSF on this for many years and the DCSF has already responded to some degree. The School Development Grant was a case in point, representing the amalgamation of a number of previous Standards Fund grants under a new mechanism.
- By having fewer ring fenced grants, schools will have greater freedom to use their resources in the way that most benefits pupils.
- The mainstreaming of grants is, however, likely to create winners and losers at school level and if stability remains a key principle, transitional arrangements will need to be carefully crafted. Protection is proposed through the Minimum Funding Guarantee, but as the scale of gains and losses is not clear, it is not known how many years of transition might be needed if stability is to be maintained.
- The distribution of the proposed grants to LAs through the new DSG formula will also create winners and losers at LA level. However, it is not possible to gauge the financial impact in Lincolnshire. For one of the grants, EMAG, we know that Lincolnshire receives a relatively small proportion (c.1/10th) of the typical allocation of national funds and so the LA may gain through the new distributional method. However, that is not clear and neither is the position on the other grants.

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

- The elements proposed have been used for much of the last decade.
- The selective system in Lincolnshire creates more secondary schools which, in turn, increases the cost per pupil. Arguably, the sparsity factor should recognise this.

Chapter 2

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

- The current DSG per pupil allocations for each LA vary considerably, with London boroughs typically receiving much higher levels of DSG per pupil than counties. It is perhaps arguable that more than three quarters of the current funding should be distributed through the basic entitlement.
- The consultation document stresses the difficulty in using an Activity Led Funding (ALF) model. The objectivity of this approach may be more likely to deliver a fairer funding system, but the indications are that there is still much more work to be undertaken and this seems impossible now given the time available before Ministerial decisions need to be made.
- There is another dimension to this, in that ALF models often highlight the fact that the true costs are unaffordable and the inevitable scaling back of budgets to fit the

available resource that then follows, is not something that a new government is likely to want to highlight.

- Reliance on s251 to determine weightings for the alternative, subjective model undermines the move to a new objective formula, because current spending patterns are derived from, and heavily influenced by, the funding model used in the early part of the last decade.
- It appears that the DCSF favours this judgemental approach and Lincolnshire might benefit from a higher weighting for the base entitlement and sparsity. However, critically, it is not clear how the judgements on the balance between the elements will be made.

Chapter 3

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

- It is extremely difficult to make an informed response in the absence of more detailed information, because it is not possible to see what impact the selection of one or more of these measures will have upon Lincolnshire's funding. The deprivation indicators highlighted have weaknesses, albeit some of these are acknowledged.
- On the face of it, the distribution indicators in paragraph 3.14 appear logical for each Additional Educational Need (AEN), but it is not clear whether the table in any way reflects the relative costs of meeting these different AEN.
- In addition, the proposed use of BME for Cognition and Learning is unlikely to benefit Lincolnshire and it could be argued that alternative groupings could be used with a different distribution methodology. EAL numbers in Lincolnshire will be comparatively low and that too will affect the county's funding.
- As indicated above, analysis presented to the Schools Forum a few years ago suggested that Lincolnshire was not targeting sufficient DSG through deprivation factors. The suggestion that the DCSF will require LAs to ensure that all of this funding is passported through such factors by the end of the next parliament, is likely to have very significant implications for the distribution of funding in Lincolnshire.

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

- Without indicative figures, it is difficult to make an informed response.
- The LA has recently used free school meals data as part of the new SEN formula, but the weaknesses with that were recognised, hence it was used alongside IDACI. Arguably, that is fine at a local level where the context of low free school meal take up is common, but at a national level, Lincolnshire's recording of free school meals is comparatively low (as the chart shows) and although recent investment in kitchens has helped increase the take up of free school meals, this approach may well disadvantage the county.
- IDACI may be the fairest option in principle, but the relative weightings applied to the most and least deprived areas will have an impact, and this detail isn't available.
- The charts indicate that Lincolnshire does not fare particularly well under any other the measures proposed.
- Reference was made earlier to the relatively low percentage of funding Lincolnshire receives for EMAG. The proposed inclusion of that funding within the DSG, and the use of data on ethnic minorities, could lead to a poorer distribution of funding to Lincolnshire. Arguably, the extent to which ethnic minority data is used for deprivation should therefore be restricted.

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

- It is not clear why groups have to be used for cognition and learning. Lincolnshire will have low BME groups, but that does not mean that there isn't underperformance in the county. Prior attainment data available from national tests could presumably be used instead, as Lincolnshire has done with the recent SEN formula. That would avoid the need for the creation of arbitrary groups which may benefit some LAs more than others.
- Clearly, it is difficult to argue with the proposal to use EAL numbers to distribute EAL funding, but as Lincolnshire will have low numbers, it is important to recognise that a base level of funding is needed by all LAs, to provide an effective team for support of schools county wide as we have now with the Standards Fund grant.

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

- This mechanism is unlikely to be more responsive because existing formula factors for deprivation already operate in the way proposed, i.e. the annual January schools census dictates funding for the following financial year.
- In one sense, the mechanism could be more effective if the funding distributed through it increases. However, Lincolnshire is unlikely to have reached the 'notional target' this year of distributing 80% of the figure, announced in 2007, through deprivation factors. This is, in part, because the LA has since considered the key priority to be to invest the 'headroom' funds available each year in to the primary sector awpus. Furthermore, to achieve 100% by the end of the next parliament is likely to require a major review of the local funding formula, with particular emphasis being placed on reviewing the awpu and block allocations. At a local level, this could create significant gains and losses and hence instability in individual school budgets. Changes to the block allocation could also affect the viability of some small schools.
- All LAs will have formula factors that allocate funds to schools for deprivation and it is not clear whether the Local Pupil Premium will constitute a simple renaming of those factors, rather than the creation of something new.

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

- Given the current position with LAs having the responsibility for developing and maintaining the local funding formula whilst working alongside the Schools Forum, it may appear incompatible for the pupil premium mechanism to be directed by central government.

Chapter 4

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

- This appears reasonable in that estimates of the national population of HCP have been made and, recognising that there isn't a strong link with various elements of HCP and deprivation and other measures, a flat per pupil rate is proposed for 50% of this funding.

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?

- The use of the schools census data will provide more up-to-date and responsive information than use of the 2001 National Population Census.

- The proposed use of the Middle Super Output Area instead of electoral wards appears logical, but the impact upon Lincolnshire is unclear.

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?

- The narrow option clearly distributes the resource to fewer LAs and, as Lincolnshire is one of the more sparsely populated areas, it is likely to gain more from that approach.
- The total funding distributed through the sparsity factor needs to be carefully considered. The DCSF acknowledges the need for small schools in rural areas and says they should be funded. It also reports on the higher per pupil costs associated with those schools. Whilst it also says that the funding system should not be encouraging historical practice and inefficient provision, the DCSF's presumption against closure of small schools should also be recognised, and that means that the full cost of maintaining small rural schools should be funded. Given that the DCSF knows the number of small schools in each LA and the additional per pupil cost of financing those, it should ensure that the new funding formula for sparsity provides that level of additional resource to those LAs. That outcome should not be lost through the creation of an unnecessarily complex formula. Any shortfall in funding would be unacceptable, especially given the DCSF's presumption against closure.

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

- Lincolnshire has many small secondary schools. The costs of those are greater than larger ones and the DCSF should adopt a consistent approach to that used for primary schools, to assess the impact. This may not be reflected in more teachers or fewer subjects, but in proportionately higher per pupil management costs for example. The cost per pupil in small secondary schools is clearly much greater than larger schools.
- Lincolnshire has a selective education system and whilst that may be the result of local decisions dating back many years, in practice, it cannot be changed radically and the result is that there are more, smaller secondary schools in Lincolnshire that are more expensive to run. These costs should therefore be recognised in the new funding formula.
- The DCSF might wish to consider whether there is a correlation between small schools, performance and the attainment gap. This may indicate that investment of resource through a secondary sparsity factor is much more likely to narrow the attainment gap than the other approaches to deprivation funding referred to within the consultation document.
- The funding currently available for diplomas, including transport costs, is extremely modest and many headteachers across the county believe that this is an urban model and a major barrier to the rollout and development of diplomas within the county.

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Chapter 6

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

- This section appears particularly complex, perhaps because it is not something that directly affects Lincolnshire. Conceptually, the hybrid model appears more logical and fairer and would result in lower levels of funding through the ACA, which currently helps give rise to much of the variation in DSG funding for LAs.

Chapter 7

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

- It is difficult to comment upon the proposed transitional arrangements because the impact of the new funding proposals for Lincolnshire isn't known. The Schools Forum's response is likely to be very different if it were known whether Lincolnshire would lose or gain significantly under the new formula.
- For simplicity, a single set of transitional arrangements would appear preferable; the current funding arrangements are already complex enough.
- If LAs are to change their formulae for 2011/12 to reflect the distribution of former grants through the DSG, then whilst this is a sensible and pragmatic solution, it will create further uncertainty and provide less predictability for schools beyond the first year.

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

- The scale of potential losses is unknown. It is therefore difficult to comment on whether the protection arrangements at LA level should be financed purely by a ceiling imposed on the largest gainers, or whether more LAs should contribute, to allow those due to gain most to see some notable improvement in their funding. The impact on Lincolnshire's financial position is again unclear.

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

- The MFG has provided a degree of stability and predictability for most schools, although a number have still had to contend with significant falls in numbers on roll.
- It is likely that a number of secondary schools would welcome greater stability and predictability in sixth form funding than has been the case in the last two years.
- The level at which the MFG is set is important, because that determines the level of discretion LAs have, through the 'headroom' funds that result.

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?

- Lincolnshire hasn't gained financially from the creation of the national contingency budget and the setting of such a budget will clearly reduce the level of resource otherwise available for the rest of the formula to all LAs.
- Lincolnshire is unlikely to be impacted adversely by any anticipated change in demographics that will be of sufficient scale to warrant an allocation from contingency.

19. Do you support our proposals for Service children

- One county school in particular has cited this as an issue.
- The LA amended the high turnover factor several years ago to try to accommodate circumstances where a large influx of children, including many with SEN, arose. This may be adequate in light of the national research.